Companhia Vale do Rio Doce
Form 6-K
January 27, 2006

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United States Securities and Exchange Commission
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the
Securities Exchange Act of 1934
For the month of
January 2006
Companhia Vale do Rio Doce
Avenida Graça Aranha, No. 26
20005-900 Rio de Janeiro, RJ, Brazil
(Address of principal executive office)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

(Check One) Form 20-F þ Form 40-F o

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1))

(Check One) Yes o No þ

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7))

(Check One) Yes o No þ

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

(Check One) Yes o No þ

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82-___.)

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Press Release

CVRD announces 2006 capex: US$4.6 billion

Rio de Janeiro, January 26, 2006 Companhia Vale do Rio Doce CVRD announces that its Board of Directors has approved a capex budget of US$4.626 billion for 2006, the highest annual capex figure in its history.[1]

In line with its strategic plan, which places priority upon organic growth as the driver for shareholder value creation, in 2006 CVRD begins the development of new projects which in coming years will expand its production capacity in iron ore, pellets, bauxite, alumina, copper and nickel. Also, as well as projects already in progress, there will be significant expenditure on logistics and energy infrastructure to support the mining activities.

CVRD s world-class assets, characterized by the long life of its reserves and low cost of exploration and operation, the significant synergies with the efficient logistics infrastructure, and continuing strong growth in global demand, lead to expected returns higher than the Company s cost of capital, providing incentives for acceleration of project investments. These projects, scheduled for start-up over the period 2006-2009, will add new and considerable sources of growth in cash flow and value for shareholders.

The amount to be invested for organic growth is US$3.558 billion, 77% of the total 2006 capex. This is made up of US$3.067 billion in investment in greenfield projects and expansion of capacity in existing assets (brownfield projects); and US$491 million in research and development (R&D), basically directed to discovering new mineral reserves and making development possible in deposits already identified. The remaining US$1.068 billion will be allocated to capital expenditure to maintain existing operations.

Capital expenditure in the ferrous minerals business will total US$2.118 billion, 46% of the total. Investment in the aluminum business is planned to be 17% of the total; logistics services will also receive 17% of the total; and the non-ferrous minerals, 9%.

In 2005 CVRD s total capital expenditure was US$4.161 billion, of which US$2.604 billion was in organic growth US$2.314 billion in projects and US$290 million in R&D; while US$757 million was invested in maintaining existing business, and US$800 million in acquisitions. The total capital expenditure in 2005, excluding spending on acquisitions, was thus US$3.361 billion, very close to the amount announced in January 2005, of US$3.332 billion.

In December 2005 CVRD concluded the acquisition of 99.2% of the capital of Canico Resources Corp., a Canadian junior mining company which was the owner of the Onça Puma nickel project in the state of Pará, Brazil, close to the mineral province of Carajás. Development of this project, together with the Vermelho nickel project, will bring CVRD into the nickel business as an important global producer.

The capex for 2006 is 37.6%, or US$1.265 billion, more than the actual capital expenditure realized in 2005, with the exclusion of the Canico acquisition. Components in this increase can be stated as follows: (a) investments in new projects (Carajás 100Mtpa, Itabiritos, Tubarão VIII, Vermelho, 118, Paragominas II, Alunorte 6&7, Albras), and increase of disbursement in some projects currently under development; (b) an increase of US$311 million in stay-in-business capex, due to increased expenditure on construction of dams for environmental protection (US$66 million), increase in the productivity of the pelletizing plants (US$35 million) and in rails and sleepers for the railroads; (c) increase of US$201 million on R&D expenditures relatively to 2005; (d) an increase of 15%, on average, in the costs of equipment and engineering services,

[1] The budget consists of disbursements on capital expenditure consolidated according to accounting principles generally accepted in the

USA (US GAAP). The main CVRD subsidiaries consolidated according to the US GAAP are: Caemi, Alunorte, Albras, RDM, RDME, RDMN, Urucum Mineração, Docenave and Ferrovia Centro Atlântica.

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directly resulting from the long cycle in metals and mining and the increase in investments in the mining industry worldwide.

CVRD s capital expenditure over the last five years has totaled US$10.5 billion, and the annual average in real terms is higher, by far, than at any other time in the Company s history. Simultaneously, CVRD distributed US$4.4 billion in dividends to its shareholders, while preserving a solid financial position, recognized by its obtaining investment grade rating from three rating agencies (Standard & Poor s, Moody s and Dominion Bond Rating Services) and by the effective reduction in spreads on its debt when compared with the yields offered by US Treasury securities.

In this period several projects were concluded. Highlights among them include the new Fábrica Nova and Capão Xavier iron ore mines, the Sossego copper mine, the pelletizing plant at São Luis, expansions of iron ore production capacity at Carajás to 70 million tons per year, the Taquari-Vassouras potash mine, the Trombetas bauxite mine, the Alunorte alumina refinery, the conversion of the Mo I Rana alloys plant, construction of four hydroelectric power plants Funil, Porto Estrela, Candonga and Aimorés and Pier III of the Ponta de Madeira Maritime terminal. Investments in logistics significantly increased the haulage capacity of our three railroads Carajás, Ferrovia Centro-Atlântica FCA and Vitória a Minas. There were also increases in the Southern System iron ore production capacity as well as in manganese, ferro-alloys and primary aluminum, derived from execution of brownfield projects. The estimated average return on capital invested, of 32% over the period 2001-2005, is a good indicator of the quality of execution of these projects, and the rigorous discipline observed by the Company in the allocation of its shareholders capital.

Creation of new platforms of value creation

Ferrous minerals: expansion of capacity in iron ore and pellets

The total budget for capital investment in projects related to iron ore is US$1.475 billion, which represents 48% of CVRD s total planned capex on projects. Of this, US$769 million is allocated to iron ore projects *per se*, and US$374 million to projects in pellets. The Company s projects with the highest planned capital expenditure this year are Itabiritos (US$338 million), Carajás (US$330 million) and Brucutu (US$310 million).

Four iron ore mining projects are being put in place in CVRD s Southern System: Brucutu, Itabira, Fazendão and Fábrica. In the Northern System, the iron ore projects are those to increase the production capacity of Carajás to 100 million tons per year: two projects respectively named Carajás 85 Mtpa and Carajás 100 Mtpa. These projects will increase production from 233.8 million tons per year in 2005 to approximately 300 million tons per year in 2007.

In response to the strong expansion in global demand for pellets led by the construction of new DRI plants in the Middle East and Southeast Asia, and the quest for better standards of productivity and environmental protection in the steel industry, and in the context of the growing scarcity of lump ore, the main competitor of pellets CVRD is investing in two new pelletizing plants.

Itabiritos, in Minas Gerais state, Brazil, is a project that includes the construction of a pelletizing plant with annual capacity for 7 million tons, an iron ore concentration plant, and a short pipeline, with total cost estimated at US$759 million.

Tubarão VIII will be the eighth pelletizing plant in the Tubarão complex, in Espírito Santo state, Brazil, with nominal capacity of 7 million tons per year. The investment for this project is US$516 million.

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Additionally, Samarco, a joint venture in which CVRD has 50% of the total capital, will invest US$1.2 billion in a third pelletizing plant, with nominal capacity for 7.6 million tons per year. This project also includes the construction of an iron ore beneficiation plant and an ore pipeline linking the mine to the pelletizing facility. We highlight the fact that this investment will not require any injection of capital from CVRD itself.

The Port of Tubarão, in Espírito Santo state, is being expanded to increase the speed of its iron ore handling capacity, reducing costs from demurrage charges. This project, with a total cost of US$65 million, will be concluded in 2006.

About 54% of the budget for the expansion of the Carajás iron ore mine, will be allocated to increase the capacity of the Ponta da Madeira maritime terminal, in the state of Maranhão, Brazil, including a third shiploader.

The Sepetiba maritime terminal, in Rio de Janeiro state, Brazil, will have its iron ore loading capacity increased, from 16.5 to 21 million tons per year in 2007, for estimated investment of US$28 million. The iron ore handling capacity of the port terminal on the Guaíba Island maritime terminal, also in the state of Rio de Janeiro, will be expanded from 43 to 49 million tons per year in 2008, and a second shiploader will be acquired, for capital expenditure of US$41 million.

Bauxite and aluminum: exploiting the competitive advantages

CVRD s strategic focus in the aluminum production chain is concentrated on growth in the capacity for bauxite, of which it has considerable reserves of high quality, and on alumina, due to the efficiency and low operational and logistics costs, which provide important competitive advantages in the global scenario.

The start-up of stages 4 and 5 of Alunorte, in the state of Pará, which will increase the capacity of the refinery by 1.9 million tons of alumina per year, is programmed for the first quarter of 2006. Start-up of production of the phase one of the Paragominas bauxite mine, also in the state of Pará, with 5.4 million tons per year, is scheduled for 2007. The bauxite from Paragominas will be transported to the Alunorte plant by the world s first bauxite ore-carrying pipeline, with total length of 244 kilometers, reducing the cost of transport. The capital expenditure scheduled for both projects in 2006 is US$354 million.

The investment in stages 6 and 7 of the alumina refinery, which will add a further capacity 1.9 million tons per year, will be US$846 million, of which US$239 million will be spent in 2006, with estimated completion date in 2008. The budget also includes spending of US$14 million at Paragominas phase two, which will increase bauxite mine s production capacity to 9.9 million tons in 2008.

