

VERTEX PHARMACEUTICALS INC / MA
Form DEF 14A
April 04, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material under §240.14a-12

Vertex Pharmaceuticals Incorporated
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
 - o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
 - o Fee paid previously with preliminary materials.
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
-

April 4, 2013

DEAR FELLOW SHAREHOLDER:

We cordially invite you to attend our 2013 annual meeting of shareholders. We will hold our meeting on Wednesday, May 8, 2013, at 9:30 a.m. at our headquarters at 130 Waverly Street, Cambridge, Massachusetts.

At this year's meeting, you will be asked to vote on the election of directors, to approve our 2013 Stock and Option Plan, to ratify Ernst & Young LLP as our auditors and to provide your advisory views on our executive compensation program.

Whether or not you attend the meeting in person, we encourage you to vote by completing, signing and returning the enclosed proxy prior to the meeting. Every shareholder vote is important. To ensure your vote is counted at the annual meeting, please vote as promptly as possible.

Thank you for giving these materials your careful consideration.

Sincerely,

Jeffrey M. Leiden, M.D., Ph.D.

Chairman, Chief Executive Officer and President

Notice of Annual Meeting of Shareholders and 2013 Proxy Statement | 1

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

DATE: May 8, 2013
TIME: 9:30 a.m.
Vertex's Headquarters
PLACE: 130 Waverly Street
Cambridge, Massachusetts 02139

AGENDA:

• Election of the four director nominees that are set forth in the attached proxy statement to the class of directors whose term will expire in 2016;

• Approval of our 2013 Stock and Option Plan;

• Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2013;

• Advisory vote to approve the compensation program for our named executive officers; and

• Transaction of other business that may properly come before the annual meeting or any adjournment or postponement of the annual meeting.

RECORD DATE: You can vote if you were a shareholder of record on March 11, 2013.

Your vote matters. Whether or not you plan to attend the annual meeting, please ensure that your shares are represented by voting, signing, dating and returning your proxy in the enclosed envelope, which requires no postage if mailed in the United States.

By Order of the Board of Directors

Kenneth L. Horton
Secretary
April 4, 2013

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS. This proxy statement and our Annual Report on Form 10-K for the year ended December 31, 2012 are available to holders of record of our common stock at www.envisionreports.com/vrtx and to beneficial holders of our common stock at www.edocumentview.com/vrtx.

SUMMARY INFORMATION

To assist you in reviewing the proposals to be acted upon, we call your attention to the following business and compensation highlights. The following description is only a summary. For more complete information on these topics, please review our Annual Report on Form 10-K for the year ended December 31, 2012, or 2012 Annual Report, and this proxy statement in full.

BUSINESS HIGHLIGHTS

2012 was a successful year for us. Since the end of 2011, we:

Obtained approval to market KALYDECO™ (ivacaftor) from the FDA in January 2012, which was more than two months ahead of the FDA target date, the European Commission in July 2012 and Health Canada in November 2012. KALYDECO, a cystic fibrosis transmembrane conductance regulator, or CFTR, potentiator, is the first drug to treat the underlying cause of cystic fibrosis, was the recipient of the Wall Street Journal's 2012 Technology Innovation Award in the Medicine and Biotech category and received praise from the FDA as an excellent example of the promise of personalized medicine and a breakthrough therapy for the cystic fibrosis community.

Successfully launched KALYDECO:

Most eligible patients in the United States have initiated and are receiving treatment with KALYDECO.

KALYDECO is now available in England, France, Germany and Ireland, the four European countries with the highest number of patients with cystic fibrosis who are eligible to receive KALYDECO.

Maintained our INCIVEK™ (telaprevir) leading market share in direct competition with Merck & Co., Inc.'s VICTRELIS™ (boceprevir).

Increased net product revenues by 40% and total revenues by 8% in 2012 as compared to 2011. The following chart shows net product revenues and total revenues over the past three years (in millions):

Received Breakthrough Therapy designations from the FDA for both ivacaftor monotherapy and the combination regimen of our investigational CFTR corrector VX-809 (lumacaftor) with ivacaftor.

Advanced our development programs in cystic fibrosis and hepatitis C virus, or HCV, infection, including:

Initiating clinical trials of ivacaftor monotherapy in additional patient populations that, if successful, could increase the number of patients eligible for treatment with ivacaftor monotherapy to more than 10% of patients with cystic fibrosis.

Initiating an international Phase 3 development program to evaluate combinations of ivacaftor and VX-809 for patients with the most prevalent genetic mutation that causes cystic fibrosis.

Completing a clinical trial of ALS-2200 (now formulated as VX-135), enabling us to plan for multiple clinical trials of potential all-oral interferon-free combination regimens for the treatment of HCV infection that incorporate VX-135 both with ribavirin and with collaborators' HCV drug candidates.

Maintained our high research productivity:

Advanced our cystic fibrosis research program to identify additional corrector compounds that could be included in future dual- and/or triple- combination treatment regimens.

Progressed multiple other research programs, including programs designed to develop treatments for Huntington's disease, multiple sclerosis and cancer.

Significantly expanded our commercial infrastructure and international capabilities to support the launch of KALYDECO in the United States and Europe.

Recognized a share price increase of 26% from \$33.21 at the end of 2011 to \$41.90 at the end of 2012, increasing our market capitalization from approximately \$7.0 billion to approximately \$9.1 billion.

SUMMARY INFORMATION (continued)

COMPENSATION HIGHLIGHTS

Our compensation program is designed to attract and motivate talented and experienced individuals across all areas of our business and align the interests of our executive officers with the interests of our shareholders as we seek to create value through the discovery, development and commercialization of transformative medicines. 2012 was a successful year for Vertex, and our 2012 executive compensation decisions were made by applying our pay-for-performance compensation philosophy and principles, as follows:

- Our executive officers' total compensation is comprised of a mix of base salary, annual cash incentives and long-term incentive awards that include both time-based stock options and performance-based restricted stock awards, and reflects a balance of elements so that a significant portion is performance-contingent, to better align our executives' financial interests with the interests of our shareholders.
- 82% of the total compensation in 2012 for Dr. Jeffrey M. Leiden, our chairman, chief executive officer and president, was incentive-based in the form of annual cash bonus and equity compensation.
- We awarded our eligible officers annual cash bonuses and long-term equity grants at above-target levels to reward them for the company's and their individual 2012 successes.

Our compensation for our named executive officers has been supported by a majority of the "Say-on-Pay" advisory votes cast by our shareholders since proxy voting on named executive officer compensation began in 2011. The support of our shareholders for our compensation program declined from 97% of the "Say-on-Pay" advisory votes cast by shareholders at our 2011 annual meeting to 51% at our 2012 annual meeting. In 2012, we had discussions with approximately 25 of our largest shareholders regarding, among other matters, our executive compensation program and dilution caused by our broad-based equity compensation program. During these discussions we listened to their perspectives and gained insight into how we could further align the interests of the company with the interests of our shareholders.

Our board of directors and management development and compensation committee reviewed our compensation programs and governance practices in light of our evolving business and made a number of changes for 2013, including:

- Modifying the mix of cash and equity compensation for all employees to increase cash incentive bonuses and reduce the target number of shares at each performance level;
- Adopting a compensation recoupment ("claw-back") policy for our executive officers;
- Implementing stock ownership guidelines for our chief executive officer; and
- Adopting a policy prohibiting all employees from hedging or pledging company securities.

The total compensation for 2012 for our named executive officers is set forth in the following table under the caption "Total Compensation." To supplement this information, we have included a column entitled "Total Realized Compensation," which subtracts the grant-date fair value of equity awards granted in 2012 and substitutes the actual value realized on the exercise of stock options and the vesting of restricted stock awards during 2012.

Named Executive Officer	Title	Salary	Annual Cash Bonus	Grant-Date Fair Value of Equity Awards	Total Compensation	Total Realized Compensation
Jeffrey M. Leiden	Chairman, CEO & President	\$1,000,000	\$2,088,000	\$2,556,234	\$ 5,656,684	\$ 3,100,450
Ian F. Smith	EVP & Chief Financial Officer	\$539,241	\$376,577	\$2,180,925	\$ 3,109,193	\$ 4,370,731
		\$169,615	\$117,600	\$3,863,000	\$ 4,808,697	\$ 945,697

Stuart A. Arbuckle	EVP & Chief Commercial Officer						
Kenneth L. Horton	EVP & Chief Legal Officer	\$259,327	\$169,260	\$2,362,227	\$2,802,735	\$440,508	
Peter Mueller	EVP, Global R&D & CSO	\$598,980	\$418,296	\$2,585,164	\$3,614,890	\$6,853,675	
Matthew W. Emmens	Former Chairman, CEO & President	\$467,514	\$—	\$6,398,848	\$6,896,029	\$8,186,479	
David T. Howton, Jr.	Former SVP & Chief Legal Officer	\$347,231	\$—	\$2,231,814	\$3,447,898	\$2,055,623	

For information regarding our named executive officers' compensation, as calculated under Securities and Exchange Commission, or SEC, rules, see the narrative and notes accompanying the Summary Compensation Table set forth beginning on page 49. For more information regarding the calculation of "Total Realized Compensation" see the narrative accompanying the Total Realized Compensation Table on page 51. Stuart A. Arbuckle and Kenneth L. Horton joined us during 2012 and, as a result, each received a pro-rated cash bonus for 2012.

