ONEOK INC /NEW/
Form DEF 14A
April 01, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14A 101)

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ONEOK, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

Table of Contents

NOTICE OF ANNUAL MEETING

AND PROXY STATEMENT

Annual Meeting of Shareholders

Wednesday, May 20, 2015

Table of Contents

OUR VALUES

Ethics: Our actions are founded on trust, honesty and integrity through open communications and adherence to the highest standards of personal, professional and business ethics.

Quality: Our commitment to quality drives us to make continuous improvements in our quest for excellence.

Diversity: We value diversity, as well as the dignity and worth of each employee, and believe that a diverse and inclusive workforce is critical to our continued success.

Value: We are committed to creating value for all stakeholders employees, customers, investors and our communities through the optimum development and utilization of our resources.

Service: We provide responsive, flexible service to customers and commit to preserving the environment, providing a safe work environment and improving the quality of life for employees where they live and work.

OUR VISION

To be a pure-play general partner that creates exceptional value for all stakeholders through our ownership in ONEOK Partners by:

- Providing management and resources to ONEOK Partners enabling it to execute its growth strategies and allowing ONEOK to grow its dividend.
- Maximizing dividend payout while maintaining prudent financial strength and flexibility.
- Attracting, selecting, developing and retaining a diverse group of employees to support strategy execution.

OUR MISSION

To provide reliable energy and energy-related services in a safe and environmentally responsible manner to our stakeholders through our ownership in ONEOK Partners.

Table of Contents

April 1, 2015

Dear Shareholder:

You cordially are invited to attend the annual meeting of shareholders of ONEOK, Inc., which will be held at 9:00 a.m. Central Daylight Time on Wednesday, May 20, 2015, at ONEOK Plaza, 100 West Fifth Street, Tulsa, Oklahoma 74103.

The matters to be considered and voted on at the meeting are set forth in the attached notice of the annual meeting and are described in the attached proxy statement. A copy of our 2014 annual report to shareholders also is enclosed. A report on our 2014 performance will be presented at the meeting.

We look forward to greeting as many of our shareholders as possible at the annual meeting. We know, however, that most of our shareholders will be unable to attend. Therefore, proxies are being solicited so that each shareholder has an opportunity to vote by proxy. You can authorize a proxy over the Internet or by telephone. Instructions for using these convenient services are included in the proxy statement and on the proxy card. Of course, if you prefer, you may vote by mail by signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope.

If your shares are held by a broker, bank, trustee or other similar fiduciary, unless you provide your broker, bank, trustee or other similar fiduciary with voting instructions, your shares will not be voted in the election of directors or in certain other important proposals as described in the accompanying proxy statement. Consequently, please provide your voting instructions to your broker, bank, trustee or other similar fiduciary in a timely manner to ensure that your shares will be voted.

Regardless of the number of shares you own, your vote is important. I urge you to submit your proxy as soon as possible so that you can be sure your shares will be voted.

Thank you for your investment in ONEOK and your continued support.

Very truly yours,

John W. Gibson

Chairman of the Board

Table of Contents

ONEOK, INC. NOTICE OF 2015 ANNUAL MEETING OF SHAREHOLDERS

Time and date	May 20, 2015, at 9:00 a.m. Central Daylight Time
Place	ONEOK Plaza, 100 West Fifth Street, Tulsa, Oklahoma 74103
Items of business	(1) To consider and vote on the election of the 10 director nominees named in the accompanying proxy statement to serve on our Board of Directors.
	(2) To consider and vote on the ratification of the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm of ONEOK, Inc., for the year ending December 31, 2015.
	(3) To consider and vote on our executive compensation on a non-binding, advisory basis.
	(4) To consider and vote on such other business as may come properly before the meeting or any adjournment or postponement of the meeting.
	These matters are described more fully in the accompanying proxy statement.
Record date	March 23, 2015. Only shareholders of record at the close of business on the record date are entitled to receive notice of, and to vote at, the annual meeting.
Proxy voting	*YOUR VOTE IS IMPORTANT*
	The vote of every shareholder is important. The Board of Directors appreciates the cooperation of shareholders in directing proxies to vote at the meeting. To make it easier for you to vote, Internet and telephone voting are available. The instructions in the accompanying proxy statement and attached to your proxy card describe how to use these convenient voting methods. Of course, if you prefer, you may vote by mail by completing your proxy card and returning it in the enclosed, postage-paid envelope. You may revoke your proxy at any time by following the procedures set forth in the accompanying proxy statement.