The aluminum smelter at Barcarena (Albras) will absorb capital expenditure of US$102 million in a project for conversion of technology. The objective of this project is to reduce the consumption of electricity per ton of aluminum ingots, reducing unit cost and increasing output without the need for investments in expansion of the plant s capacity. Capital expenditure in 2006 will be US$15 million.

Coal: CVRD enters the coal industry with production in China

In 2005 CVRD acquired a 25% holding in the Henan Longyu Energy Resources (Henan) anthracite production project, in association with Baosteel and Yongcheng, for investment of US$86 million. Henan recently shipped its first cargo of 40,000 tons, from the port of Lianyungang to Brazil.

This year CVRD will spend US$9 million to conclude its investment totaling US$26 million in the acquisition of a 25% stake in Shandong Yankuang Coking, which will begin production of metallurgical coke in the next few months.

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Non-ferrous minerals: debut in the nickel industry

In July 2005 CVRD approved the development of the Vermelho nickel project, in the Carajás mineral province, in the state of Pará, with an estimated annual production capacity of 46,000 tons of nickel and 2,800 tons of cobalt. The estimated investment is US$1.2 billion, of which US$97 million is planned for 2006. Vermelho is timetabled to start operating in the last quarter of 2008.

This year development will begin on the Company s second copper mine, the name of which is 118. Its estimated annual average production capacity is 36,000 tons of copper cathode, to start-up in the first half of 2008. Estimated total capital expenditure on the project is US$232 million, of which US$21 million is allocated in 2006.

Logistics: focus on winning productivity gains

CVRD s investments in logistics infrastructure and services in 2006 are budgeted at US$482 million, and consist primarily of purchase of locomotives and wagons for carrying iron ore and general cargo.

The budget includes the acquisition of 1,426 wagons, made up of 1,276 wagons for haulage of iron ore, and 150 wagons for third parties general cargo, and 22 locomotives exclusively to haul iron ore for total planned investment of US$379 million. In 2005, the Company allocated US$465 million to acquisition of rolling stock 5,414 wagons and 125 locomotives and now expects gradually diminishing the total amount invested on rolling stock over the coming years.

CVRD will invest US$20 million in the engineering project of Variante Litorânea Sul from FCA railroad, which will have 165 kilometers of length, linking Flexal to Cachoeiro do Itapemirim, in the state of Espírito Santo. Construction will begin after the obtention of the environmental license and approval by the Brazilian regulatory agency ANTT. The main cargoes to be transported are limestone, granite, wood and cement.

Generation of electric power: reducing risks

CVRD continues to invest in power plants Capim Branco I, Capim Branco II and Estreito to supply the consumption needs of its operational units. Capim Branco I is scheduled to start operating this year. It will be the Company s sixth hydroelectric power plant. The others are: Igarapava, Funil, Porto Estrela, Candonga and Aimorés. Construction is timetabled to start on the Estreito hydroelectric power plant, to serve the Company s electricity consumption needs in the Carajás region.

The steel joint ventures: stimulating demand for iron ore

CVRD will participate in the Ceará Steel project, in association with Dongkuk Steel and Danieli. The project, in the state of Ceará, will produce 1.5 million tons per year of steel slabs. CVRD s investment will be US$25 million, and the project is scheduled to start operating in 2009. CVRD will supply 2.5 million tons of direct reduction pellets annually.

Another project in which CVRD is participating is CSA, a joint venture with ThyssenKrupp, currently at approval phase. CVRD will invest US$200 million of which US$72 million is allocated in 2006 capex. CSA, in the state of Rio de Janeiro, will produce 4.1 million tons of steel slabs per year, demanding a supply of iron ore and pellets from CVRD of 7.1 million tons per year. Estimated start-up in 2008.

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Main CVRD projects underway: progress report

Area	Project	CAPEX 2005	Budgeted 2006	Total	Status
		US$ million			
Ferrous Minerals	Expansion of the Carajás iron ore mines to 85 Mtpy Northern System	168	41	296	This project will add 15 Mtpy to CVRD s production capacity and is scheduled for conclusion in 3Q06.
	Expansion of the Carajás iron ore mines to 100 Mtpy Northern System		289	366	This project will add 15 Mtpy to CVRD s production capacity and is scheduled for conclusion in 2H07.
	Brucutu iron ore mine Southern System	354	310	856	Phase I of the project is expected to be complete in 3Q06, bringing nominal production capacity to 12 Mtpy. Conclusion of Phase II is planned for 3Q07, bringing capacity to 24 Mtpy. Studies are in progress for expansion to 30 Mtpy. Budget revised.
	Expansion of the Itabira iron ore mines Southern System	9	2	75	Modernization of operations and expansion of production capacity of the Itabira mines to 46 Mtpy. Conclusion and start-up scheduled for 2H07.
	Fazendão iron ore mine Southern System	3	39	100	Project for 14 Mtpy of run-of-mine (ROM) iron ore. Works are planned to start in 1H06, for completion and start-up in 2H07.
	Expansion of the Fábrica iron ore mine Southern System	7	88	144	Project to expand capacity by 5Mtpy from 12 to 17 Mtpy, with start-up in 3Q07.
	Tubarão Port expansion Southern System	31	20	65	Project to expand conveyor belt systems and cargo handling area machinery, and build new cargo handling areas. Conclusion scheduled for December 2006.
	Expansion of the São Luis pelletizing plant	23	5	18	Expansion of capacity from 6 to 7 Mtpy will be concluded in 1Q06.
	Itabiritos pelletizing plant		338	759	This project comprises a pelletizing plant, located in the state of Minas Gerais, with nominal capacity of 7 Mtpy, and an iron ore concentration plant. The

					start-up is scheduled for the 2H08.
	Tubarão VIII palletizing plant		31	516	Pelletizing plant with nominal capacity of 7 Mtpy located at the Tubarão Complex. Conclusion and start-up scheduled for 2008. Subject to CVRD Board of Directors approval.
Coal	Metallurgical coke	11	9	26	Acquisition of a 25% stake, in association with the Chinese coal producer Yankuang, in Shandong Yankuang International Coking Ltd, to produce metallurgical coke. The project has estimated production capacity of 2 Mtpy of coke and 200,000 tpy of methanol. Start-up scheduled for the 1H06.

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Area	Project	CAPEX	Budgeted		Status
		US$ million			
		2005	2006	Total	
Non-ferrous minerals	118 copper mine		21	232	118 will have production capacity of 36,000 tpy of copper cathode. The principal equipment has been ordered. Start-up is scheduled for the 1H08.
	Vermelho nickel mine	5	97	1.200	The estimated production capacity of 46,000 tpy of metallic nickel and 2,800 tpy of cobalt. The main equipment has been ordered. The EPCM (Engineering, Procurement Construction Management) was already contracted in Dec/05. Work on obtaining the environmental license is in progress.
Aluminum	Alumina: Alunorte stages 4 and 5	396	144	583	Stages 4 and 5 will increase alumina refinery capacity to 4.3 Mtpy, with start-up planned for stage 4 in 1Q06, and stage 5 planned for completion in 2Q06. The physical works have been completed.
	Paragominas bauxite mine phase one	182	210	352	The first module of this mine will produce 5.4 Mtpy of bauxite, starting in 1Q07. The 244-km ore pipeline, which will carry bauxite from the mine to the alumina refinery in Barcarena, in Pará state, is under construction with completion expected to Mar/06.
	Alumina: Alunorte stages 6 and 7		239	846	Stages 6 and 7 will increase alumina refinery capacity to 6.26 Mtpy. Start-up is planned for 2Q08.
	Paragominas bauxite mine phase two		14	196	The second module of Paragominas will add 4.5 Mtpy of bauxite to the production capacity of 5.4 Mtpy achieved on the first module. Start-up is schedule for 2Q08.
Logistics	Acquisition of locomotives and wagons EFVM, EFC and FCA	465	379	379	22 locomotives e 1.426 wagons will be purchased in 2006. 150 wagons will be used for the transportation of general cargo and 1.276 wagons will be directed for iron ore. All the locomotives will be allocated to iron ore transportation.
Energy	Capim Branco I e II hydroelectric plants	90	61	181	These two power plants on the Araguari river in the state of Minas Gerais will have generation capacity of 240MW and 210MW respectively. Capim Branco I is planned to start operations in 1Q06, while the start-up of Capim Branco II is planned to 1Q07.

	Estreito hydroelectric plant	68	355	Located on the Tocantins river, between the states of Maranhão and Tocantins. It will have generation capacity of 1,087 MW. Start-up is planned to 1H06, subject to operational licence. The start-up of its first rotor is expected for 2H09.
Steel joint ventures	Ceará Steel	11	25	Steel slab project located at Ceará state, with nominal production capacity of 1.5 Mtpy. Operations are schedule to start in 2009. CVRD stake in this slab project will be 9%.
	CSA	72	200	Steel slab project located at Rio de Janeiro state, with nominal production capacity of 4.1 Mtpy. Operations are schedule to start in 2008. CVRD stake in this slab project will be 10%. Subject to CVRD Board of Directors approval.

Research and development: the bases for future growth

R&D capex for 2006 is US$491 million, 69.3% higher than the US$290 million spent in 2005.

Of the US$491 million budgeted for 2006, US$150 million will be allocated to mineral research, and US$341 million to technology and conceptual, pre-feasibility and feasibility studies on development of deposits.

The initial expenditures with basic engeneering development of the recent acquired Onça Puma nickel project are included in the R&D budget. This nickel project will be submitted to the Board of Directors approval in 2006 in order to start its effective development.