SUMMARY INFORMATION (continued)

VOTING MATTERS

Our board of directors recommends that our shareholders vote FOR the director nominees and FOR each of the proposals.

ELECTION OF DIRECTORS (Item 1 – Page 9)

Joshua Boger, our founder and former chief executive officer, Terrence C. Kearney, chair of our audit and finance committee, Yuchun Lee, who joined our board in September 2012, and Elaine S. Ullian, our co-lead independent director and chair of our corporate governance and nominating committee, have been nominated for re-election at the 2013 annual meeting of shareholders. You will find important information about the qualifications and experience of each of our director nominees and each of our continuing directors in the section of this proxy statement captioned “Item 1: Election of Directors.”

APPROVAL OF OUR 2013 STOCK AND OPTION PLAN (Item 2 – Page 22)

We are asking our shareholders to approve our 2013 Stock and Option Plan, or 2013 Plan. We have adopted, subject to shareholder approval, the 2013 Plan, which utilizes a “fungible share” concept, in conjunction with our decision to shift our overall compensation balance toward more cash and less equity. The fungible share approach allows us to issue a higher percentage of restricted shares relative to options than is permitted under our 2006 Stock and Option Plan, which is intended to result in the issuance of a lower number of overall shares. The 2013 Plan has a pool of up to 3,300,000 shares of our common stock eligible for issuance, with each share of issued restricted stock reducing the pool by 1.66 shares.

We believe that our equity compensation program has been fundamental to our success, and that the requested 3,300,000 shares are necessary in order to continue to attract and retain the right employees to achieve our short- and long-term business objectives.

We expect to continue to review our compensation programs in future periods in light of the market for talented employees in our industry and our business and financial profile.

RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Item 3 – Page 29)

We are asking our shareholders to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013.

“SAY-ON-PAY” ADVISORY VOTE (Item 4 – Page 32)

We are asking our shareholders to approve, on an advisory basis, the compensation program for our named executive officers. We believe that our compensation program has been and will continue to be successful in attracting, retaining and motivating the right executive team to lead our company. After consideration of the evolution of our business and the views expressed by our shareholders, we have changed the amounts payable under our incentive compensation programs, and modified certain of our compensation and equity-related policies. For a further discussion of these actions see "Item 4: Advisory Vote to Approve Named Executive Officer Compensation."

Notice of Annual Meeting of Shareholders and 2013 Proxy Statement | 5

TABLE OF CONTENTS

Frequently Asked Questions Regarding the Annual Meeting	7	Compensation Discussion and Analysis	33
Item 1: Election of Directors	9	Executive Summary	33
Board Structure and Composition	9	Detailed Discussion and Analysis	35
Shareholder-recommended Director Candidates	10	Management Development and Compensation Committee Report	48
Majority Vote Policy	10	Compensation and Equity Tables	49
Director Nominees	11	Summary Compensation Table	49
Continuing Directors	13	Option Exercises and Stock Vested for 2012	50
Corporate Governance and Risk Management	16	Total Realized Compensation Table	51
Independence, Chair and Co-lead Independent Directors	16	Grants of Plan-Based Awards During 2012	52
Board Committees	16	Outstanding Equity Awards at Fiscal Year-End for 2012	53
Risk Management	17	Summary of Termination and Change of Control Benefits	56
Code of Conduct	17	Employment Contracts and Change of Control Arrangements	57
Board Attendance, Committee Meetings and Committee Membership	18	Security Ownership of Certain Beneficial Owners and Management	66
Audit and Finance Committee	18		
Corporate Governance and Nominating Committee	18		

(226
)
Net income

\$
10,753

\$
7,490

Earnings per common share (Note 9):

Basic and Diluted

\$
0.34

\$
0.24

Cash dividends declared per common share

\$
0.06

\$
0.06

Comprehensive income

Unrealized gains during the period (net of tax expense of \$5,503 and \$14 for the three months ended March 31, 2014 and 2013, respectively)

\$
10,218

\$
25

Reclassification adjustment for realized gains in net income (net of taxes of \$1,141 and \$278 for the three months ended March 31, 2014 and 2013, respectively)

(2,118
)

(516
)

Other comprehensive income (loss), net of tax

8,100

(491
)

Total comprehensive income

\$
18,853

\$
6,999

Net realized gains on investments

Net realized gains on investments before credit related impairments on fixed maturity securities

\$
3,259

\$
794

Other than temporary impairment, credit losses recognized in earnings

—

—

Net realized gains on investments

\$
3,259

\$
794

See accompanying unaudited notes to the consolidated financial statements.

4

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

	Three Months Ended	
	March 31,	2013
	2014	
	(unaudited)	
Operating activities		
Net income	\$10,753	\$7,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,797	1,393
Stock-based compensation	1,596	2,110
Amortization of premium on investments, net	2,508	2,020
Deferred income tax expense	(973)	(1,154)
Net realized gains on investments	(3,259)	(794)
Excess tax benefits from stock-based compensation	(1,136)	(170)
Other	188	562
Change in operating assets and liabilities:		
Premiums receivable	(15,015)	(30,082)
Reinsurance recoverable for paid and unpaid losses	7,359	7,206
Federal income taxes	1,382	855
Unpaid losses and loss adjustment expenses	27,687	26,759
Unearned premiums	16,711	24,168
Accounts payable, accrued expenses and other liabilities	(3,376)	4,378
Deferred reinsurance gain—LPT Agreement	(3,875)	(3,577)
Contingent commission receivable—LPT Agreement	(424)	(385)
Other	(3,353)	808
Net cash provided by operating activities	38,570	41,587
Investing activities		
Purchase of fixed maturity securities	(94,495)	(90,117)
Purchase of equity securities	(7,838)	(5,328)
Proceeds from sale of fixed maturity securities	35,061	—
Proceeds from sale of equity securities	7,872	5,284
Proceeds from maturities and redemptions of investments	42,418	39,693
Proceeds from sale of fixed assets	—	113
Capital expenditures	(1,447)	(1,355)
Restricted cash and cash equivalents (used in) provided by investing activities	(2,371)	659
Net cash used in investing activities	(20,800)	(51,051)
Financing activities		
Cash transactions related to stock-based compensation	(412)	1,374
Dividends paid to stockholders	(1,879)	(1,852)
Excess tax benefits from stock-based compensation	1,136	170
Net cash used in financing activities	(1,155)	(308)
Net increase (decrease) in cash and cash equivalents	16,615	(9,772)
Cash and cash equivalents at the beginning of the period	34,503	140,661
Cash and cash equivalents at the end of the period	\$51,118	\$130,889
See accompanying unaudited notes to the consolidated financial statements.		

Employers Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation and Summary of Operations

Employers Holdings, Inc. (EHI) is a Nevada holding company. Through its wholly owned insurance subsidiaries, Employers Insurance Company of Nevada (EICN), Employers Compensation Insurance Company (ECIC), Employers Preferred Insurance Company (EPIC), and Employers Assurance Company (EAC), EHI is engaged in the commercial property and casualty insurance industry, specializing in workers' compensation products and services. Unless otherwise indicated, all references to the "Company" refer to EHI, together with its subsidiaries.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation of the Company's consolidated financial position and results of operations for the periods presented have been included. The results of operations for an interim period are not necessarily indicative of the results for an entire year. These financial statements have been prepared consistent with the accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company considers an operating segment to be any component of its business whose operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance based on discrete financial information. Currently, the Company has one operating segment, workers' compensation insurance and related services.

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. As a result, actual results could differ from these estimates. The most significant areas that require management judgment are the estimate of unpaid losses and loss adjustment expenses (LAE), evaluation of reinsurance recoverables, recognition of premium revenue, deferred income taxes, valuation of investments, and the valuation of goodwill and intangible assets.