Whether or not you expect to attend the meeting in person, we urge you to vote your shares at your earliest convenience. This will ensure the presence of a quorum at the meeting. Voting your shares promptly, via the Internet, by telephone, or by signing, dating and returning the enclosed proxy card will save us the expense of additional solicitation. Submitting your proxy now will not prevent you from voting your shares at the meeting, if you desire to do so, as your proxy is revocable at your option.

Table of Contents

Important Notice Regarding Internet Availability of Proxy Materials. This notice of Annual Meeting and proxy statement and form of proxy are being distributed and made available on or about April 1. This proxy statement and our 2014 annual report to shareholders are available on our website at *www.oneok.com*. Additionally, and in accordance with the rules of the Securities and Exchange Commission, you may access this proxy statement and our 2014 annual report at *okevote.oneok.com*, which does not have cookies that identify visitors to the site.

By order of the Board of Directors,

Eric Grimshaw

Secretary

Tulsa, Oklahoma

April 1, 2015

Table of Contents

PROXY STATEMENT

This proxy statement describes important issues affecting our company and is furnished in connection with the solicitation of proxies by our Board of Directors for use at our 2015 annual meeting of shareholders to be held at the time and place set forth in the accompanying notice. The approximate date of the mailing of this proxy statement and accompanying proxy card is April 1, 2015.

Unless we otherwise indicate or unless the context indicates otherwise, all references in this proxy statement to ONEOK , we, our, us, the company or similar references mean ONEOK, Inc. and its predecessors and subsidiari references to ONEOK Partners or the partnership means ONEOK Partners, L.P. and its subsidiaries.

Table of Contents

To assist you in reviewing the company s 2014 performance and voting your shares, we would like to call your attention to key elements of our 2015 proxy statement and our 2014 annual report to shareholders. The following is only a summary. For more complete information about these topics, please review the complete proxy statement and our 2014 annual report to shareholders.

BUSINESS HIGHLIGHTS

ONE Gas, Inc. Separation. In January 2014, we completed the separation of our natural gas distribution business into a stand-alone, publicly traded company known as ONE Gas, Inc. (NYSE: OGS). In addition, during the first quarter 2014, we completed our exit from the operations of our energy services business segment through a wind down process. In connection with the separation transaction, John W. Gibson retired as our Chief Executive Officer and Terry K. Spencer was named our President and Chief Executive Officer and became a member of our Board of Directors, effective January 31, 2014. Mr. Gibson continues to serve as the non-executive Chairman of the Board.
The successful completion of the ONE Gas, Inc. separation transaction demonstrated our commitment to create long-term, sustainable shareholder value. The separation transaction created a new ONEOK that, as a pure-play general partner of ONEOK Partners, is now focused on providing management and resources to ONEOK Partners and creating value for our shareholders through its ownership in the partnership. We now have a more tailored growth strategy, more efficient return of capital to shareholders, improved investor transparency and better shareholder alignment.

The impact of operating solely as the general partner of ONEOK Partners was immediate, as we increased our quarterly cash dividend by 16 cents per share, or 40 percent, to 56 cents per share in April 2014 our first dividend increase as a pure-play general partner of ONEOK Partners.

ONEOK Partners increased its cash distributions declared by 6 percent in 2014, and we received, through our limited and general partner interests in ONEOK Partners, distributions of $605 million in 2014, an increase of 13 percent compared with 2013. As a result, we were able to deliver significant

value to our shareholders in the form of a 44 percent increase in our 2014 dividends compared with 2013.

ONEOK Partners businesses generated significant growth in 2014 as operating income increased more than 19 percent in each of its natural gas gathering and processing, natural gas liquids and natural gas pipelines business segments compared with 2013. ONEOK Partners has benefited from the completion of $3.2 billion of capital-growth projects and acquisitions in 2014 and the completion of approximately $8 billion in capital-growth projects and acquisitions since 2006. These capital investments have resulted in a 36,000-mile integrated natural gas and natural gas liquids pipeline network with a significant platform of fee-based business as well as associated volume growth in the natural gas gathering and processing business, higher margin natural gas liquids volumes from new natural gas processing plant connections in the natural gas liquids business, and increased natural gas volumes transported and stored in the natural gas pipelines business.