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The Company has been increasing its R&D spending since 2003, reflecting the strategic guideline that chooses organic growth as the main lever of shareholder value creation A natural result of the commitment to profitable growth is diversification, both geographically and in the portfolio of assets.

In the first years of this decade, CVRD s total capital expenditure on R&D at levels much lower than the present levels was spent in Brazil. This year, 43% of the planned capex on R&D is allocated to be spent in other countries: in South America, Africa, Asia and Australasia.

Here we see the widening of CVRD s scope in prospecting for mineral resources, which was previously concentrated on the search for deposits of copper, gold and manganese. With increasing diversification in recent years, the program has expanded to include other mineral materials such as coal, nickel, bauxite, potash, phosphate and metals of the platinum group.

As well as being directed to geological exploration, investments are now being channeled into development and improvement of processing routes, and engineering studies on new deposits.

As a result of the change in strategic guidelines, CVRD already has a global portfolio of projects involving studies for the development of potash, phosphates, nickel, manganese and coal.

Of the projects under study, the one at the most advanced phase is the coal project at Moatize, in Mozambique. Conclusion of its feasibility study is planned for June of this year.

Expenditure of the order of US$49 million will be allocated in 2006 to development of the semi-industrial-scale copper processing plant, to produce 10,000 tons of cathode per year, planned for start-up in the second half of 2007. The purpose of this project is to test the hydrometallurgical technology route, and if its efficiency is proven, this method will not only be able to be used to process the ore to be produced by the Salobo and Alemão mines at very competitive costs, but will also constitute a major technological step forward in the copper industry as a whole.

Total capex by business area

US$ million

	Actual, 2005		**Budgeted, 2006**	
Ferrous minerals	1,335	39.7%	2,118	45.8%
Non-ferrous minerals	239	7.1%	412	8.9%
Logistics	730	21.7%	785	17.0%
Aluminum	669	19.9%	778	16.8%
Coal	132	3.9%	124	2.7%
Energy	125	3.7%	135	2.9%
Steel holdings			112	2.4%
Other	131	3.9%	162	3.5%
Total	**3,361**	**100.0%**	**4,626**	**100.0%**

For further information, please contact:
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This press release may contain statements that express management s expectations about future events or results rather than historical facts. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected in forward-looking statements, and CVRD cannot give assurance that such statements will prove correct. These risks and

uncertainties include factors: relating to the Brazilian economy and securities markets, which exhibit volatility and can be adversely affected by developments in other countries; relating to the iron ore business and its dependence on the global steel industry, which is cyclical in nature; and relating to the highly competitive industries in which CVRD operates. For additional information on factors that could cause CVRD s actual results to differ from expectations reflected in forward-looking statements, please see CVRD s reports filed with the Brazilian Comissão de Valores Mobiliários and the U.S. Securities and Exchange Commission.

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.

COMPANHIA VALE DO RIO DOCE
(Registrant)

Date: January 26, 2006

By: /s/ Roberto Castello Branco
Roberto Castello Branco
Director of Investor Relations

ffffff;padding-left: 10pt; text-indent: -10pt;padding-top: 0pt; background-color: #ffffff; " align="left" valign="bottom" colspan="1">U.S. government $92,031

$(894
)
21
$113,352
$(389
)
30
State and political subdivisions, all other governments, special revenue and public utilities 240,961
(2,995
)
101
117,745
(745
)
64
Industrial and
miscellaneous 50,289
(630
)
46
50,875
(404
)
101
Mortgage-backed
securities 167,641
(2,116
)
209
26,910
(66
)
28

Equity securities 34,379
(2,675
)
28
28,494
(2,154
)
88
$585,301
$(9,310
)
405
$337,376
$(3,758
)
311

	More than 12 Months December 31					
	2005			2004		
	Estimated Fair Value	Gross Unrealized Losses	Number of Issues	Estimated Fair Value	Gross Unrealized Losses	Number of Issues
	in thousands					
Fixed maturity:						
U.S. government	$ 41,737	$ (715)	16	$ —	$ —	—
State and political subdivisions, all other governments, special revenue and public utilities	38,761	(812)	34	1,396	(43)	5
Industrial and miscellaneous	13,805	(390)	42	5,314	(133)	15
Mortgage-backed securities	20,036	(506)	33	4,766	(61)	15
Equity securities	11,440	(1,819)	22	2,211	(554)	10
	$ 125,779	$ (4,242)	147	$ 13,687	$ (791)	45

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Investments (continued)

Total December 31

2005 2004

	Estimated Fair Value	Gross Unrealized Losses	Number of Issues	Estimated Fair Value	Gross Unrealized Losses	Number of Issues
			(in thousands)			
Fixed Maturity:						
U.S. government	$ 133,768	$ (1,609)	37	$ 113,352	$ (389)	30
State and political subdivisions, all other governments, special revenue and public utilities	279,722	(3,807)	135	119,141	(788)	69
Industrial and miscellaneous	64,094	(1,020)	88	56,189	(537)	116
Mortgage-backed securities	187,677	(2,622)	242	31,676	(127)	43
Equity securities	45,819	(4,494)	50	30,705	(2,708)	98
	$ 711,080	$ (13,552)	552	$ 351,063	$ (4,549)	356

The Company reviews its investment portfolio for securities that may have incurred an other-than-temporary impairment (OTTI) quarterly. For any investment security deemed to have an OTTI, the investment's amortized cost is written down to its fair value and the amount written down is recorded in earnings as a realized loss on investments.

Based on a review of the fixed maturity investments included in the tables above, the Company determined that the unrealized losses were a result of the interest rate environment and not the credit quality of the issuers. Therefore, as of December 31, 2005 and 2004, none of the fixed maturity investments whose fair value was less than amortized cost were considered to be other-than-temporarily impaired given the severity and duration of the impairment, the credit quality of the issuers, and the Company's intent and ability to hold the securities until fair value recovers above cost.

Based on a review of the investment in equities included in the table above, the Company determined that the unrealized losses were not considered to be other-than-temporary due to the financial condition and near term prospects of the issuers.

Net realized and unrealized investment (losses) gains on fixed maturity investments and equity securities were as follows:

	Years Ended December 31		
	2005	2004	2003
		(in thousands)	
Net realized (losses) gains:			
Fixed maturity investments	$ (2,402)	$ (1,437)	$ 12,830
Equity securities	2,307	2,639	(7,824)
	$ (95)	$ 1,202	$ 5,006
Change in fair value over cost:			
Fixed maturity investments	$ (14,851)	$ 5,421	$ (11,516)
Equity securities	10,634	23,858	52,803
	$ (4,217)	$ 29,279	$ 41,287

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Investments (continued)

Net investment income was as follows:

	Years Ended December 31		
	2005	2004	2003
	(in thousands)		
Fixed maturity investments	$ 49,229	$ 38,578	$ 24,585
Equity securities	3,752	3,905	3,323
Short-term investments and cash equivalents	3,076	1,025	2,519
Other	182	595	373
	56,239	44,103	30,800
Investment expenses	(1,823)	(1,902)	(4,503)
Net investment income	$ 54,416	$ 42,201	$ 26,297

The Company is required by various state regulations to keep securities or letters of credit on deposit with the states in a depository account. At December 31, 2005 and 2004, securities having a fair market value of $195.9 million and $31.6 million, respectively, were on 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 assumed by the Company. The fair market value of securities held in trust at December 31, 2005 and 2004, was $55.9 million and $54.7 million, respectively.

4. Property and Equipment

Property and equipment consists of the following:

	As of December 31	
	2005	2004
	(in thousands)	
Land	$ 95	$ 95
Furniture and equipment	5,907	5,671
Leasehold improvements	2,013	1,956
Computer and software	15,300	6,448
	23,315	14,170
Accumulated depreciation	(13,200)	(10,977)
Property and equipment, net	$ 10,115	$ 3,193

Depreciation expense for the years ended December 31, 2005, 2004 and 2003, was $2.2 million, $2.0 million and $2.3 million, respectively.

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Income Taxes

The Company files a consolidated federal income tax return. The insurance subsidiaries pay premium taxes on gross premiums written in lieu of most state income or franchise taxes. Prior to the Privatization, EICN was a non-taxable entity.

The provision for income taxes consisted of the following:

	Years Ended December 31		
	2005	2004	2003
		(in thousands)	
Current tax	$ 29,276	$ 21,287	$ 4,245
Deferred tax	1,118	(10,279)	(525)
Income taxes	$ 30,394	$ 11,008	$ 3,720

The difference between the statutory federal tax rate of 35% and the Company's effective tax rate on income before tax as reflected in the consolidated statements of income was as follows:

	Years Ended December 31		
	2005	2004	2003
		(in thousands)	
Expense computed at statutory rate	$ 58,797	$ 37,301	$ 33,920
Dividends received deduction and tax-exempt interest	(6,653)	(2,884)	(688)
LPT Agreement	(15,315)	(7,960)	(17,042)
Pre-Privatization reserve adjustments	(5,564)	(14,482)	(14,372)
Other	(871)	(967)	1,902
Income taxes	$ 30,394	$ 11,008	$ 3,720

Prior to the Privatization, the Fund was a part of the State of Nevada and therefore was not subject to federal income tax; accordingly, it did not take an income tax deduction with respect to the establishment of its unpaid loss and LAE reserves. Due to favorable loss experience after the Privatization, it was determined that certain of the pre-Privatization unpaid loss and LAE reserves assumed by EICN as part of the Privatization were no longer necessary and the unpaid loss and LAE reserves were reduced accordingly. This downward adjustment of such pre-Privatization unpaid loss reserves increased the GAAP net income, as reported in the accompanying consolidated statements of income, but has not increased taxable income.