Reclassifications

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

2. Fair Value of Financial Instruments

The carrying value and the estimated fair value of the Company's financial instruments were as follows:

	March 31, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial assets				
Investments	\$2,375,087	\$2,375,087	\$2,344,858	\$2,344,858
Cash and cash equivalents	51,118	51,118	34,503	34,503
Restricted cash and cash equivalents	8,935	8,935	6,564	6,564
Financial liabilities				
Notes payable	102,000	105,579	102,000	105,450

The Company's estimates of fair value for financial liabilities are based on a combination of the variable interest rates for the Company's existing line of credit and other notes with similar durations to discount the projection of future payments on notes payable, and have been determined to be Level 2 fair value measurements, as defined below.

Assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based upon the levels of judgment associated with the inputs used to measure their fair value. Level inputs are defined as follows:

Level 1 - Inputs are unadjusted quoted market prices for identical assets or liabilities in active markets at the measurement date.

6

Level 2 - Inputs other than Level 1 prices that are observable for similar assets or liabilities through corroboration with market data at the measurement date.

Level 3 - Inputs that are unobservable that reflect management's best estimate of what willing market participants would use in pricing the assets or liabilities at the measurement date.

The following methods and assumptions were used to determine the fair value of each class of assets and liabilities recorded at fair value in the consolidated balance sheets.

Fair value of available-for-sale fixed maturity and equity securities is based on quoted market prices, where available, and is obtained primarily from third-party pricing services, which generally use Level 1 or Level 2 inputs. The Company obtains a quoted price for each security from third party pricing services. The quoted prices are derived through recently reported trades for identical or similar securities. For securities not actively traded, the third party pricing services may use quoted market prices of similar instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, and prepayment speeds. The Company also performs a quarterly analysis on the prices received from third party pricing services to determine whether the prices are reasonable estimates of fair value, including confirming the fair values of these securities through observable market prices using an alternative pricing source. If differences are noted in this review, the Company may obtain additional information from other pricing services to validate the quoted price.

There were no adjustments to prices obtained from third party pricing services as of March 31, 2014 or December 31, 2013 that were material to the Company's consolidated financial statements.

If quoted market prices and an estimate determined by using objectively verifiable information are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third-party market participant would be willing to pay in an arm's length transaction.

These methods of valuation will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If objectively verifiable information is not available, the Company would be required to produce an estimate of fair value using some of the same methodologies, making assumptions for market-based inputs that are unavailable.

Estimates of fair value for fixed maturity securities are based on estimates using objectively verifiable information and are included in the amount disclosed in Level 2 of the hierarchy. The Level 3 fair value estimates include the Company's assumptions about risk assessments and market participant assumptions based on the best information available, including quotes from market makers and other broker/dealers recognized as market participants, using standard or trade derived inputs, new issue data, monthly payment information, cash flow generation, prepayment speeds, spread adjustments, or rating updates.

The following table presents the items on the accompanying consolidated balance sheets that are stated at fair value and the corresponding fair value measurements.

	March 31, 2014			December 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	(in thousands)					
Fixed maturity securities						
U.S. Treasuries	\$—	\$174,487	\$—	\$—	\$170,897	\$—
U.S. Agencies	—	58,947	—	—	68,118	—
States and municipalities	—	763,913	—	—	735,180	—
Corporate securities	—	838,859	—	—	833,296	—
Residential mortgage-backed securities	—	261,392	—	—	258,431	—
Commercial mortgage-backed securities	—	64,063	—	—	65,110	—
Asset-backed securities	—	49,498	—	—	51,514	—

Edgar Filing: VERTEX PHARMACEUTICALS INC / MA - Form DEF 14A

Total fixed maturity securities	—	2,211,159	—	—	2,182,546	—
Equity securities	\$163,928	\$—	\$—	\$162,312	\$—	\$—

7

3. Investments

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

	Cost or Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At March 31, 2014				
Fixed maturity securities				
U.S. Treasuries	\$167,437	\$7,148	\$(98)	\$174,487
U.S. Agencies	55,912	3,035	—	58,947
States and municipalities	724,093	41,784	(1,964)	763,913
Corporate securities	812,448	32,007	(5,596)	838,859
Residential mortgage-backed securities	256,573	8,136	(3,317)	261,392
Commercial mortgage-backed securities	65,326	317	(1,580)	64,063
Asset-backed securities	49,592	38	(132)	49,498
Total fixed maturity securities	2,131,381	92,465	(12,687)	2,211,159
Equity securities	92,139	72,074	(285)	163,928
Total investments	\$2,223,520	\$164,539	\$(12,972)	\$2,375,087
At December 31, 2013				
Fixed maturity securities				
U.S. Treasuries	\$163,951	\$7,073	\$(127)	\$170,897
U.S. Agencies	64,985	3,137	(4)	68,118
States and municipalities	698,979	40,595	(4,394)	735,180
Corporate securities	814,283	28,671	(9,658)	833,296
Residential mortgage-backed securities	255,187	7,979	(4,735)	258,431
Commercial mortgage-backed securities	67,066	316	(2,272)	65,110
Asset-backed securities	51,613	54	(153)	51,514
Total fixed maturity securities	2,116,064	87,825	(21,343)	2,182,546
Equity securities	89,689	72,844	(221)	162,312
Total investments	\$2,205,753	\$160,669	\$(21,564)	\$2,344,858

The amortized cost and estimated fair value of fixed maturity securities at March 31, 2014, by contractual maturity, are shown below. Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost (in thousands)	Estimated Fair Value
Due in one year or less	\$168,513	\$170,981
Due after one year through five years	788,571	827,533
Due after five years through ten years	622,761	646,256
Due after ten years	180,045	191,436
Mortgage and asset-backed securities	371,491	374,953
Total	\$2,131,381	\$2,211,159

The following is a summary of investments that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 months or greater as of March 31, 2014 and December 31, 2013.

	March 31, 2014			December 31, 2013		
	Estimated Fair Value	Gross Unrealized Losses	Number of Issues	Estimated Fair Value	Gross Unrealized Losses	Number of Issues
	(dollars in thousands)					
Less than 12 months:						
Fixed maturity securities						
U.S. Treasuries	\$26,401	\$(98)	) 8	\$22,242	\$(127)	) 7
U.S. Agencies	—	—	—	1,631	(4)	) 1
States and municipalities	121,190	(1,964)	) 30	127,965	(4,394)	) 34
Corporate securities	223,951	(5,511)	) 79	326,608	(9,536)	) 112
Residential mortgage-backed securities	101,876	(2,855)	) 51	129,586	(4,170)	) 58
Commercial mortgage-backed securities	24,812	(896)	) 8	35,878	(1,372)	) 9
Asset-backed securities	25,580	(45)	) 12	25,825	(52)	) 13
Total fixed maturity securities	523,810	(11,369)	) 188	669,735	(19,655)	) 234
Equity securities	6,639	(270)	) 15	6,140	(208)	) 17
Total less than 12 months	\$530,449	\$(11,639)	) 203	\$675,875	\$(19,863)	) 251
12 months or greater:						
Fixed maturity securities						
Corporate securities	\$6,617	\$(85)	) 3	\$6,174	\$(122)	) 3
Residential mortgage-backed securities	5,269	(462)	) 10	5,609	(565)	) 11
Commercial mortgage-backed securities	9,529	(684)	) 3	9,324	(900)	) 3
Asset-backed securities	8,949	(87)	) 3	8,938	(101)	) 3
Total fixed maturity securities	30,364	(1,318)	) 19	30,045	(1,688)	) 20
Equity securities	302	(15)	) 1	303	(13)	) 1
Total 12 months or greater	\$30,666	\$(1,333)	) 20	\$30,348	\$(1,701)	) 21
Total available-for-sale:						
Fixed maturity securities						
U.S. Treasuries	\$26,401	\$(98)	) 8	\$22,242	\$(127)	) 7
U.S. Agencies	—	—	—	1,631	(4)	) 1
States and municipalities	121,190	(1,964)	) 30	127,965	(4,394)	) 34
Corporate securities	230,568	(5,596)	) 82	332,782	(9,658)	) 115
Residential mortgage-backed securities	107,145	(3,317)	) 61	135,195	(4,735)	) 69
Commercial mortgage-backed securities	34,341	(1,580)	) 11	45,202	(2,272)	) 12
Asset-backed securities	34,529	(132)	) 15	34,763	(153)	) 16
Total fixed maturity securities	554,174	(12,687)	) 207	699,780	(21,343)	) 254
Equity securities	6,941	(285)	) 16	6,443	(221)	) 18
Total available-for-sale	\$561,115	\$(12,972)	) 223	\$706,223	\$(21,564)	) 272

Based on reviews of the fixed maturity securities, the Company determined that unrealized losses for the three months ended March 31, 2014 were primarily the result of changes in prevailing interest rates and not the credit quality of the issuers. The fixed maturity securities whose total fair value was less than amortized cost were not determined to be other-than-temporarily impaired given the severity and duration of the impairment, the credit quality of the issuers, the Company's intent to not sell the securities, and a determination that it is not more likely than not that the Company will be required to sell the securities until fair value recovers to above cost, or maturity.