Market Conditions. The global demand for crude oil has continued to increase, but significantly higher supply has led to a dramatic fall in crude oil prices. Commodity prices declined sharply in the fourth quarter 2014 and continued to decline into early 2015. West Texas Intermediate crude oil prices declined to less than $50.00 per barrel in early 2015, compared with approximately $90.00 per barrel in September

2014. New York Mercantile Exchange natural gas prices also declined to less than $3.00 per MMBtu in early 2015, compared with prices in excess of $4.00 per MMBtu in September 2014. The decline in crude oil prices has also contributed to lower natural gas liquids product prices and narrow natural gas liquids product price differentials.

Table of Contents

Because crude oil and natural gas producers received higher market prices on a heating-value basis for crude oil and natural gas liquids compared with natural gas, many producers in North America focused their drilling activity in natural gas liquids-rich shale areas throughout the country that produce crude oil and associated natural gas liquids-rich natural gas rather than areas that produce dry natural gas. This resulted in crude oil, natural gas and natural gas liquids production increasing at a rate faster than demand.

The recent decline in crude oil, natural gas, and natural gas liquids prices, along with announced reductions in oil and gas producer drilling activities, are expected to slow supply growth in the United States in 2015. However, we continue to expect demand for midstream infrastructure development to be driven by producers who need to connect production with end-use markets where current infrastructure is insufficient or nonexistent.

Financial Performance. In connection with the completion of the separation of our former natural gas distribution business into a stand-alone publicly traded company called ONE Gas, Inc. and the wind down of our energy services business, we reported such businesses as discontinued operations and references to income from continuing operations reflect the continuing operations of ONEOK Partners and ONEOK as its general partner. All references to income as used in this Business Highlights section refer to income from continuing operations.

Our 2014 operating income was approximately $1.14 billion, compared with approximately $880.6 million in 2013, due primarily to higher volumes across ONEOK Partners systems. 2014 income from continuing operations attributable to us was approximately $319.7 million, or $1.52 per diluted share, which includes non-cash impairment charges of approximately $76.4 million, or $0.09 per diluted share. 2013 income from continuing operations attributable to us was approximately $278.7 million, or $1.33 per diluted share.

Table of Contents

Dividend Increase. During 2014, we paid cash dividends of $2.125 per share, an increase of approximately 44 percent over the $1.48 per share paid during 2013. We paid total aggregate cash dividends to our shareholders of $443.8 million in 2014, an approximate 45.7 percent increase compared with the $304.7 million paid in 2013. In January 2015, we declared a quarterly dividend of $0.605 per share ($2.42 per share on an annualized basis), an increase of approximately 3 percent from the previous quarter and approximately 51 percent over the $0.40 per share dividend declared in January 2014.

Shareholder Return. The market price of our common stock was $49.79 per share at December 31, 2014, a decrease of approximately 19.9 percent over the past year. The market price of our common stock was $68.49 per share on January 31, 2014. On February 3, 2014, the first day ONEOK traded as a pure play general partner of ONEOK Partners following completion of the ONE Gas, Inc. separation transaction, the market price of our common stock was $57.92 per share, an approximate 15 percent decrease compared with January 31, 2014. This decrease was largely related to ONE Gas, Inc. s market value no longer being reflected in our stock price.

Our one-, three-, five- and 10-year total shareholder returns as of December 31, 2014 (total shareholder return includes share price appreciation/depreciation, dividend reinvestments, stock splits and the impact of the separation of our natural gas

distribution business to ONE Gas, Inc. during the periods presented), compared with the referenced indices, are as follows:

(1) The ONEOK peer group used in this table is the same peer group that will be used in determining our level of performance under our 2014 performance units at the end of the three-year performance period and is comprised of the following companies: Boardwalk Pipeline Partners, LP; Buckeye Partners, L.P.; CenterPoint Energy, Inc.; Energy Transfer Partners, L.P.; EQT Corporation; Magellan Midstream Partners, L.P.; MarkWest Energy Partners, L.P.; MDU Resources Group, Inc.; National Fuel Gas Company; NiSource Inc.; NuStar Energy L.P.; OGE Energy Corp.; Plains All American Pipeline, L.P.; Sempra Energy; Spectra Energy Corp; Targa Resources Partners LP; and The Williams Companies, Inc.