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Income Taxes (continued)

The significant components of the assets and liability for deferred income taxes, net were as follows as of December 31:

	2005		2004	
	Deferred Tax		Deferred Tax	
	Assets	Liability	Assets	Liability
	(in thousands)			
Unrealized capital gains	$ —	$ 22,387	$ —	$ 23,863
Deferred policy acquisition costs	—	9,981	—	4,316
Loss reserve discounting for tax reporting	86,612	—	83,622	—
Unearned premiums	13,352	—	14,037	—
Allowance for bad debt	2,762	—	1,558	—
Accrued liabilities	3,779	—	2,137	—
Other	359	1,344	295	675
Total	$ 106,864	$ 33,712	$ 101,649	$ 28,854
Net deferred tax asset	$ 73,152		$ 72,795	

At December 31, 2005, the Company had no net operating loss carryforwards.

FASB No. 109, Accounting for Income Taxes, requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. Realization of the deferred income tax asset is dependent on the Company generating sufficient taxable income in future years as the deferred income tax charges become currently deductible for tax reporting purposes. Although realization is not assured, management believes that it is more likely than not that the net deferred income tax asset will be realized.

6. Unpaid Losses and Loss Adjustment Expenses

The following table represents a reconciliation of changes in the liability for unpaid losses and loss adjustment expenses (LAE):

	Years Ended December 31	
	2005	2004
	(in thousands)	
Beginning of year	$ 2,284,542	$ 2,193,439
Reinsurance recoverable for incurred but unpaid losses and LAE	(1,194,728)	(1,230,982)
Beginning balance, net of reinsurance	1,089,814	962,457

Incurred losses and LAE, net of reinsurance, related to:		
Current period	333,497	289,544
Prior period	(78,053)	(37,582)
Total incurred losses and LAE, net of reinsurance	255,444	251,962
Losses and LAE payments, net of reinsurance, related to:		
Current period	40,116	33,475
Prior period	96,661	91,130
Total losses and LAE payments, net of reinsurance	136,777	124,605
Balance, net of reinsurance, December 31	1,208,481	1,089,814
Reinsurance recoverable for incurred but unpaid losses and LAE	1,141,500	1,194,728
Balance, December 31	$ 2,349,981	$ 2,284,542

The above table excludes the impact of the amortization of the deferred reinsurance gain—LPT Agreement and the reduction of the ceded reserves on the LPT Agreement (refer to Note 7), which are reflected in losses and LAE incurred in the consolidated statements of income.

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Unpaid Losses and Loss Adjustment Expenses (continued)

Estimates of incurred losses and LAE attributable to insured events of prior years decreased due to continued favorable development in such prior accident years (actual losses and LAE paid and current projections of unpaid losses and LAE were less than the Company originally anticipated). The reduction in the liability for unpaid losses and LAE was $78.1 million and $37.6 million for the years ended December 31, 2005 and 2004, respectively.

The major sources of this favorable development have been: actual paid losses have been less than expected, recalibration of selected patterns of claims emergence and claim payment used in the projection of future loss payment, and LAE in the Company's Nevada business have been less than expected. However, this favorable development has been partially offset by the fact that LAE in the Company's California business has been greater than expected. LAE parameters used to project future LAE expenditures have been adjusted in response to the actual observed levels of LAE. These sources of development are discussed in the following paragraphs.

In California, in particular, where the Company's operations began on July 1, 2002, management's initial expectations of both the ultimate level of its losses and patterns of loss emergence and loss payment necessarily were based on benchmarks derived from analyses of historical insurance industry data in California, as no historical data from the Company's insurance subsidiaries existed, and although some historical data was available for the prior years of some of the market segments the Company entered in California, that data was limited as to the number of loss reserve evaluation points available. The industry-based benchmarks were adjusted judgmentally for the anticipated impact of significant environmental changes, specifically the enactment of major changes to the statutory workers' compensation benefit structure and the manner in which claims are administered and adjudicated in California. The actual emergence and payment of California claims by the Company's insurance subsidiaries has been more favorable than those initial expectations, due at least in part to what the Company believes are the impact of enactment of the major

changes in the California environment. Other insurance companies writing California workers' compensation insurance also have experienced emergence and payment of claims more favorable than anticipated. At each evaluation date, the projected claim activity underlying the prior loss reserves has been replaced by the actual claim activity, and the expectation of future emergence and payment of California claims underlying the actuarial projections was reevaluated during 2005 and 2004 based both on the Company's insurance subsidiaries' emerging experience and on updating the benchmarks that are derived from observing and analyzing the insurance industry data for California workers' compensation. The change in incurred loss and LAE attributable to prior years, business outside Nevada, predominantly California, was $48.2 million and $(11.9) million for the years ended December 31, 2005 and 2004, respectively. In states other than California and Nevada, the Company's operations are new and represent a minor portion of its loss reserves. Losses for those states are included with the California losses for purposes of estimating future loss development.

In Nevada, the Company has access to an extensive history of workers' compensation claims based on the business of the predecessor Fund, but the emergence and payment of claims in recent years has been more favorable than in the long-term history in Nevada with the predecessor Fund. The expected patterns of claim payment and emergence used in the projection of the Company's ultimate claims payments are based on both the long-term and the short-term historical data. At December 31, 2005 and 2004, the selection of claim projection patterns has relied more heavily on the patterns observed in the short-term historical data, as recent years' claims have continued to emerge in a manner consistent with that short-term historical data. Also, in 2005 and 2004, the projected claim payments underlying the prior loss reserves were replaced by the actual claim payment activity that occurred during the calendar year. The change in incurred loss and LAE attributable to prior years, business in Nevada was $29.9 million and $49.5 million for the years ended December 31, 2005 and 2004, respectively.

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Unpaid Losses and Loss Adjustment Expenses (continued)

The estimate of the future cost of handling claims, or LAE, depends primarily on examining the relationship between the aggregate amount that has been spent on LAE historically, as compared with the dollar volume of claims activity for the corresponding historical periods. For the Company's business in Nevada, as a result of operational improvements and reductions in staff count to align with the current and anticipated volume of business in the state, the Company's expenditures on LAE in recent years have been lower than historical levels. As these operational improvements and staffing levels have been reflected in the actual emerging LAE expenditures and in the projection of future LAE, the estimates of future LAE have been reduced at December 31, 2005 and 2004. For the Company's operations in California, initial expectations of LAE when operations commenced in California were based on the assumptions used by the Company in pricing the California business, and on some limited historical data for the market segments the Company was entering. As the Company's operations in California have matured, and as data relating to the Company's and industry claim handling expenses reflective of the new workers' compensation benefit environment in California have become available, the expectations of LAE underlying the projection of future LAE have been adjusted to reflect that actual costs of administering claims have been greater than the initial expectations. This has resulted in an increase in the projected future cost of administering California claims at December 31, 2005 and 2004. The changes in the Company's estimates of the cost of future LAE in California and Nevada are included in

the California and Nevada development results cited in the preceding two paragraphs.

The Company continues to develop its own loss experience and will rely more on its experience and less on historical industry data in projecting its reserve requirements as such data becomes available. As the actual experience of the Company emerges, it will continue to evaluate prior estimates, which may result in additional adjustments in reserves.

Loss reserves shown in the consolidated balance sheets are net of $9.9 million and $10.4 million for anticipated subrogation recoveries as of December 31, 2005 and 2004, respectively.

7. Reinsurance

The Company is involved in the cession and assumption of reinsurance with non-affiliated companies. Risks are reinsured with other companies on both a quota share and excess of loss basis.

Reinsurance transactions reflected in the accompanying consolidated statements of income were as follows:

	Years Ended December 31					
	2005		2004		2003	
	Written	Earned	Written	Earned	Written	Earned
	(in thousands)					
Direct premiums	$ 450,740	$ 448,106	$ 370,186	$ 360,703	$ 145,940	$ 142,094
Assumed premiums	7,931	9,094	67,508	69,379	191,149	195,554
Gross premiums	458,671	457,200	437,694	430,082	337,089	337,648
Ceded premiums	(18,950)	(18,950)	(19,780)	(19,780)	(39,440)	(39,440)
Net premiums	$ 439,721	$ 438,250	$ 417,914	$ 410,302	$ 297,649	$ 298,208
Ceded losses and LAE incurred	$ 36,506		$ 33,327		$ 24,580	

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Reinsurance (continued)

Ceded losses and LAE incurred includes the amortization of the gain on the LPT Agreement, as described below.

LPT Agreement

Recoverables from reinsurers on unpaid losses and LAE amounted to $1.14 billion at December 31, 2005, and $1.19 billion at December 31, 2004. At December 31, 2005 and 2004, approximately $1.06 billion and $1.13 billion, respectively, of the recoverables related to the LPT Agreement entered into in 1999 by SIIS and assumed by EICN, whereby substantially all of SIIS losses and LAE on claims incurred prior to July 1, 1995, have been ceded to three unaffiliated reinsurers on a 100% quota share basis. Investments have been placed in trust by the three reinsurers as

security for payment of the reinsured claims. Under the LPT Agreement, $1.525 billion in liabilities for the incurred but unpaid losses and LAE related to claims incurred prior to July 1, 1995, were reinsured for consideration of $775 million. The LPT Agreement provides coverage up to $2.0 billion. As of December 31, 2005, the Company has paid losses and LAE claims totaling $320 million related to the LPT Agreement.