Based on reviews of the equity securities for the three months ended March 31, 2014, the Company determined that unrealized losses as of that date were not considered to be other-than-temporary due to the financial condition and near-term prospects of the issuers.

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

	Three Months Ended March 31, 2014		2013
	(in thousands)		
Net realized gains on investments			
Fixed maturity securities			
Gross gains	\$777		\$—
Gross losses	(1)	—
Net realized gains on fixed maturity securities	\$776		\$—
Equity securities			
Gross gains	\$2,485		\$1,045
Gross losses	(2	)	(251
Net realized gains on equity securities	\$2,483		\$794
Total	\$3,259		\$794
Change in unrealized gains (losses)			
Fixed maturity securities	\$13,296		\$(12,231
Equity securities	(834	)	11,477
Total	\$12,462		\$(754

Net investment income was as follows:

	Three Months Ended March 31, 2014		2013
	(in thousands)		
Fixed maturity securities	\$17,641		\$17,246
Equity securities	953		837
Cash equivalents and restricted cash	19		35
	18,613		18,118
Investment expenses	(600	)	(713
Net investment income	\$18,013		\$17,405

The Company is required by various state laws and regulations to keep securities or letters of credit in depository accounts with certain states in which it does business. As of March 31, 2014 and December 31, 2013, securities having a fair value of \$777.6 million and \$602.4 million, respectively, were on deposit. These laws and regulations govern not only the amount, but also the types of securities that are eligible for deposit. The deposits are limited to fixed maturity securities in all states. Additionally, certain reinsurance contracts require Company funds to be held in trust for the benefit of the ceding reinsurer to secure the outstanding liabilities assumed by the Company. The fair value of fixed maturity securities held in trust for the benefit of ceding reinsurers at March 31, 2014 and December 31, 2013 was \$32.3 million and \$32.2 million, respectively. Pursuant to the Amended Credit Facility, a portion of the Company's debt was secured by fixed maturity securities and restricted cash and cash equivalents that had a fair value of \$85.8 million and \$95.1 million at March 31, 2014 and December 31, 2013, respectively.

4. Income Taxes

Income tax expense for interim periods is measured using an estimated effective tax rate for the annual period. The following is a reconciliation of the federal statutory income tax rate to the Company's effective tax rates for the periods presented.

	Three Months Ended			
	March 31,			
	2014		2013	%
Expense computed at statutory rate	35.0	%	35.0	%
Dividends received deduction and tax-exempt interest	(16.0)	)	(25.0))
LPT deferred gain amortization	(8.5)	)	(14.4))
LPT reserve adjustment	(0.4))	—	
Other	0.8		1.3	
Effective tax rate	10.9	%	(3.1))%

5. Liability for Unpaid Losses and Loss Adjustment Expenses

The following table represents a reconciliation of changes in the liability for unpaid losses and LAE.

	Three Months Ended	
	March 31,	
	2014	2013
	(in thousands)	
Unpaid losses and LAE, gross of reinsurance, at beginning of period	\$2,330,491	\$2,231,540
Less reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	743,055	805,386
Net unpaid losses and LAE at beginning of period	1,587,436	1,426,154
Losses and LAE, net of reinsurance, related to:		
Current period	124,804	111,104
Prior periods	1,751	1,130
Total net losses and LAE incurred during the period	126,555	112,234
Deduct payments for losses and LAE, net of reinsurance, related to:		
Current period	4,530	5,064
Prior periods	87,125	73,571
Total net payments for losses and LAE during the period	91,655	78,635
Ending unpaid losses and LAE, net of reinsurance	1,622,336	1,459,753
Reinsurance recoverable, excluding bad debt allowance, on unpaid losses and LAE	735,842	798,546
Unpaid losses and LAE, gross of reinsurance, at end of period	\$2,358,178	\$2,258,299

Total net losses and LAE included in the above table excludes the impact of the amortization of the deferred reinsurance gain—LPT Agreement (Note 6).

The increase in the estimates of incurred losses and LAE attributable to insured events for prior periods was primarily related to the Company's assigned risk business.

6. LPT Agreement

The Company is party to a 100% quota share retroactive reinsurance agreement (LPT Agreement) under which \$1.5 billion in liabilities for losses and LAE related to claims incurred by EICN prior to July 1, 1995 were reinsured for consideration of \$775.0 million. The LPT Agreement provides coverage up to \$2.0 billion. The initial Deferred Gain resulting from the LPT Agreement was recorded as a liability in the accompanying consolidated balance sheets as Deferred reinsurance gain—LPT Agreement. The Company is also entitled to receive a contingent profit commission under the LPT Agreement. The contingent profit commission is an amount based on the favorable difference between actual paid losses and LAE and expected paid losses and LAE as established in the LPT Agreement. The Company records its estimate of contingent profit commission in the accompanying consolidated balance sheets as Contingent commission receivable—LPT Agreement and a corresponding liability is recorded on the accompanying consolidated balance sheets in Deferred reinsurance gain—LPT Agreement. The Deferred Gain is being amortized using the recovery

method. Amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries over the life of the LPT Agreement, except for the contingent profit commission, which is amortized through June 30, 2024. The amortization is recorded in losses and LAE incurred in the accompanying consolidated statements of comprehensive income. Any adjustments to the Deferred Gain are recorded in losses and LAE incurred in the accompanying consolidated statements of comprehensive income.

The Company amortized \$4.3 million and \$4.0 million of the Deferred Gain for the three months ended March 31, 2014 and 2013, respectively. The remaining Deferred Gain was \$245.2 million and \$249.1 million as of March 31, 2014 and December 31, 2013, respectively. The estimated remaining liabilities subject to the LPT Agreement were \$603.5 million and \$612.1 million as of March 31, 2014 and December 31, 2013, respectively. Losses and LAE paid with respect to the LPT Agreement totaled \$645.5 million and \$637.9 million through March 31, 2014 and December 31, 2013, respectively.

7. Accumulated Other Comprehensive Income, net

Accumulated other comprehensive income, net, is comprised of unrealized gains on investments classified as available-for-sale, net of deferred tax expense. The following table summarizes the components of accumulated other comprehensive income, net:

	March 31, 2014 (in thousands)	December 31, 2013
Net unrealized gain on investments, before taxes	\$ 151,567	\$ 139,105
Deferred tax expense on net unrealized gains	(53,049	) (48,687
Total accumulated other comprehensive income, net	\$98,518	\$90,418

8. Stock-Based Compensation

The Company awarded stock options, restricted stock units (RSUs) and performance share units (PSUs) to certain officers of the Company as follows:

	Number Awarded	Weighted Average Fair Value on Date of Grant	Weighted Average Exercise Price	Aggregate Fair Value on Date of Grant (in millions)
March 2014				
Stock options ⁽¹⁾	141,744	\$6.66	\$20.87	\$0.9
RSUs ⁽¹⁾	63,878	20.87	—	1.3
PSUs ⁽²⁾	125,340	20.87	—	2.6

The stock options and RSUs awarded in March 2014 were awarded to certain officers of the Company and vest 25% on March 11, 2015, and each of the subsequent three anniversaries of that date. The stock options and RSUs are subject to accelerated vesting in certain circumstances, such as: death or disability, or in connection with change of control of the Company. The stock options expire seven years from the date of grant.

The PSUs have a performance period of three years and are subject to certain performance goals, based on the Company's statutory combined ratio, with payouts that range from 0% to 200% of the target awards. The value shown in the table represents the aggregate target number of PSUs awarded.

A total of 9,900 and 411,295 stock options were exercised during the three months ended March 31, 2014 and the year ended December 31, 2013, respectively.

9. Earnings Per Share

Basic earnings per share includes no dilution and is computed by dividing income applicable to stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilutive impact of all convertible securities on earnings per share. Diluted earnings per share includes shares assumed issued under the “treasury stock method,” which reflects the potential dilution that would occur if outstanding options were to be exercised. The following table presents the net income and the weighted average number of shares outstanding used in the earnings per common share calculations.