COMPENSATION HIGHLIGHTS

Program Design. A principal feature of our compensation program is the determination of executive pay by our Executive Compensation Committee (referred to as the Executive Compensation Committee or the Committee) and Board of Directors based on a comprehensive review of quantitative and qualitative factors designed to produce long-term business success. Our executive officer compensation program is designed to attract, motivate and retain the key executives who drive our success and who are leaders in the industry, to reward company performance and to align the long-term interests of our executive officers with those of our shareholders.

Our compensation philosophy and related governance features are complemented by several specific elements that are designed to achieve these objectives:

Our compensation program:

- provides a competitive total pay opportunity;
- consists of significant stock-based (at risk) compensation;
- links a significant portion of total compensation to performance that we believe will create long-term shareholder value;
- determines long- and short-term incentive awards based on the executive officer s contributions to business performance;

- enhances retention by subjecting a significant portion of total compensation to multi-year vesting requirements; and
- does not encourage unnecessary or excessive risk taking.

The components of our executive compensation program have remained substantially the same for several years. We believe our program is designed effectively, is well aligned with the interests of our shareholders and is instrumental to achieving our business goals.

The main objectives of our compensation program are to pay for performance, to align our named executive officers interests with those of our shareholders and to attract and retain qualified executives.

The Executive Compensation Committee makes all compensation decisions regarding our named executive officers that are then submitted to the full Board of Directors for ratification.

The Executive Compensation Committee is composed solely of persons who qualify as independent directors under the listing standards of the New York Stock Exchange (NYSE).

We provide the following primary elements of compensation for our executive officers, including the named executive officers (as defined in 2014 Executive Compensation Highlights at page 51): base salary, annual short-term cash incentive awards and long-term equity incentive awards.

The Executive Compensation Committee references the median level of the market when determining all elements of compensation with the possibility of above-market short-term incentive and long-term incentive payments for executive and company performance that exceeds our expectations.

We implement our pay-for-performance philosophy with a short-term incentive program that provides for cash payments based on achievement of financial and operational goals established annually by our Executive Compensation Committee.

We encourage alignment of our executive officers interests with those of our shareholders through the award of performance-based long-term incentive equity grants, of which 20 percent are restricted units and 80 percent are performance units.

Our executive officers, including the named executive officers, receive no significant perquisites or other personal benefits.

We have market competitive stock ownership guidelines for our executive officers and our non-management directors. As of December 31, 2014, each of the named executive officers and each non-management member of our board of directors satisfied his or her individual stock ownership requirements under the guidelines.

We have adopted compensation recovery (clawback) provisions that permit the Executive Compensation Committee to use appropriate discretion to seek recoupment of grants of performance units (including any shares earned and the proceeds from any sale of such shares) and short-term cash incentive awards paid to an employee in the event that fraud, negligence or individual misconduct by such employee is determined to be a contributing factor to our having to restate all or a portion of our financial statements.

Our Board has adopted a policy prohibiting officers, members of our Board of Directors and certain employees designated as insiders under our Securities/Insider Trading Policy from engaging in short sales, derivative or speculative transactions in our securities, or purchasing or using, directly or indirectly through family members or other persons or entities, financial instruments (including puts or calls, prepaid variable forward contracts, equity swaps, collars and exchange funds) that are designed to hedge or offset any decrease in the market value of our securities. This policy was adopted as a sound governance practice, and we are not aware of any such behavior by any of our officers, directors or the designated employees.

Our Board has adopted a policy prohibiting officers and directors from holding our securities in a margin account or pledging our securities as collateral for a loan. An exception to this prohibition may be granted by the Chief Executive Officer when an officer or director wishes to pledge shares of our stock as collateral for a loan (but not including a margin account); the officer or director clearly demonstrates the financial capacity to repay the loan without resorting to the pledged securities; and the terms of the loan prohibit the sale of any of our stock held as collateral when the officer or director is not permitted to trade in our stock. We are not aware of any officer or member of our Board of Directors who has pledged any of his or her shares of our common stock.