The initial deferred gain resulting from the LPT Agreement was recorded as a liability in the accompanying consolidated balance sheets and is being amortized using the recovery method, whereby the amortization is determined by the proportion of actual reinsurance recoveries to total estimated recoveries. The Company amortized $16.9 million, $20.3 million and $19.0 million of the deferred gain for the years ended December 31, 2005, 2004 and 2003, respectively. Additionally, the deferred gain was reduced by $26.9 million, $2.5 million and $31.1 million in 2005, 2004 and 2003, respectively, due to favorable development in the direct reserves ceded under the LPT Agreement. The amortization of the deferred gain and the adjustments due to the favorable development in the reserves are recorded in losses and LAE incurred in the accompanying consolidated statements of income. The remaining deferred gain was $462.4 million and $506.2 million as of December 31, 2005 and 2004, respectively, which is included in the accompanying consolidated balance sheets as deferred reinsurance gain—LPT Agreement.

The LPT Agreement allows the Company to receive a contingent profit commission from the participating reinsurers based on the actual loss experience of the ceded business. Pursuant to the LPT Agreement and based on both actual results to date and projections of ultimate losses under the agreement, the Company recorded an increase of $3.8 million for the twelve months ended December 31, 2005, decreases of $1.5 million for 2004 and $3.8 million for 2003, in its estimate of the ultimate contingent profit commission. The increases (decreases) in the ultimate contingent profit commission are recorded in commission expense in the accompanying consolidated statements of income. Due to payments received under the terms of the LPT Agreement the Company had a net payable balance of $6.1 million as of December 31, 2005, and $9.9 million as of December 31, 2004, which is included in other liabilities on the accompanying consolidated balance sheets.

Fronting Agreement

Effective July 1, 2002, ECIC entered into a fronting facility with Clarendon Insurance Group (Clarendon), under which ECIC assumed 100% of the net liability for policies incepting on and after July 1, 2002 and 90% incepting on and after July 1, 2003 (the Fronting Agreement). In December 2003, ECIC and Clarendon reached an informal agreement to stop issuing new or renewing policies under the Fronting Agreement. The assumed premiums withheld by Clarendon under the terms of the Fronting Agreement are reported as funds held by or deposited with reinsureds in the accompanying consolidated balance sheets.

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Commitments and Contingencies

Leases

The Company has office space leases at 12 facilities, which include several subleased spaces, located in Nevada, California, Idaho and Colorado. At December 31, 2005, remaining lease terms ranged from one month to approximately six years and sublease terms ranged from three months to approximately five years. The minimum lease payments for the next five years and thereafter on these noncancelable operating leases at December 31, 2005, were as follows:

Year	Rental Expenses	Sublease Income	Net Rental Expense
		(in thousands)	
2006	$ 4,497	$ 229	$ 4,268
2007	4,031	91	3,940
2008	2,002	23	1,979
2009	1,662	—	1,662
2010	1,055	—	1,055
Thereafter	—	—	—
	$ 13,247	$ 343	$ 12,904

Net rent expense and sublease income were $4.5 million, $4.6 million and $4.8 million for the years ended December 31, 2005, 2004 and 2003, respectively. Certain rental commitments have renewal options extending through 2010. Some of these renewals are subject to adjustments in future periods.

Contingencies Surrounding Insurance Assessments

The Company writes workers' compensation insurance in California in which unpaid workers' compensation liabilities from insolvent insurers are the responsibility of the California Insurance Guarantee Association (CIGA). The Company passes the CIGA assessment through to its policyholders via a surcharge based upon the estimated annual premium at the policy's inception and has received, and expects to continue to receive, these guarantee fund assessments, which are paid to CIGA based on the premiums it has already earned at December 31, 2005. The Company also writes workers' compensation insurance in other states with similar obligations as those in California. In these states the Company is directly responsible for payment of the assessment. The Company recorded an estimate of $2.2 million and $6.0 million for its expected liability for guarantee fund assessments at December 31, 2005 and 2004, respectively. The guarantee fund assessments are expected to be paid within two years of recognition.

Litigation

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 the result of operations, liquidity or financial position of the Company.

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Statutory Matters

Statutory Financial Data

The capital stock, surplus and net income of the Company's insurance subsidiaries, prepared in accordance with the statutory accounting practices of the National Association of Insurance Commissioners (NAIC) as well as statutory accounting principles permitted by the State of California and Nevada (SAP), were as follows:

	As of December 31,	
	2005	2004
	(in thousands)	
Capital stock and unassigned surplus	$ (71,851)	$ (198,651)
Special surplus funds	602,463	629,327
Total statutory surplus	$ 530,612	$ 430,676
Net income*	$ 96,876	$ 69,405

*For the years ended

The treatment of the LPT Agreement is the primary difference in the SAP-basis capital stock and total surplus of the insurance subsidiaries of $530.6 million and $430.7 million, and the GAAP-basis equity of the Company of $144.6 million and $9.8 million as of December 31, 2005 and 2004, respectively. Under SAP accounting the retroactive reinsurance gain resulting from the LPT Agreement is recorded as a special component of surplus (special surplus funds) in the initial year of the contract, and not reported as unassigned surplus until the Company has recovered amounts in excess of the original consideration paid. Under GAAP accounting the gain is deferred and amortized over the period the underlying reinsured claims are paid (see Note 7).

Insurance Company Dividends

The Nevada Revised Statute limits the payment of cash dividends by EICN to its parent (shareholder) by providing that payments cannot be made except from available and accumulated surplus money otherwise unrestricted (unassigned) and derived from realized net operating profits and realized and unrealized capital gains. A stock dividend may be paid out of any available surplus. Other dividends may be declared and distributed upon the prior approval of the Insurance Commissioner, except that extraordinary dividends or distributions by EICN to its parent must be noticed to the Insurance Commissioner who must approve or disapprove the dividends or distribution within 30 days of such notice. An extraordinary dividend or distribution is defined by statute to include any dividend or distribution of cash or property whose fair market value, together with that of other dividends or distributions made within the preceding twelve months, exceeds the greater of: (a) 10% of EICN's statutory surplus as regards policyholders at the next preceding December 31; or (b) EICN's statutory net income, not including realized capital gains, for the 12-month period ending at the next preceding December 31. As of December 31, 2005 and 2004, EICN had negative unassigned surplus of $71.9 million and $198.7 million, respectively.

The California Insurance Holding Company System Regulatory Act limits the ability of ECIC to pay dividends to its parent by providing that the appropriate insurance regulatory authorities in the state of California must approve any dividend that, together with all other such dividends paid during the preceding 12 months, exceeds the greater of: (a) 10% of the paying company's statutory surplus as regards policyholders at the preceding December 31; or (b) 100% of the net income for the preceding year. In addition, any such dividend must be paid from policyholders' surplus attributable to accumulated earnings. The maximum pay-out that may be made during 2006 without prior approval is

$44.6 million. No dividends were paid or declared in 2005, 2004 or 2003.

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Statutory Matters (continued)

Other

The California Department of Insurance (DOI) (the domiciliary state of ECIC) requires that in addition to applying the NAIC's statutory accounting practices, insurance companies must record, under certain circumstances, an additional liability, called an ‘‘excess statutory reserve.’’ If the workers' compensation losses and loss adjustment expense ratio is less than 65% in each of the three most recent accident years, the difference is recorded as an excess statutory reserve. The excess statutory reserves required by the DOI reduced ECIC's statutory-basis surplus by $7.5 million to $277.2 million at December 31, 2005, as filed and reported to the regulators. There were no excess statutory reserves for December 31, 2004. Excess statutory reserves do not impact statutory net income and it is not expected they will have any material impact on the operation of the Company.

Pursuant to the reorganization plan, the Insurance Commissioner for the State of Nevada must approve or direct any dividends to members of EMHC or any other distributions to members.

10. Accumulated Other Comprehensive Income

Accumulated other comprehensive income is comprised of changes in unrealized appreciation on investments classified as available-for-sale. The following table summarizes the components of accumulated other comprehensive income:

	Years Ended December 31		
	2005	2004	2003
	(in thousands)		
Net unrealized gain on investment, before taxes	$ 63,962	$ 68,179	$ 38,900
Deferred tax expense	(22,387)	(23,863)	(13,226)
Total accumulated other comprehensive income, net of taxes	$ 41,575	$ 44,316	$ 25,674

The following table summarizes the changes in the components of other comprehensive income, other than net income:

	Years Ended December 31		
	2005	2004	2003
		(in thousands)	
Net unrealized (losses) gains during the year, $(4,313), $30,481 and $46,296, net of tax (benefit) expense of $(1,510), $11,058 and $15,724, respectively	$ (2,803)	$ 19,423	$ 30,572
Less reclassification adjustment for realized (losses) gains included in net income of $(95), $1,202 and $5,006, net of tax (benefit) expense of $33, $(421) and $1,702, respectively	(62)	781	3,304
Net change in unrealized (losses) gains on investments, net of tax (benefit) expense $(1,476), $10,637 and $14,022, respectively	$ (2,741)	$ 18,642	$ 27,268

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Employee Benefit and Retirement Plans

Retirement Plans

Employee Retirement Plan: Effective January 1, 2000, the Company adopted a defined benefit pension plan (Employers Insurance Company of Nevada Defined Pension Benefit Plan) covering all eligible Company employees. Plan eligibility was based on years of service, and plan benefits were based on years of credited service, which excludes years of employment prior to January 1, 2000, multiplied by 1.5% of a participant's average monthly compensation (compensation paid during three highest consecutive plan years divided by 36). Other benefits included survivor benefits.