	Three Months Ended March 31,	
	2014	2013
	(in thousands, except share data)	
Net income available to stockholders—basic and diluted	\$10,753	\$7,490
Weighted average number of shares outstanding—basic	31,409,322	30,914,478
Effect of dilutive securities:		
PSUs	214,121	138,495
Stock options	277,376	259,614
RSUs	89,151	123,463
Dilutive potential shares	580,648	521,572
Weighted average number of shares outstanding—diluted	31,989,970	31,436,050

Diluted earnings per share excludes outstanding options and other common stock equivalents in periods where the inclusion of such options and common stock equivalents would be anti-dilutive. The following table presents options and RSUs that were excluded from diluted earnings per share.

	Three Months Ended March 31,	
	2014	2013
Options excluded as the exercise price was greater than the average market price	—	162,800
Options, PSUs, and RSUs excluded under the treasury method as the potential proceeds on settlement or exercise price were greater than the value of shares acquired	296,844	419,191

Item 2. Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with our consolidated financial statements and the related notes thereto included in Item 1 of Part I. Unless otherwise indicated, all references to "we," "us," "our," "the Company," or similar terms refer to Employers Holdings, Inc. (EHI), together with its subsidiaries. The information contained in this quarterly report is not a complete description of our business or the risks associated with an investment in our common stock. We urge you to carefully review and consider the various disclosures made by us in this quarterly report and in our other reports filed with the Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the year ended December 31, 2013 (Annual Report).

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements if accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed. You should not place undue reliance on these statements, which speak only as of the date of this report. Forward-looking statements include those related to our expected financial position, business, financing plans, litigation, future premiums, revenues, earnings, pricing, investments, business relationships, expected losses, loss experience, loss reserves, acquisitions, competition, the impact of changes in interest rates, rate increases with respect to our business, and the insurance industry in general. Statements including words such as "expect," "intend," "plan," "believe," "estimate," "may," "anticipate," "will" or similar statements of a future or forward-looking nature identify forward-looking statements.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, except as required by law. All forward-looking statements address matters that involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results, depending on a number of factors. These risks and uncertainties include, but are not limited to, those described in our Annual Report and other documents that we have filed with the SEC.

Overview

We are a Nevada holding company. Through our insurance subsidiaries, we provide workers' compensation insurance coverage to select, small businesses in low to medium hazard industries. Workers' compensation insurance is provided under a statutory system wherein most employers are required to provide coverage for their employees' medical, disability, vocational rehabilitation, and/or death benefit costs for work-related injuries or illnesses. We provide workers' compensation insurance in 31 states and the District of Columbia, with a concentration in California, where over one-half of our business is generated. Our revenues are primarily comprised of net premiums earned, net investment income, and net realized gains on investments.

We target small businesses, as we believe that this market is traditionally characterized by fewer competitors, more attractive pricing, and stronger persistency when compared to the U.S. workers' compensation insurance industry in general. We believe we are able to price our policies at levels that are competitive and profitable over the long-term. Our underwriting approach is to consistently underwrite small business accounts at appropriate and competitive prices without sacrificing long-term profitability and stability for short-term top-line revenue growth.

Our goal is to maintain our focus on disciplined underwriting and to continue to pursue profitable growth opportunities across market cycles; however, we continue to be affected by persistently low investment yields and continuing high levels of unemployment nationally. We believe overall economic conditions will remain uncertain in the near-term.

We market and sell our workers' compensation insurance products through independent local, regional, and national agents and brokers; through our strategic partnerships and alliances, including our principal partners ADP, Inc. and Anthem Blue Cross of California; and through relationships with national, regional, and local trade groups and associations.

Results of Operations

Overall, net income was \$10.8 million and \$7.5 million for the three months ended March 31, 2014 and 2013, respectively. We recognized underwriting losses of \$8.5 million and \$10.2 million for the three months ended March 31, 2014 and 2013, respectively. Underwriting income or loss is determined by deducting losses and LAE, commission expense, and underwriting and other operating expenses from net premiums earned. Key factors that affected our financial performance during the three months ended March 31, 2014, compared to the same period of

2013, include:

- Gross premiums written increased 6.3%;
- Net premiums earned increased 13.0%;
- Losses and LAE increased 12.9%;

14

Underwriting and other operating expenses increased 5.6%; and
 Income taxes increased \$1.5 million.

A primary measure of our performance is our ability to increase stockholders' equity, including the impact of the Deferred reinsurance gain—LPT Agreement (Deferred Gain), over the long-term. The following table shows our stockholders' equity including the Deferred Gain, stockholders' equity on a GAAP basis, and number of common shares outstanding.

	March 31, 2014	December 31, 2013
	(in thousands, except share data)	
Stockholders' equity including the Deferred Gain ⁽¹⁾	\$833,058	\$817,775
GAAP stockholders' equity	\$587,861	\$568,703
Common shares outstanding	31,375,759	31,299,930

(1) Stockholders' equity including the Deferred Gain is a non-GAAP measure that is defined as total stockholders' equity plus the Deferred Gain, which we believe is an important supplemental measure of our capital position.

The comparative components of net income are set forth in the following table:

	Three Months Ended	
	March 31,	
	2014	2013
	(in thousands)	
Gross premiums written	\$186,018	\$174,963
Net premiums written	183,250	172,026
Net premiums earned	\$167,154	\$147,975
Net investment income	18,013	17,405
Net realized gains on investments	3,259	794
Other income	55	103
Total revenues	188,481	166,277
Losses and LAE	122,256	108,272
Commission expense	20,075	18,393
Underwriting and other operating expenses	33,301	31,540
Interest expense	778	808
Income tax expense (benefit)	1,318	(226)
Total expenses	177,728	158,787
Net income	\$10,753	\$7,490
Less amortization of the Deferred Gain related to losses	\$2,886	\$3,305
Less amortization of the Deferred Gain related to contingent commission	400	382
Less impact of LPT Reserve Adjustments ⁽¹⁾	679	—
Less impact of LPT Contingent Commission Adjustments ⁽²⁾	334	275
Net income before impact of the LPT Agreement ⁽³⁾	\$6,454	\$3,528

Any adjustment to the estimated reserves ceded under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is also included in losses and LAE incurred in the consolidated statements of comprehensive income, such that the Deferred Gain reflects the balance that would have existed had the revised reserves been recognized at the inception of the LPT Agreement (LPT Reserve Adjustment).

Any adjustment to the contingent profit commission under the LPT Agreement results in a cumulative adjustment to the Deferred Gain, which is also recognized in losses and LAE incurred in the consolidated statements of comprehensive income, such that the Deferred Gain reflects the balance that would have existed had the revised contingent profit commission been recognized at the inception of the LPT Agreement (LPT Contingent Commission Adjustments).

(3)

We define net income before impact of the LPT Agreement as net income before the impact of: (a) amortization of Deferred Gain; (b) adjustments to LPT Agreement ceded reserves; and (c) adjustments to contingent commission receivable–LPT Agreement. Deferred Gain reflects the unamortized gain from our LPT Agreement. Under GAAP, this gain is deferred and is being amortized using the recovery method. Amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries over the life of the LPT Agreement, except for the contingent profit commission, which is amortized through June 30, 2024. The amortization is reflected in losses and LAE. We periodically reevaluate the remaining direct reserves subject to the LPT Agreement and the expected losses and LAE subject

to the contingent profit commission under the LPT Agreement. Our reevaluation results in corresponding adjustments, if needed, to reserves, ceded reserves, contingent commission receivable, and the Deferred Gain, with the net effect being an increase or decrease, as the case may be, to net income. Net income before impact of the LPT Agreement is not a measurement of financial performance under GAAP, but rather reflects a difference in accounting treatment between statutory and GAAP, and should not be considered in isolation or as an alternative to net income before income taxes or net income, or any other measure of performance derived in accordance with GAAP.

We present net income before impact of the LPT Agreement because we believe that it is an important supplemental measure of operating performance to be used by analysts, investors, and other interested parties in evaluating us. The LPT Agreement was a non-recurring transaction under which the Deferred Gain does not effect our ongoing operations, and, consequently, we believe this presentation is useful in providing a meaningful understanding of our operating performance. In addition, we believe this non-GAAP measure, as we have defined it, is helpful to our management in identifying trends in our performance because the excluded item has limited significance on our current and ongoing operations.

Net Premiums Earned

Net premiums earned increased 13.0% for the three months ended March 31, 2014, compared to the corresponding period in 2013. This increase was primarily due to increasing policy count, increasing average policy size, and higher net rate.