The Executive Compensation Committee engages an executive compensation consultant that is independent under the Securities and Exchange Commission rules and NYSE listing standards to provide advice and expertise on our executive and director compensation program design and implementation.

Key Components of our Compensation Program in 2014 are Unchanged; Revisions Made to our Peer Group and Short-Term Incentive Plan Metrics. In reviewing our compensation program during 2014, our Executive Compensation Committee took into account, among other factors, the strong shareholder vote at our 2014 annual meeting in favor (97.2 percent of the shares voted) of our 2013 compensation program and our pay practices as well as the impact on our compensation program of the separation of our former natural gas distribution business into a stand-alone, publicly traded company known as ONE Gas, Inc. Accordingly, the Executive Compensation Committee determined that no changes to the components of our compensation program were necessary in 2014. However, the Committee revised the financial and operating performance metrics used in our 2014 short-term incentive plan, and our executive compensation peer group, in each case to reflect our new status as a pure play general partner of ONEOK Partners. The Committee also authorized certain adjustments to the number of our outstanding 2012 and 2013 restricted stock units and performance units for the purpose of preserving the intrinsic value of our 2012 and 2013 grants of restricted stock units and performance units immediately prior to the separation. In making these revisions and adjustments, the Committee has continued to apply the same principles it has historically applied in determining the nature and amount of our executive compensation.

Link between Executive Compensation and Performance. Our Board of Directors awarded Mr. Spencer incentive compensation for 2014 that was commensurate with our business results, including payment of an annual short-term cash incentive award of $468,000 and a long-term equity incentive award with a grant date target value of $2.3 million. Consistent with our executive compensation philosophy, a significant majority of Mr. Spencer s total direct compensation of approximately $3.4 million for 2014 was incentive based and at risk, as illustrated by the following chart:

The compensation of our other named executives set forth in the following table further reflects both our 2014 performance and our pay-for-performance compensation philosophy. The compensation information reflected in the table is included in

the Summary Compensation Table for Fiscal 2014 under the caption Executive Compensation Discussion and Analysis in this proxy statement.

Named Executive Officer	2014 Base Salary	2014 Short-Term Cash Incentive Award	2014 Long-Term Incentive Award Value	2014 Total Direct Compensation
Derek S. Reiners	$ 375,000	$ 150,000	$ 845,029	$ 1,370,029
Robert F. Martinovich	$ 500,000	$ 225,000	$ 845,029	$ 1,570,029
Stephen W. Lake	$ 450,000	$ 190,000	$ 845,029	$ 1,485,029
Wesley J. Christensen	$ 400,000	$ 195,000	$ 845,029	$ 1,440,029

Table of Contents

SHAREHOLDER ACTIONS

Election of Directors (Proposal 1). You will find in this proxy statement important information about the qualifications and experience of each of the 10 director nominees, each of whom is a current director. The Corporate Governance Committee performs an annual assessment of the performance of the Board of Directors to ensure that our directors have the skills and experience to oversee effectively our company. All of our directors have proven leadership, sound judgment, integrity and a commitment to the success of our company, and our Board of Directors recommends that shareholders **vote in favor** of each nominee for re-election.

Ratification of our Independent Auditor (Proposal 2). You will also find in this proxy statement important information about our independent auditor, PricewaterhouseCoopers LLP. We believe PricewaterhouseCoopers LLP continues to provide high-quality service to our company, and our Board of Directors recommends that shareholders **vote in favor** of ratification.

Advisory Vote on Executive Compensation (Proposal 3). Our shareholders have the opportunity to cast a non-binding, advisory vote on our executive compensation program. As recommended by our shareholders at our 2011 annual meeting, we intend to provide our shareholders with an annual opportunity to vote on executive compensation until the next non-binding vote on the frequency of our advisory vote on executive compensation. We were gratified that shareholders holding 97.2 percent of our shares that were voted last year on our executive compensation supported the design and practices of our executive compensation program. In evaluating this say on pay proposal, we recommend that you review our Compensation Discussion and Analysis in this proxy statement, which explains how and why the Executive Compensation Committee made its 2014 executive compensation decisions. Our Board of Directors recommends that shareholders **vote in favor** of our executive compensation program.