On May 31, 2002, the plan ceased benefit accruals, and compensation earned after this date will not count towards the plan benefit formula, which defines the monthly annuity commencing at age 65 (or age 60 with 10 years of service).

On September 10, 2004, the Company received a favorable determination letter from the Internal Revenue Service that accepted the Plan termination date of May 31, 2002. The Company was then able to disburse funds to the plan participants, which took place in November and December 2004. There was no activity for 2005.

The net periodic benefit cost for the years ended December 31, 2004 and 2003, was zero and $1.4 million, respectively.

401(k) Plan: The Company has adopted a 401(k) defined contribution plan covering all eligible Company employees. Investment services are provided through the adoption of the IRS approved prototype 401(k) Century Plan through T. Rowe Price Trust Company. Plan administration is provided through third-party administrator Boston Financial. Employees age 18 or older are eligible to participate in the plan on the first day of the month following their date of hire. For plan year 2005, the Company adopted a match to the 401(k) Plan of $0.50 for every dollar

contributed by the employee, up to 6% of the employee's annual salary. The Company's contribution to the 401(k) Plan was $0.9 million, $0.9 million and $0.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

12. Subsequent Events

Plan of Conversion and Initial Public Offering

On August 17, 2006, the Company's Board of Directors adopted a plan to convert EMHC from a mutual insurance holding company to a stock company, which authorized management to implement a plan for conversion of the Company (the Conversion Plan). Upon conversion, all the membership interests of the members of EMHC will be extinguished, and eligible members will receive compensation in exchange for the extinguishment of their membership interests. Their compensation will be in the form of common stock, cash or a combination thereof. The Conversion Plan will not, in any way, change premiums or affect policy benefits or other policy obligations of EICN to its policyholders.

Under Nevada insurance law, the Conversion Plan also requires the approval of eligible members and the Insurance Commissioner of the State of Nevada. The effectiveness of the Conversion Plan also is conditioned on the simultaneous completion by the Company of an initial public offering of common stock. At the effective time of the Conversion Plan, EMHC will change its name to ‘‘Employers Holdings, Inc.’’

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands)

	As of September 30, 2006	As of December 31, 2005
Assets		
Available for Sale:		
Fixed maturity investments at fair value (amortized cost $1,456,165 and $1,330,452)	$ 1,463,313	$ 1,334,594
Equity securities at fair value (cost $184,515 and $186,352)	259,502	246,171
Short-term investments (at cost or amortized cost, which approximates fair value)	7,973	15,006
Total investments	1,730,788	1,595,771
Cash and cash equivalents	65,965	61,083

Accrued investment income	16,587	14,296
Premiums receivable, less bad debt allowance of $8,527 and $6,617	51,040	59,811
Reinsurance recoverable for:		
Paid losses	11,539	10,942
Unpaid losses less allowance of $1,276 at each period	1,104,795	1,140,224
Funds held by or deposited with reinsureds	104,860	114,175
Deferred policy acquisition costs	13,801	12,961
Deferred income taxes, net	64,494	73,152
Property and equipment, net	12,318	10,115
Other assets	13,516	1,699
Total assets	$ 3,189,703	$ 3,094,229
Liabilities and equity		
Claims and policy liabilities:		
Unpaid losses and loss adjustment expenses	$ 2,315,559	$ 2,349,981
Unearned premiums	78,330	80,735
Policyholders' dividends accrued	1,082	880
Total claims and policy liabilities	2,394,971	2,431,596
Commissions and premium taxes payable	7,369	11,265
Federal income taxes payable	41,708	19,869
Accounts payable and accrued expenses	12,415	13,439
Deferred reinsurance gain – LPT Agreement	447,795	462,409
Other liabilities	12,390	11,044
Total liabilities	2,916,648	2,949,622
Commitments and contingencies		
Equity:		
Retained earnings	219,520	103,032
Accumulated other comprehensive income, net	53,535	41,575
Total equity	273,055	144,607
Total liabilities and equity	$ 3,189,703	$ 3,094,229

See accompanying notes

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(in thousands)

	Three Months Ended September 30,	Nine Months Ended September 30,

	2006	2005	2006	2005
Revenues:				
Net premium earned	$ 95,990	$ 109,566	$ 300,137	$ 331,066
Net investment income	17,237	13,620	49,715	39,520
Realized gains (losses) on investments	2,758	(2,373)	5,660	(2,496)
Other income	1,451	1,014	3,694	2,929
Total revenues	117,436	121,827	359,206	371,019
Expenses:				
Losses and loss adjustment expenses	(34,753)	53,572	95,745	208,246
Commission expense	11,878	12,736	36,762	36,859
Underwriting and other operating expense	22,637	13,891	59,151	47,726
Total expenses	(238)	80,199	191,658	292,831
Net income before income taxes	117,674	41,628	167,548	78,188
Income tax expense	40,682	8,860	51,060	15,083
Net income	$ 76,992	$ 32,768	$ 116,488	$ 63,105

See accompanying notes.

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2006	2005
Operating activities		
Net income	$ 116,488	$ 63,105
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,726	1,554
Amortization of premium (discount) on investments, net	4,072	4,900
Allowance for doubtful accounts – premiums receivable	1,910	1,891
Deferred income tax expense (benefit)	2,445	(1,394)
Realized (gains) losses on investments	(5,660)	2,496
Change in operating assets and liabilities:		
Accrued investment income	(2,291)	(1,605)
Premiums receivable	6,861	4,271

Reinsurance recoverable on paid and unpaid losses	34,832	17,438
Funds held by or deposited with reinsureds	9,315	16,268
Unpaid losses and loss adjustment expenses	(34,422)	103,374
Unearned premiums	(2,405)	4,058
Federal income taxes payable	21,839	(3,323)
Accounts payable, accrued expenses and other liabilities	322	(5,996)
Deferred reinsurance gain – LPT Agreement	(14,614)	(15,530)
Other	(16,354)	(6,927)
Net cash provided by operating activities	125,064	184,580
Investing activities		
Purchase of fixed maturities	(381,350)	(376,849)
Purchase of equity securities	(11,054)	(13,801)
Proceeds from sale of fixed maturities	131,141	185,131
Proceeds from sale of equity securities	18,489	15,474
Proceeds from maturities and redemptions of investments	127,521	29,221
Capital expenditures and other, net	(4,929)	(7,113)
Net cash used in investing activities	(120,182)	(167,937)
Net increase in cash and cash equivalents	4,882	16,643
Cash and cash equivalents at the beginning of the period	61,083	60,414
Cash and cash equivalents at the end of the period	$ 65,965	$ 77,057

See accompanying notes.

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2006

1. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

EIG Mutual Holding Company (EMHC) and subsidiaries (collectively, the Company) is engaged in the commercial property and casualty insurance industry, specializing in workers' compensation products and services. The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) and include all normal recurring adjustments, which the Company considers necessary for a fair presentation of the results of such periods. All significant intercompany transactions and balances have been eliminated in consolidation.

Refer to the audited consolidated financial statements and related notes for the year ended December 31, 2005 for additional details of the Company's financial position, as well as a description of the accounting policies which have been continued without material change. The details in the notes have not changed except as a result of normal transactions in the interim period and the events mentioned in the footnotes below.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures About Segments of an Enterprise and Related Information, 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.

Estimates and Assumptions

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

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Basis of Presentation and Summary of Significant Accounting Policies (continued)

New Accounting Standards

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS Nos. 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1). In 2004, the Emerging Issues Task Force (EITF) issued EITF 03-1, The Meaning of Other-than-Temporary Impairment and its Application to Certain Investments, to provide detailed guidance on when an investment is considered impaired, whether that impairment is other-than-temporary, how to measure the impairment loss and disclosures related to impaired securities. Because of concerns about the application of the guidance of EITF 03-1 that described whether an impairment is other-than-temporary, the FASB deferred the effective date of that portion of the guidance. FSP 115-1 nullifies EITF 03-1 guidance on determining whether an impairment is other-than-temporary, and effectively retains the previous guidance in this area, which requires a careful analysis of all pertinent facts and circumstances. In addition, the FSP generally carries forward EITF 03-1 guidance for determining when an investment is impaired, how to measure the impairment loss and what disclosures should be made regarding impaired securities. The FSP is effective for reporting periods beginning subsequent to December 15, 2005. The Company's current analysis of impaired investments is consistent with the provisions of FSP 115-1. Therefore, the adoption of FSP 115-1 on January 1, 2006 did not have a significant impact on the Company's consolidated financial position and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). Among other things, FIN 48 creates a model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold which all income tax positions must achieve before being recognized in the financial statements. In addition, FIN 48 requires expanded annual disclosures, including a

tabular rollforward of the beginning and ending aggregate unrecognized tax benefits as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within twelve months. FIN 48 is effective for the Company on January 1, 2007. Any differences between the amounts recognized in the statement of financial position prior to the adoption of FIN 48 and the amounts reported after adoption are generally accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. The Company is currently evaluating the impact of FIN 48, however it is not expected to have a material impact on the Company's consolidated financial position and results of operations.