The following table shows the percentage change in our in-force premiums, policy count, average policy size, payroll exposure upon which our premiums are based, and net rate overall and for California, where 60% of our premiums are generated:

	As of March 31, 2014			
	Year-to-Date Increase		Year-Over-Year Increase	
	Overall	California	Overall	California
In-force premiums	2.1	% 2.7	% 12.5	% 14.0
In-force policy count	1.5	1.5	4.8	3.0
Average in-force policy size	0.6	1.2	7.3	10.7
In-force payroll exposure	1.3	1.3	5.6	3.8
Net rate ⁽¹⁾	0.8	1.4	6.5	9.8

Net rate, defined as total premium in-force divided by total insured payroll exposure, is a function of a variety of (1) factors, including rate changes, underwriting risk profiles and pricing, and changes in business mix related to economic and competitive pressures.

Our in-force premiums and number of policies in-force by select states were as follows:

State	March 31, 2014		December 31, 2013		March 31, 2013		December 31, 2012	
	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force	In-force Premiums	Policies In-force
	(dollars in thousands)							
California	\$377,807	48,732	\$367,813	48,032	\$331,361	47,300	\$317,890	46,829
Illinois	30,380	3,152	30,795	3,184	30,915	3,246	30,555	3,302
Georgia	25,439	3,865	25,565	3,762	24,110	3,354	22,985	3,150
Florida	21,597	3,549	19,897	3,270	18,199	3,034	17,676	2,918
North Carolina	15,227	2,131	15,615	2,112	13,809	1,846	12,421	1,629
Other	159,717	23,872	157,739	23,696	141,861	22,604	135,815	21,986
Total	\$630,167	85,301	\$617,424	84,056	\$560,255	81,384	\$537,342	79,814

Our strategic partnerships and alliances generated \$146.2 million and \$126.7 million, or 23.2% and 22.6%, of our in-force premiums as of March 31, 2014 and 2013, respectively. We believe that the bundling of products and services through these relationships contributes to higher retention rates than business generated by our independent agents. These relationships also allow us to access new customers that we may not have access to through our independent agent distribution channel. We continue to expand our existing relationships and actively seek new partnerships and

alliances.

In September 2012, the California legislature passed Senate Bill No. 863 (SB 863), which was subsequently signed into law. SB 863 includes a number of reforms to California's workers' compensation system, including increases to permanent disability benefits offset by reforms designed to reduce costs in the system. According to the Workers' Compensation Insurance Rating Bureau, the cost savings are expected to be achieved through a number of measures, including: the creation of a new dispute resolution process outside of the Workers' Compensation Appeals Board for medical treatments and billing issues; new controls on liens; and calls for new fee schedules for physicians, interpreters, ambulatory surgery centers, and home health care.

Any cost savings associated with SB 863 will be dependent on the implementation of the provisions of the bill and are not included in our current rate filings. At this point, we do not anticipate any cost savings associated with SB 863.

16

Our net rate (total in-force premiums divided by total insured payroll exposure) increased 1.4% in California during the three months ended March 31, 2014. Pricing in California reflects schedule rating, changes to filed rates, and experience modifiers. We will begin leveraging territorial multipliers and multiple insurance subsidiaries, each with different rate filings, to provide additional pricing options in California for policies incepting on or after June 1, 2014. We expect that total premiums in 2014 across our markets will reflect:

- overall net rate increases;
- increasing average policy size; and
- stable policy count growth, compared to 2013.

Net Investment Income and Net Realized Gains on Investments

We invest our holding company assets, statutory surplus, and the funds supporting our insurance liabilities, including unearned premiums and unpaid losses and LAE. We invest in fixed maturity securities, equity securities, and cash equivalents. Net investment income includes interest and dividends earned on our invested assets and amortization of premiums and discounts on our fixed maturity securities, less bank service charges and custodial and portfolio management fees. We have established a high quality/short duration bias in our investment portfolio.

Net investment income increased 3.5% for the three months ended March 31, 2014, compared to the same period of 2013. This increase was primarily related to an increase in invested assets, partially offset by a decrease in the average pre-tax book yield on invested assets to 3.3%, compared to 3.5% for the first quarter of 2013. The tax-equivalent yield on invested assets decreased to 4.0% at March 31, 2014, compared to 4.3% at March 31, 2013.

Realized gains and losses on our investments are reported separately from our net investment income. Realized gains and losses on investments include the gain or loss on a security at the time of sale compared to its original or adjusted cost (equity securities) or amortized cost (fixed maturity securities). Realized losses are also recognized when securities are written down as a result of an other-than-temporary impairment.

Net realized gains on investments were \$3.3 million and \$0.8 million for the three months ended March 31, 2014 and 2013, respectively.

Additional information regarding our Investments is set forth under “—Liquidity and Capital Resources—Investments.”
Combined Ratio

The combined ratio, a key measurement of underwriting profitability, is the sum of the loss and LAE ratio, the commission expense ratio, and underwriting and other operating expenses ratio. When the combined ratio is below 100%, we have recorded underwriting income, and conversely, when the combined ratio is greater than 100%, we have recorded an underwriting loss and cannot be profitable without investment income. Because we only have one operating segment, holding company expenses are included in our calculation of the combined ratio.

The following table provides the calculation of our calendar year combined ratios.

	Three Months Ended		
	March 31,		
	2014	2013	
Loss and LAE ratio	73.1	% 73.2	%
Underwriting and other operating expenses ratio	20.0	21.3	
Commission expense ratio	12.0	12.4	
Combined ratio	105.1	% 106.9	%

Loss and LAE Ratio. This is the ratio of losses and LAE to net premiums earned. Losses and LAE represents our largest expense item and includes claim payments made, amortization of the Deferred Gain, estimates for future claim payments and changes in those estimates for current and prior periods, and costs associated with investigating, defending, and adjusting claims. The quality of our financial reporting depends in large part on accurately predicting our losses and LAE, which are inherently uncertain as they are estimates of the ultimate cost of individual claims based on actuarial estimation techniques.

Our indemnity claims frequency (the number of claims expressed as a percentage of payroll) has decreased year-over-year; however, our loss experience indicates an upward trend in medical and indemnity costs per claim that are reflected in our current accident year loss estimate. Specifically, we experienced increased costs associated with claims litigation driven by a nearly 15 percentage point increase in the number of claims that are in litigation in our

Southern California operations for the three months ended March 31, 2014, compared to the same period of 2013; however, the increase in the number of claims that are in litigation in our Southern California operations was less than one percentage point as of March 31, 2014, compared to December 31, 2013. We believe our current accident year loss estimate is adequate; however, ultimate losses will not be known with any certainty for many

years. We assume that increasing medical and indemnity cost trends will continue to impact our long-term claims costs and current accident year loss estimate, which may be offset by rate increases.

Our loss and LAE ratio decreased 0.1 percentage points, while our losses and LAE increased 12.9% for the three months ended March 31, 2014, compared to the same period of 2013. Our current accident year loss estimates were 74.7% and 75.1% for the three months ended March 31, 2014 and 2013, respectively. The decrease in our current accident year loss estimate was primarily the result of net rate increases more than offsetting anticipated increases in loss costs. Prior accident year loss development in both periods was primarily related to our assigned risk business. Excluding the impact from the LPT Agreement, losses and LAE would have been \$126.6 million and \$112.2 million, or 75.7% and 75.8% of net premiums earned, for the three months ended March 31, 2014 and 2013, respectively. The table below reflects the losses and LAE reserve adjustments.

	Three Months Ended	
	March 31,	2013
	(in thousands)	
Prior accident year (unfavorable) loss development, net	\$ (1,751	) \$ (1,130
Amortization of the Deferred Gain related to losses	2,886	3,305
Amortization of the Deferred Gain related to contingent commission	400	382
Impact of LPT Reserve Adjustments	679	—
Impact of LPT Contingent Commission Adjustments	334	275

Underwriting and Other Operating Expenses Ratio. The underwriting and other operating expenses ratio is the ratio of underwriting and other operating expenses to net premiums earned and measures an insurance company's operational efficiency in producing, underwriting, and administering its insurance business.

Underwriting and other operating expenses are those costs that we incur to underwrite and maintain the insurance policies we issue, excluding commission. These expenses include premium taxes and certain other general expenses that vary with, and are primarily related to, producing new or renewal business. Other underwriting expenses include policyholder dividends, changes in estimates of future write-offs of premiums receivable, general administrative expenses such as salaries and benefits, rent, office supplies, depreciation, and all other operating expenses not otherwise classified separately. Policy acquisition costs are variable based on premiums earned; however, other operating costs are more fixed in nature and become a smaller percentage of net premiums earned as premiums increase.