Table of Contents

The following questions and answers are provided for your convenience and briefly address some commonly asked questions about our 2015 annual meeting of shareholders. Please

also consult the more detailed information contained elsewhere in this proxy statement and the documents referred to in this proxy statement.

Why did I receive these proxy materials?

We are providing these proxy materials in connection with the solicitation by the Board of Directors of ONEOK, Inc. of proxies to be voted at our 2015 annual meeting of shareholders and at any adjournment or postponement of the meeting. You are invited to attend our annual meeting of shareholders on May 20, 2015, at 9:00 a.m., Central Daylight Time. The meeting will be held at our company headquarters at ONEOK Plaza, 100 West Fifth Street, Tulsa, Oklahoma. For directions to the meeting, please visit our website at *www.oneok.com*.

Who is soliciting my proxy?

Our Board of Directors is sending you this proxy statement in connection with its solicitation of proxies for use at our 2015 annual meeting of shareholders. Certain of our directors, officers and employees also may solicit proxies on our behalf in person or by mail, telephone, fax or email.

Who may attend and vote at the annual meeting?

All shareholders who held shares of our common stock at the close of business on March 23, 2015, may attend and vote at the meeting. If your shares are held in the name of a broker, bank, trustee or other holder of record, often referred to as being held in street name, bring a copy of your brokerage account statement or a voting instruction card, which you may obtain from your broker, bank, trustee or other holder of record of your shares.

Please note: no cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the meeting.

Will the annual meeting be webcast?

Our annual meeting also will be webcast on May 20, 2015. You are invited to visit *www.oneok.com* at 9:00 a.m., Central Daylight Time, on May 20, 2015, to access the webcast of the meeting. Registration for the webcast is required. An archived copy of the webcast also will be available on our website for 30 days following the meeting.

How do I vote?

If you were a shareholder of record at the close of business on the record date of March 23, 2015, you have the right to vote the shares you held of record that day in person at the meeting or you may appoint a proxy through the Internet, by telephone or by mail to vote your shares on your behalf. The Internet and telephone methods of voting generally are available 24 hours a day and will ensure that your proxy is confirmed and posted immediately. These methods of voting are also available to shareholders who hold their shares in our Direct Stock Purchase and Dividend Reinvestment Plan (Direct Stock Purchase and Dividend Reinvestment Plan), our Employee Stock Purchase Plan

(Employee Stock Purchase Plan), our 401(k) Plan and our Profit Sharing Plan (Profit Sharing Plan). You may revoke your proxy any time before the annual meeting by following the procedures outlined below under the caption What can I do if I change my mind after I vote my shares? Please help us save time and postage costs by appointing a proxy via the Internet or by telephone.

When you appoint a proxy via the Internet, by telephone or by mailing a signed proxy card, you are appointing John W. Gibson, Chairman of the Board, and Stephen W. Lake, Senior Vice President, General Counsel and Assistant Secretary, as your representatives at the annual meeting, and they will vote your shares as you have instructed them. If you appoint a proxy via the Internet, by telephone or by mailing a signed proxy card but do not provide voting instructions, your shares will be voted ***for*** the election of each proposed director nominee named in this proxy statement and ***for*** proposal numbers 2 and 3.

To appoint a proxy to vote your shares on your behalf, please select from the following options:

Table of Contents

Via the Internet

Go to the website at *www.proxypush.com/oke*, which is available 24 hours a day, 7 days a week, until 11:59 p.m. (Central Daylight Time) on May 19, 2015.

Enter the control number that appears on your proxy card. This process is designed to verify that you are a shareholder and allows you to vote your shares and confirm that your instructions have been properly recorded.

Follow the simple instructions.

If you appoint a proxy via the Internet, you do not have to return your proxy card.

By telephone

On a touch-tone telephone, call toll-free 1-866-883-3382, 24 hours a day, 7 days a week, until 11:59 p.m. (Central Daylight Time) on May 19, 2015.