2. Income Taxes

The difference between the statutory federal tax rate of 35% and the Company's effective tax rate on income before tax as reflected in the consolidated statements of income was as follows:

	Nine Months Ended September 30,	
	2006	2005
	(in thousands)	
Expense computed at statutory rate	$ 58,642	$ 27,366
Dividends received deduction and tax-exempt interest	(6,567)	(4,717)
LPT Agreement	(5,115)	(5,435)
Pre-Privatization reserve adjustments	2,676	(2,219)
Conversion costs	1,235	—
Other	189	88
Income taxes	$ 51,060	$ 15,083

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Liability for Unpaid Losses and Loss Adjustment Expenses

The following table represents a reconciliation of changes in the liability for unpaid losses and loss adjustment expenses (LAE) for the nine months ended September 30:

	2006	2005
	(in thousands)	
Beginning of year	$ 2,349,981	$ 2,284,542
Reinsurance recoverable for incurred but unpaid losses and LAE	(1,141,500)	(1,194,728)
Beginning balance, net of reinsurance	1,208,481	1,089,814
Incurred losses and LAE net of reinsurance related to:		
Current period	192,080	250,370

Prior period	(81,721)	(26,594)
Total incurred loss and LAE, net of reinsurance	110,359	223,776
Loss and LAE payments, net of reinsurance, related to:		
Current period	25,556	25,061
Prior period	83,796	77,878
Total losses and LAE payments, net of reinsurance	109,352	102,939
Balance, net of reinsurance, September 30	1,209,488	1,210,651
Reinsurance recoverable for incurred but unpaid losses and LAE	1,106,071	1,177,265
Balance, September 30	$ 2,315,559	$ 2,387,916

The above table excludes the impact of the amortization of the deferred gain—LPT Agreement and the reduction of the ceded reserves on the LPT Agreement (refer to Note 4). The Company amortized $14.6 million and $15.5 million of the deferred gain for the nine months ended September 30, 2006 and 2005, respectively, which are reflected in loss and LAE incurred in the consolidated statements of income. There was no additional adjustment to the LPT Agreement's deferred gain related to development in the direct reserves subject to the LPT Agreement.

Estimates of incurred losses and LAE attributable to insured events of prior periods decreased due to continued favorable development in losses for such prior accident years (actual losses paid and current projections of unpaid losses were less than the Company originally anticipated). The reduction in the liability for unpaid losses and LAE was $81.7 million and $26.6 million for the nine months ended September 30, 2006 and 2005, respectively.

The major sources of this favorable development have been: actual paid losses have been less than expected, recalibration of selected patterns of claims emergence and claim payment used in the projection of future loss payment have been less than expected. In California, in particular, where the Company's operations began on July 1, 2002, management's initial expectations of both the ultimate level of its losses and patterns of loss emergence and loss payment necessarily were based on benchmarks derived from analyses of historical insurance industry data in California, as no historical data from the Company's insurance subsidiaries existed, and although some historical data was available for the prior periods of some of the market segments the Company entered in California, that data was limited as to the number of loss reserve evaluation points available. The industry-based benchmarks were adjusted judgmentally for the anticipated impact of significant environmental changes, specifically the enactment of major changes to the statutory workers' compensation benefit structure and the manner in which claims are administered and adjudicated in California. The actual emergence and payment of California claims by the Company's California insurance subsidiary has been more favorable than those initial expectations, due at least in part to what the Company believes are the impact of enactment of the major changes in

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Liability for Unpaid Losses and Loss Adjustment Expenses (continued)

the California environment. Other insurance companies writing California workers' compensation insurance also have experienced emergence and payment of claims more favorable than anticipated.

At each evaluation date, the projected claim activity underlying the prior loss reserves has been replaced by the actual claim activity, and the expectation of future emergence and payment of California claims underlying the actuarial projections was reevaluated during 2006 and 2005 based both on the Company's insurance subsidiaries' emerging experience and on updating the benchmarks that are derived from observing and analyzing the insurance industry data for California workers' compensation. The change in incurred loss and LAE attributable to prior periods attributable to business outside Nevada, predominantly California, was $86.0 million and $15.7 million for the nine months ended September 30, 2006 and 2005, respectively.

The Company continues to develop its own loss experience and will rely more on its experience and less on historical industry data in projecting its reserve requirements as such data becomes available. As the actual experience of the Company emerges, it will continue to evaluate prior estimates, which may result in additional adjustments in reserves.

4. LPT Agreement

The Company is a party to a 100% quota share retroactive agreement (the LPT Agreement) under which $1.525 billion in liabilities for the incurred but unpaid losses and LAE related to claims incurred prior to July 1, 1995 were reinsured for consideration of $775 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 and is being amortized using the recovery method over the period the underlying reinsured claims are paid. The Company amortized $14.6 million and $15.5 million of the deferred gain for the nine months ended September 30, 2006 and 2005, respectively. The adjustments to the deferred gain are recorded in losses and LAE incurred in the accompanying consolidated statements of income. The remaining deferred gain was $447.8 million and $462.4 million as of September 30, 2006 and December 31, 2005, respectively, which is included in the accompanying consolidated balance sheets as deferred reinsurance gain—LPT Agreement.

5. Plan of Conversion and Initial Public Offering

On August 17, 2006, the Company's Board of Directors adopted a plan to convert EMHC from a mutual insurance holding company to a stock company, which authorized management to implement a plan for conversion of the Company (the Conversion Plan). Upon conversion, all the membership interests of the members of EMHC will be extinguished, and eligible members will receive compensation in exchange for the extinguishment of their membership interests. Their compensation will be in the form of common stock, cash or a combination thereof. The Conversion Plan will not, in any way, change premiums or affect policy benefits or other policy obligations of EICN to its policyholders.

Under Nevada insurance law, the Conversion Plan also requires the approval of eligible members and the Insurance Commissioner of the State of Nevada. The effectiveness of the Conversion Plan also is conditioned on the simultaneous completion by the Company of all initial public offering of common stock. At the effective time of the Conversion Plan, EMHC will change its name to ‘‘Employers Holdings, Inc.’’

6. Other Comprehensive Income

Comprehensive income encompasses all changes in equity (except those arising from transactions with policyholders) and includes net income and changes in net unrealized investment gains and losses on

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EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other Comprehensive Income (continued)

investment securities available for sale, net of taxes. The following table summarizes the components of accumulated other comprehensive income as of September 30:

	2006	2005
	(in thousands)	
Net unrealized gain on investment, before taxes	$ 82,135	$ 64,308
Deferred tax expense	(28,600)	(22,508)
Total accumulated other comprehensive income, net of taxes	$ 53,535	$ 41,800

The following table summarizes the change in the components of other comprehensive income for the nine months:

	2006	2005
	(in thousands)	
Unrealized gains (losses) arising during the period, before taxes	$ 23,833	$ (6,367)
Less: income tax expense (benefit)	8,194	(2,229)
Unrealized gains (losses) arising during the period, net of taxes	15,639	(4,138)
Less reclassification adjustment:		
Gains (losses) realized in net income	5,660	(2,496)
Income tax expense (benefit)	1,981	(874)
Reclassification adjustment for gains (losses) realized in net income	3,679	(1,622)
Other comprehensive income (loss)	11,960	(2,516)
Net income	116,488	63,105
Total comprehensive income	$ 128,448	$ 60,589

7. Subsequent Events

Litigation

On October 10, 2006, a complaint was filed in the second judicial district court of the State of Nevada. The complaint alleges, among other things, that in 1999 the Nevada Legislature unconstitutionally transferred the assets, liabilities and operations of the State Industrial Insurance System (SIIS) to the Company effective January 1, 2000. The complaint contends that although the Nevada Constitution requires that the assets that were transferred to the Company by SIIS be held in trust, the Company has falsely and knowingly claimed that (i) it had and has legal title to these assets, and (ii) it was not and is not a trustee with respect to such assets. Although the complaint does not specify the amount of money damages that it seeks, the complaint does seek money damages for the State of Nevada in an amount equal to three times the amount of all funds transferred to the Company as well as three times the amount of all rents, profits and income from the funds so transferred. The complaint also seeks declaratory relief and an accounting. The Company believes that it has meritorious defenses to all of the claims. On November 20, 2006, the Company moved to dismiss the complaint in its entirety and with prejudice. No hearing has yet been set on that motion.

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PART II
INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

Set forth below is a table of the registration fee for the Securities and Exchange Commission, the filing fee for the National Association of Securities Dealers, Inc., the listing fees for the New York Stock Exchange and estimates of all other expenses to be incurred in connection with the issuance and distribution of the securities described in this Registration Statement, other than underwriting discounts and commissions:

Securities and Exchange Commission registration fee	$ 30,812
NASD fee	29,296
New York Stock Exchange listing fee	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees	*
Miscellaneous	*
Total	$ *

*To be completed by amendment.

Item 14. Indemnification of Directors and Officers

Upon effectiveness of its conversion from a mutual insurance holding company to a stock corporation, the Registrant will be a Nevada stock corporation. Section 78.7502 of the Nevada Revised Statutes (the ‘‘NRS’’) permits a corporation to indemnify any person who was or is a party or is threatened to be made a party in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (except an action by or in the right of the corporation), by reason of being or having been an officer, director, employee or agent of the corporation or serving in certain capacities at the request of the corporation. Indemnification may include attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person to be indemnified. A corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of being or having been an officer, director, employee or agent of the corporation or serving in certain capacities at the request of the corporation except that indemnification may not be made for any claim, issue or matter as to which such a person has been finally adjudged by a court of competent jurisdiction to be liable to the corporation or for amounts paid in settlement to the corporation, unless and only to the extent that the court in which the action or suit was brought or other court of competent jurisdiction determines upon application that, in view of all the circumstances, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper. In either case, however, to be entitled to indemnification, the person to be indemnified must not be found to have

breached his or her fiduciary duties with such breach involving intentional misconduct, fraud or a knowing violation of the law or must have acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Section 78.7502 of the NRS also provides that to the extent a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any such action, he or she must be indemnified by the corporation against expenses, including attorneys' fees actually and reasonably incurred in connection with the defense.