Our underwriting and other operating expenses ratio decreased 1.3 percentage points, while our underwriting and other operating expenses increased 5.6% for the three months ended March 31, 2014, compared to the same period of 2013. The lower underwriting and other operating expenses ratios are primarily due to net premiums earned increasing at a faster rate than our expenses. During the three months ended March 31, 2014, our premium taxes and assessments expenses increased \$1.0 million, and IT related expenses increased \$0.9 million, compared to the same period of 2013.

Commission Expense Ratio. The commission expense ratio is the ratio of commission expense to net premiums earned and measures the cost of compensating agents and brokers for the business we have underwritten.

Commission expense includes direct commissions to our agents and brokers for the premiums that they produce for us, as well as incentive payments, other marketing costs, and fees.

Our commission expense ratio decreased 0.4 percentage points, while our commission expense increased 9.1% for the three months ended March 31, 2014, compared to the same period of 2013. This increase was primarily due to higher net premiums earned.

Income Tax Expense (Benefit)

Income tax expense (benefit) was \$1.3 million and \$(0.2) million for the three months ended March 31, 2014 and 2013, respectively. The effective tax rates were 10.9% and (3.1)% for three months ended March 31, 2014 and 2013, respectively. The increased tax expense for the three months ended March 31, 2014, compared to the same period of 2013, was primarily due to a decrease in tax exempt income as a percentage of pre-tax net income and increased in

projected annual net income before taxes.

Liquidity and Capital Resources

Parent Company

Operating Cash and Cash Equivalents. We are a holding company and our ability to fund our operations is contingent upon existing capital and the ability of our insurance subsidiaries' to pay dividends up to the holding company.

Payment of dividends by our insurance subsidiaries is restricted by state insurance laws and regulations, including laws establishing minimum solvency

18

and liquidity thresholds. We require cash to pay stockholder dividends, repurchase common stock, make interest and principal payments on our outstanding debt obligations, provide additional surplus to our insurance subsidiaries, and fund our operating expenses.

The holding company had \$51.9 million of cash and cash equivalents and fixed maturity securities maturing within the next 24 months at March 31, 2014. Principal payments of \$10 million and \$60 million on our line of credit are payable on December 31, 2014 and 2015, respectively. We believe that the liquidity needs of the holding company over the next 24 months will be met with cash, investments, and dividends from our insurance subsidiaries.

Outstanding Debt. In December 2010, we entered into the Third Amended and Restated Credit Agreement with Wells Fargo (Amended Credit Facility) under which we were provided with: (a) \$100.0 million line of credit through December 31, 2011; (b) \$90.0 million line of credit from January 1, 2012 through December 31, 2012; (c) \$80.0 million line of credit from January 1, 2013 through December 31, 2013; (d) \$70.0 million line of credit from January 1, 2014 through December 31, 2014; and (e) \$60.0 million line of credit from January 1, 2015 through December 31, 2015. Amounts outstanding bear interest at a rate equal to, at our option: (a) a fluctuating rate of 1.75% above prime rate or (b) a fixed rate that is 1.75% above the LIBOR rate then in effect. The Amended Credit Facility is secured by fixed maturity securities and restricted cash and cash equivalents that had a fair value of \$85.8 million and \$95.1 million at March 31, 2014 and December 31, 2013, respectively. The Amended Credit Facility contains customary non-financial covenants and requires us to maintain 5% of the aggregate commitment amount of the line of credit in cash and cash equivalents at all times at the holding company. We are currently in compliance with all applicable covenants.

Our capital structure is comprised of outstanding debt and stockholders' equity. As of March 31, 2014, our capital structure consisted of \$70.0 million principal balance on our Amended Credit Facility, \$32.0 million in surplus notes maturing in 2034, and \$833.1 million of stockholders' equity, including the Deferred Gain. Outstanding debt was 10.9% of total capitalization, including the Deferred Gain, as of March 31, 2014.

Operating Subsidiaries

Operating Cash and Cash Equivalents. The primary sources of cash for our insurance operating subsidiaries are funds generated from underwriting operations, investment income, maturities and sales of investments, and capital contributions from the parent holding company. The primary uses of cash are payments of claims and operating expenses, purchases of investments, and payments of dividends to the parent holding company, which are subject to state insurance laws and regulations.

Our insurance subsidiaries had \$351.8 million of cash and cash equivalents and fixed maturity securities maturing within the next 24 months at March 31, 2014. We believe that our subsidiaries' liquidity needs over the next 24 months will be met with cash from operations, investment income, and maturing investments.

We purchase reinsurance to protect us against the costs of severe claims and catastrophic events. On July 1, 2013, we entered into a new reinsurance program that is effective through June 30, 2014. The reinsurance program consists of one treaty covering excess of loss and catastrophic loss events in five layers of coverage. Our reinsurance coverage is \$195.0 million in excess of our \$5.0 million retention on a per occurrence basis, subject to a \$2.0 million annual aggregate deductible and certain exclusions. We believe that our reinsurance program meets our needs and that we are sufficiently capitalized.

Various state laws and regulations require us to hold securities or letters of credit on deposit with certain states in which we do business. Securities having a fair value of \$777.6 million and \$602.4 million were on deposit at March 31, 2014 and December 31, 2013, respectively. These laws and regulations govern both the amount and types of fixed maturity securities that are eligible for deposit. Additionally, certain reinsurance contracts require Company funds to be held in trust for the benefit of the ceding reinsurer to secure the outstanding liabilities we assumed. The fair value of fixed maturity securities held in trust for the benefit of ceding reinsurers was \$32.3 million and \$32.2 million at March 31, 2014 and December 31, 2013, respectively.

Cash Flows

We monitor cash flows at both the consolidated and subsidiary levels. We use trend and variance analyses to project future cash needs, making adjustments to our forecasts as appropriate.

The table below shows our net cash flows for the three months ended:

	March 31, 2014 (in thousands)	2013	
Cash and cash equivalents provided by (used in):			
Operating activities	\$38,570	\$41,587	
Investing activities	(20,800	) (51,051)
Financing activities	(1,155	) (308)
Increase (decrease) in cash and cash equivalents	\$16,615	\$(9,772)

Operating Activities. Major components of net cash provided by operating activities for the three months ended March 31, 2014 included net premiums received of \$168.8 million, and investment income received of \$21.4 million. These were partially offset by claims payments of \$91.1 million (net of \$8.3 million recovered from reinsurers), underwriting and other operating expenses paid of \$41.2 million (including premium taxes paid of \$9.3 million), and commissions paid of \$18.7 million.

Major components of net cash provided by operating activities for the three months ended March 31, 2013 included net premiums received of \$142.1 million, and investment income received of \$19.7 million. These were partially offset by claims payments of \$77.9 million (net of \$9.2 million recovered from reinsurers), underwriting and other operating expenses paid of \$27.0 million (including premium taxes paid of \$7.4 million), and commissions paid of \$14.9 million.

Investing Activities. The major components of net cash used in investing activities for the three months ended March 31, 2014 and 2013 were the purchases of fixed maturity and equity securities, partially offset by proceeds from maturities and redemptions of investments.

Financing Activities. The majority of cash used in financing activities for the three months ended March 31, 2014 was related to dividends paid to stockholders.

The majority of cash used in financing activities for the three months ended March 31, 2013 was related to dividends paid to stockholders, partially offset by cash received related to the exercise of stock options.

Investments

The cost or amortized cost of our investment portfolio was \$2.22 billion and the fair value was \$2.38 billion as of March 31, 2014.

We employ an investment strategy that emphasizes asset quality and considers the durations of fixed maturity securities against anticipated claim payments and expenditures, other liabilities, and capital needs. Our investment portfolio is structured so that investments mature periodically in reasonable relation to current expectations of future claim payments. Currently, we make claim payments from positive cash flow from operations and use excess cash to invest in operations, invest in marketable securities, return capital to our stockholders, and fund growth.

As of March 31, 2014, our investment portfolio, which is classified as available-for-sale, consisted of 93.1% fixed maturity securities whose fair values may fluctuate due to interest rate changes. We strive to limit interest rate risk by managing the duration of our fixed maturity securities. Our fixed maturity securities (excluding cash and cash equivalents) had a duration of 4.2 at March 31, 2014. To minimize interest rate risk, our portfolio is weighted toward short-term and intermediate-term bonds; however, our investment strategy balances consideration of duration, yield, and credit risk. Our investment guidelines require that the minimum weighted average quality of our fixed maturity securities portfolio be "AA-." Our fixed maturity securities portfolio had a weighted average quality of "AA" as of March 31, 2014, with 59.2% of the portfolio rated "AA" or better, based on market value.