Enter the control number that appears on your proxy card. This process is designed to verify that you are a shareholder and allows you to vote your shares and confirm that your instructions have been recorded properly.

Follow the simple recorded instructions.

If you appoint a proxy by telephone, you do not have to return your proxy card.

By mail

Mark your selections on the proxy card.

Date and sign your name exactly as it appears on your proxy card.

Mail the proxy card in the enclosed postage-paid envelope.

If mailed, your completed and signed proxy card must be received prior to the commencement of voting at the annual meeting.

What if my shares are held by my broker, bank, trustee or other similar fiduciary?

If your shares are held in a brokerage account or by a bank, trustee or other similar fiduciary, your shares are considered to be held in street name. If you held shares in street name as of the record date of March 23, 2015, this proxy statement and our 2014 annual report to shareholders should have been

forwarded to you by your broker, bank, trustee or other similar fiduciary, together with a voting instruction card. You have the right to direct your broker, bank, trustee or other similar fiduciary how to vote your shares by using the voting instruction card or by following any instructions provided by your broker, bank, trustee or other similar fiduciary for voting via the Internet or telephone.

Under the rules of the NYSE, unless you provide your broker, bank, trustee or other similar fiduciary with your instructions on how to vote your shares, your broker, bank, trustee or other similar fiduciary will only be permitted to vote your shares on the ratification of the selection of our independent registered public accounting firm and will not be able to vote your shares on any of the other matters to be presented at the annual meeting. Consequently, unless you respond to their request for your voting instructions in a timely manner, your shares held by your broker, bank, trustee or other similar fiduciary will not be voted on any of these other matters (which is referred to as a broker non-vote).

Please provide your voting instructions to your broker, bank, trustee or other similar fiduciary so that your shares may be voted.

What can I do if I change my mind after I vote my shares?

If you were a shareholder of record at the close of business on the record date, you have the right to revoke your proxy at any time before it is voted at the meeting by:

(1) notifying our corporate secretary in writing;

(2) authorizing a later proxy via the Internet or by telephone;

(3) returning a later-dated proxy card; or

(4) voting at the meeting in person.

If your shares are held in a brokerage account or by a bank or other similar fiduciary, you may revoke any voting instructions you may have previously provided only in accordance with revocation instructions provided by the broker, bank, trustee or other similar fiduciary.

Is my vote confidential?

Proxy cards, ballots and voting tabulations that identify individual shareholders are mailed and returned directly to our stock transfer agent who is responsible for tabulating the vote

in a manner that protects your voting privacy. It is our policy to protect the confidentiality of shareholder votes throughout the voting process. The vote of any shareholder will not be disclosed to our directors, officers or employees, except:

(1) to meet legal requirements;

(2) to assert or defend claims for or against us; or

(3) in those limited circumstances where:

 (a) a proxy solicitation is contested (which, to our knowledge, is not the case in connection with the 2015 annual meeting),

 (b) a shareholder writes comments on a proxy card, or

 (c) a shareholder authorizes disclosure.

The vote tabulator and the inspector of election has been, and will remain, independent of us. This policy does not prohibit shareholders from disclosing the nature of their votes to our directors, officers or employees, or prevent us from voluntarily communicating with our shareholders, ascertaining which shareholders have voted or making efforts to encourage shareholders to vote.

Who will count the vote?

Representatives of our stock transfer agent, Wells Fargo Bank, N.A., will tabulate the votes and act as the inspector of the election.

How is common stock held in our 401(k) Plan and our Profit Sharing Plan voted?

If you hold shares of our common stock through our 401(k) Plan or our Profit Sharing Plan, in order for those shares to be voted as you wish, you must instruct the trustee of these plans, Fidelity Management Trust Company, how to vote those shares by providing your instructions via the Internet, by telephone or by mail in the manner outlined above. If you fail to provide your instructions or if you return an instruction card with an unclear voting designation or with no voting designation at all, then the trustee will vote the shares in your account in proportion to the way the other participants in each respective plan vote their shares. These votes receive the same confidentiality as all other shares voted.

To allow sufficient time for voting by the trustee of our 401(k) Plan and our Profit Sharing Plan, your voting instructions must be received by May 17, 2015.

How will shares for which a proxy is appointed be voted on any other business conducted at the annual meeting that is not described in this proxy statement?