Section 78.751 of the NRS permits a corporation, in its articles of incorporation, by-laws or other agreement, to provide for the payment of expenses incurred by an officer or director in defending any civil

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or criminal action, suit or proceeding as they are incurred and in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking to repay the amount if it is ultimately determined by a court of competent jurisdiction that the person is not entitled to indemnification.

Section 78.752 of the NRS permits a corporation to purchase and maintain insurance or make other financial arrangements on behalf of the corporation's officers, directors, employees or agents, or any persons serving in certain capacities at the request of the corporation, for any liability and expenses incurred by them in their capacities as officers, directors, employees or agents or arising out of their status as such, whether or not the corporation has the authority to indemnify him, her or them against such liability and expenses.

The Registrant's amended and restated articles of incorporation require it, in addition to any other rights of indemnification to which the officers or directors may be entitled, to pay the expenses incurred by its officers and directors in defending a civil or criminal action, suit or proceeding, involving alleged acts or omissions of such officer or director in his or her official capacity as such expenses are incurred and in advance of the final disposition of the action, suit or proceeding, upon receipt of an undertaking to repay the amount if it is ultimately determined by a court of competent jurisdiction that he or she is not entitled to be indemnified by the Registrant. Additionally, the Registrant's bylaws require it, subject to certain exceptions, to indemnify its officers and directors to the fullest extent permitted by Nevada law.

The employment agreements that the Registrant or a subsidiary thereof have entered into with certain of their respective employees generally provide for indemnification of such employees to the fullest extent permitted by Nevada law and the articles of incorporation and bylaws of such companies. Additionally, each employee is generally entitled to have the Registrant pay all expenses, including fees of an attorney selected and retained by the Registrant to represent the employee, actually and necessarily incurred by the employee in connection with the defense of any act, suit, or proceeding and in connection with any related appeal, including the cost of court settlements.

To the extent that the board of directors or stockholders of the Registrant may in the future wish to limit or repeal the ability to indemnify our directors, officers and employees, such repeal or limitation may not be effective as to directors and officers who are currently parties to the aforementioned employment agreements because their rights to full protection are contractually assured by such agreements. It is anticipated that similar agreements may be entered into, from time to time, with the Registrant's or the Registrant's subsidiaries' future directors, officers, managers and

employees.

The Registrant also maintains, at its expense, a policy of insurance that insures the Registrant's directors and officers, subject to customary exclusions and deductions, against specified liabilities which may be incurred by such individuals in those capacities.

Item 15. Recent Sales of Unregistered Securities

Upon the effective date of the plan of conversion, all of the membership interests of the Registrant's members will be extinguished and members who are eligible under Nevada law to receive compensation in exchange for the extinguishment of their membership interests in the conversion will receive an aggregate of approximately 34.4 million shares of the Registrant's common stock. Exemption from registration under the Securities Act of 1933, as amended (the ‘‘Securities Act’’), for this distribution of the Registrant's common stock to members will be claimed under Section 3(a)(10) of the Act based on the Nevada Commissioner of Insurance's approval of the terms and conditions of the plan of conversion, after a hearing upon the fairness of the plan of conversion at which all persons to whom it is proposed to issue securities in the plan of conversion shall have the right to appear.

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Item 16. Exhibits

Exhibit No.	Description of Exhibit
1.1*	Form of Underwriting Agreement
2.1†	Amended and Restated Plan of Conversion and the Amended and Restated Exhibits thereto
3.1*	Amended and Restated Articles of Incorporation of Employers Holdings, Inc.[1]
3.2*	Amended and Restated By-laws of Employers Holdings, Inc.[1]
4.1*	Form of Common Stock Certificate
5.1*	Opinion of Lionel Sawyer & Collins
10.1*	Quota Share Reinsurance Agreement, dated as of June 30, 1999, between State Industrial Insurance System of Nevada, D.B.A.: Employers Insurance Company of Nevada and the various Reinsurers as identified by the Interests and Liabilities Agreements attached thereto (referred to in the prospectus forming a part of this Registration Statement as the ‘‘LPT Agreement’’)[3]
10.2*	Producer Agreement, dated as of May 1, 2005, between Employers Compensation Insurance Company and Automatic Data Processing Insurance Agency, Inc. (referred to in the prospectus forming a part of this Registration Statement as the ‘‘ADP Agreement’’)[2]
10.3*	Joint Marketing and Network Access Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and Blue Cross of California, BC Life & Health Insurance Company, and Comprehensive Integrated Marketing Services (together with the agreement forming Exhibit 10.4 hereto, referred to in the prospectus forming a part of this Registration Statement as the ‘‘Wellpoint Agreement’’)[2]
10.4*	Joint Marketing and Network Access Agreement, dated as of July 1, 2006, between Employers Insurance Company of Nevada and Blue Cross of California, BC Life & Health

	Insurance Company, and Comprehensive Integrated Marketing Services (together with the agreement forming Exhibit 10.3 hereto, referred to in the prospectus forming a part of this Registration Statement as the ''Wellpoint Agreement'')[2]
10.5†	Employment Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and Ann W. Nelson
10.6†	Employment Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and Lenard T. Ormsby
10.7†	Employment Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and Martin J. Welch
10.8†	Employment Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and William E. Yocke
10.9†	Employment Agreement, dated as of February 1, 2006, between Employers Insurance Company of Nevada and Douglas D. Dirks
10.10†	EIG Mutual Holding Company Executive Bonus Plan
10.11*	Employers Holdings, Inc. Incentive Bonus Plan
10.12*	Employers Holdings, Inc. Equity and Incentive Plan
21.1†	Subsidiaries of Employers Holdings, Inc.[1]

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Exhibit No.	Description of Exhibit
23.1*	Consent of Lionel Sawyer & Collins (included in the opinion to be filed as Exhibit 5.1 hereto)
23.2†	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
23.3†	Consent of Towers, Perrin, Forster & Crosby, Inc.
24.1†	Powers of Attorney (included on the signature page)

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*To be filed by amendment.

†Filed herewith.

(1) Employers Holdings, Inc. is the name that EIG Mutual Holding Company will adopt upon consummation of its conversion to a stock corporation.

(2) Confidential treatment has been requested for certain confidential portions of this exhibit; these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.

Item 17. Undertakings

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or

controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issues.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Reno, State of Nevada on December 4, 2006.

EMPLOYERS HOLDINGS, INC.
By: /s/ Douglas D. Dirks
Name: Douglas D. Dirks
Title: Chief Executive Officer

In accordance with the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates stated. Each person whose signature appears below constitutes and appoints William E. Yocke and Lenard T. Ormsby and each of them severally, as his or her true and lawful attorney-in-fact and agent, each acting along with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) and exhibits to the Registration Statement on Form S-1, and to any registration statement filed under Securities and Exchange Commission Rule 462, and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Robert J. Kolesar Robert J. Kolesar	Chairman of the Board	December 4, 2006
/s/ Douglas D. Dirks Douglas D. Dirks	President and Chief Executive Officer, Director (Principal Executive Officer)	December 4, 2006
/s/ William E. Yocke William E. Yocke	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	December 4, 2006
/s/ Richard W. Blakey Richard W. Blakey	Director	December 4, 2006
/s/ Valerie R. Glenn Valerie R. Glenn	Director	December 4, 2006
/s/ Rose E. McKinney-James Rose E. McKinney-James	Director	December 4, 2006

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Signature	Title	Date
/s/ Ronald F. Mosher Ronald F. Mosher	Director	December 4, 2006
/s/ Katherine W. Ong Katherine W. Ong	Director	December 4, 2006
/s/ Michael D. Rumbolz Michael D. Rumbolz	Director	December 4, 2006
/s/ John P. Sande III John P. Sande III	Director	December 4, 2006
/s/ Martin J. Welch Martin J. Welch	Director	December 4, 2006

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10.5†	Employment Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and Ann W. Nelson
10.6†	Employment Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and Lenard T. Ormsby
10.7†	Employment Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and Martin J. Welch
10.8†	Employment Agreement, dated as of January 1, 2006, between Employers Insurance Company of Nevada and William E. Yocke
10.9†	Employment Agreement, dated as of February 1, 2006, between Employers Insurance Company of Nevada and Douglas D. Dirks
10.10†	EIG Mutual Holding Company Executive Bonus Plan
10.11*	Employers Holdings, Inc. Incentive Bonus Plan
10.12*	Employers Holdings, Inc. Equity and Incentive Plan
21.1†	Subsidiaries of Employers Holdings, Inc.[1]

Table of Contents

Exhibit No.	Description of Exhibit
23.1*	Consent of Lionel Sawyer & Collins (included in the opinion to be filed as Exhibit 5.1 hereto)

23.2†	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
23.3†	Consent of Towers, Perrin, Forster & Crosby, Inc.
24.1†	Powers of Attorney (included on the signature page)

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*To be filed by amendment.

†Filed herewith.

(1)Employers Holdings, Inc. is the name that EIG Mutual Holding Company will adopt upon consummation of its conversion to a stock corporation.

(2)Confidential treatment has been requested for certain confidential portions of this exhibit; these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.