We carry our portfolio of equity securities on our balance sheet at fair value. We minimize our exposure to equity price risk by investing primarily in the equity securities of mid-to-large capitalization issuers and by diversifying our equity holdings across several industry sectors. Equity securities represented 6.9% of our investment portfolio at March 31, 2014.

Given current economic uncertainty and continuing market volatility, we believe that our current asset allocation best meets our strategy to preserve capital for policyholders, to provide sufficient income to support insurance operations, and to effectively grow book value over a long-term investment horizon.

The following table shows the estimated fair value, the percentage of the fair value to total invested assets, the average book yield, and the average tax equivalent yield based on the fair value of each category of invested assets as of March 31, 2014.

Category	Estimated Fair Value (in thousands, except percentages)	Percentage of Total	Book Yield	Tax Equivalent Yield
U.S. Treasuries	\$174,487	7.3	% 1.9	% 1.9
U.S. Agencies	58,947	2.5	2.7	2.7
States and municipalities	763,913	32.2	3.7	5.4

Edgar Filing: VERTEX PHARMACEUTICALS INC / MA - Form DEF 14A

Corporate securities	838,859	35.3	3.3	3.3
Residential mortgage-backed securities	261,392	11.0	3.6	3.6
Commercial mortgage-backed securities	64,063	2.7	2.6	2.6
Asset-backed securities	49,498	2.1	0.8	0.8
Equity securities	163,928	6.9	4.3	5.7
Total	\$2,375,087	100.0	%	
Weighted average yield			3.3	% 4.0 %

20

The following table shows the percentage of total estimated fair value of our fixed maturity securities as of March 31, 2014 by credit rating category, using the lower of ratings assigned by Moody's Investor Services and/or Standard & Poor's.

Rating	Percentage of Total Estimated Fair Value	
"AAA"	10.3	%
"AA"	48.9	
"A"	27.9	
"BBB"	12.8	
Below investment grade	0.1	
Total	100.0	%

Investments that we currently own could be subject to default by the issuer or could suffer declines in fair value that become other-than-temporary. We regularly assess individual securities as part of our ongoing portfolio management, including the identification of other-than-temporary declines in fair value. Our other-than-temporary assessment includes reviewing the extent and duration of declines in the fair value of investments below amortized cost, historical and projected financial performance and near-term prospects of the issuer, the outlook for industry sectors, credit rating, and macro-economic changes. We also make a determination as to whether it is not more likely than not that we will be required to sell the security before its fair value recovers above cost, or maturity.

Based on our reviews of fixed maturity and equity securities, we believe that we appropriately identified the declines in the fair values of our unrealized losses for the three months ended March 31, 2014. We determined that the unrealized losses on fixed maturity securities were primarily the result of prevailing interest rates and not the credit quality of the issuers. The fixed maturity securities whose fair value was less than amortized cost were not determined to be other-than-temporarily impaired given the severity and duration of the impairment, the credit quality of the issuers, the Company's intent to not sell the securities, and a determination that it is not more likely than not that the Company will be required to sell the securities until fair value recovers to above cost, or maturity.

Based on reviews of the equity securities for the three months ended March 31, 2014, the Company determined that the unrealized losses as of that date were not considered to be other-than-temporary due to the financial condition and near-term prospects of the issuers.

The cost or amortized cost, gross unrealized gains, gross unrealized losses, and estimated fair value of our investments were as follows:

	Cost or Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
At March 31, 2014				
Fixed maturity securities				
U.S. Treasuries	\$167,437	\$7,148	\$(98)	\$174,487
U.S. Agencies	55,912	3,035	—	58,947
States and municipalities	724,093	41,784	(1,964)	763,913
Corporate securities	812,448	32,007	(5,596)	838,859
Residential mortgaged-backed securities	256,573	8,136	(3,317)	261,392
Commercial mortgaged-backed securities	65,326	317	(1,580)	64,063
Asset-backed securities	49,592	38	(132)	49,498
Total fixed maturity securities	2,131,381	92,465	(12,687)	2,211,159
Equity securities	92,139	72,074	(285)	163,928
Total investments	\$2,223,520	\$164,539	\$(12,972)	\$2,375,087

Contractual Obligations and Commitments

The following table identifies our long-term debt and contractual obligations as of March 31, 2014:

	Payment Due By Period				
	Total	Less Than 1-Year	1-3 Years	4-5 Years	More Than 5 Years
	(in thousands)				
Operating leases	\$14,598	\$5,376	\$7,185	\$2,037	\$—
Purchase liabilities	559,453	250,291	309,162	—	—
Notes payable ⁽¹⁾	132,609	12,411	63,685	2,832	53,681
Capital leases	2,461	1,170	866	425	—
Losses and LAE reserves ⁽²⁾⁽³⁾	2,358,178	328,216	418,312	258,856	1,352,794
Total contractual obligations	\$3,067,299	\$597,464	\$799,210	\$264,150	\$1,406,475

Notes payable obligations reflect payments for the principal and estimated interest expense based on LIBOR rates (1) plus a margin. The estimated interest expense was based on the contractual obligations of the debt outstanding as of March 31, 2014. The interest rates range from 1.4% to 4.5%.

Estimated losses and LAE reserve payment patterns have been computed based on historical information. Our calculation of loss and LAE reserve payments by period is subject to the same uncertainties associated with determining the level of reserves and to the additional uncertainties arising from the difficulty of predicting when (2) claims (including claims that have not yet been reported to us) will be paid. Actual payments of losses and LAE by period will vary, perhaps materially, from the above table to the extent that current estimates of losses and LAE reserves vary from actual ultimate claims amounts due to variations between expected and actual payout patterns.

(3) The losses and LAE reserves are presented gross of reinsurance recoverables for unpaid losses, which are as follows for each of the periods presented above:

	Recoveries By Period				
	Total	Less Than 1-Year	1-3 Years	4-5 Years	More Than 5 Years
	(in thousands)				
Reinsurance recoverables for unpaid losses	\$(735,842)	\$(38,246)	\$(73,607)	\$(69,593)	\$(554,396)

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

These unaudited interim consolidated financial statements include amounts based on the use of estimates and judgments of management for those transactions that are not yet complete. We believe that the estimates and judgments that were most critical to the preparation of the consolidated financial statements involved the following: (a) reserves for losses and LAE; (b) reinsurance recoverables; (c) recognition of premium income; (d) deferred income taxes; (e) valuation of investments; and (f) goodwill and intangible asset impairment. These estimates and judgments require the use of assumptions about matters that are highly uncertain and therefore are subject to change as facts and circumstances develop. Our accounting policies are discussed under "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk, interest rate risk, and equity price risk, and are described in detail in our Annual Report. We have not experienced any material changes in market risk since December 31, 2013.

The primary market risk exposure to our investment portfolio, which consists primarily of fixed maturity securities, is interest rate risk. We have the ability to hold fixed maturity securities to maturity and we strive to limit interest rate risk by managing duration. As of March 31, 2014, our fixed maturity securities portfolio had a duration of 4.2. We continually monitor the impact of interest rate changes on our investment portfolio and liquidity obligations. Changes

to our market risk, if any, since December 31, 2013 are reflected in Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements contained in this Form 10-Q.

Item 4. Controls and Procedures

22

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time-to-time, the Company is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have a material effect on our results of operations, liquidity, or financial position.

Item 1A. Risk Factors

We have disclosed in our Annual Report the most significant risk factors that can impact year-to-year comparisons and that may affect the future performance of the Company's business. On a quarterly basis, we review these disclosures and update the risk factors, as appropriate. As of the date of this report, there have been no material changes to the risk factors contained in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description of Exhibit	Included Herewith	Incorporated by Reference Herein		
			Form	Exhibit	Filing Date
31.1	Certification of Douglas D. Dirks Pursuant to Section 302	X			
31.2	Certification of William E. Yocke Pursuant to Section 302	X			
32.1	Certification of Douglas D. Dirks Pursuant to Section 906	X			
32.2	Certification of William E. Yocke Pursuant to Section 906	X			
*101.INS	XBRL Instance Document	X			
*101.SCH	XBRL Taxonomy Extension Schema Document	X			
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	X			
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	X			
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document	X			
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	X			

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMPLOYERS HOLDINGS, INC.

Date: May 1, 2014

/s/ Douglas D. Dirks
Douglas D. Dirks
President and Chief Executive Officer
Employers Holdings, Inc.

Date: May 1, 2014

/s/ William E. Yocke
William E. Yocke
Executive Vice President and Chief Financial Officer
Employers Holdings, Inc.
(Principal Financial and Accounting Officer)