Although we do not know of any business to be considered at the 2015 annual meeting other than the proposals described in this proxy statement, if any other business is properly presented at the annual meeting, your proxy gives authority to John W. Gibson, Chairman of the Board, and Stephen W. Lake, our Senior Vice President, General Counsel and Assistant Secretary, to vote on these matters at their discretion.

What shares are included on the proxy card(s)?

The shares included on your proxy card(s) represent all of the shares that you owned of record as of the close of business on March 23, 2015, including those shares held in our Direct Stock Purchase and Dividend Reinvestment Plan and Employee Stock Purchase Plan, but excluding any shares held for your account by Fidelity Management Trust Company, as trustee for our 401(k) Plan and our Profit Sharing Plan. If you do not authorize a proxy via the Internet, by telephone or by mail, your shares, except for those shares held in our 401(k) Plan and our Profit Sharing Plan, will not be voted. Please refer to the discussion above for an explanation of the voting procedures for your shares held by our 401(k) Plan and our Profit Sharing Plan.

What does it mean if I receive more than one proxy card?

If your shares are registered differently and are in more than one account, you will receive more than one proxy card. Please sign and return all proxy cards, or appoint a proxy via the Internet or telephone, to ensure that all your shares are voted. We encourage you to have all accounts registered in the same name and address whenever possible.

Why did we receive just one copy of the proxy statement and annual report when we have more than one stock account in our household?

We have adopted a procedure approved by the Securities and Exchange Commission called householding. This procedure permits us to send a single copy of the proxy statement and annual report to a household if the shareholders provide written or implied consent. Shareholders continue to receive a separate proxy card for each stock account. We previously mailed a notice to eligible registered shareholders stating our intent to utilize this rule unless the shareholder provided an objection. If you are a registered shareholder and received only one copy of the proxy statement and annual report in your household, we will promptly deliver copies, to the extent you request them, for each member of your household who was a registered shareholder as of the record date. You may make this request by calling Wells Fargo Shareowner Services at 1-877-602-7615, or by providing written instructions to Wells Fargo Shareowner Services, Attn: Householding/ONEOK, Inc., P.O. Box 64854, St. Paul, Minnesota 55164-0854. You also may contact Wells Fargo Shareowner Services in the same manner if you are currently receiving a single copy of the proxy statement and annual report in your household and desire to receive separate copies in the future for each member of your household who is a registered shareholder or if your household is currently receiving multiple copies of the proxy statement and annual report and you desire to receive a single copy in the future for your entire household. If you are not a registered shareholder and your shares are held by a broker, bank, trustee or other holder of record, you will need to contact that entity to revoke your election and receive multiple copies of these documents.

Is there a list of shareholders entitled to vote at the annual meeting?

The names of shareholders of record entitled to vote at the annual meeting will be available at the annual meeting and for 10 days prior to the meeting for any purpose relevant to the meeting between the hours of 9:00 a.m. and 4:30 p.m. CDT at our principal executive offices at 100 West Fifth Street, Tulsa, Oklahoma, and may be viewed by contacting our corporate secretary.

May I access the notice of annual meeting, proxy statement, 2014 annual report and accompanying documents on the Internet?

The notice of annual meeting, proxy statement, 2014 annual report and accompanying documents are currently available on

our website at *www.oneok.com*. Additionally, in accordance with rules of the Securities and Exchange Commission, you may access this proxy statement, our 2014 annual report and any other proxy materials we use at *okevote.oneok.com*.

Instead of receiving future copies of our proxy and annual report materials by mail, shareholders may elect to receive an email that will provide electronic links to these proxy and annual report materials. Opting to receive your proxy materials online will save us the cost of producing and mailing documents to your home or business and also will give you an electronic link to the proxy voting site. You may log on to *www.proxypush.com/oke* and follow the prompts to enroll in the electronic proxy delivery service. If you hold your shares in a brokerage account, you also may have the opportunity to receive copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your broker, bank, trustee or other holder of record of your shares regarding the availability of this service.

What out-of-pocket costs will we incur in soliciting proxies?

Morrow & Co., LLC, 470 West Avenue, Stamford, Connecticut 06902, will assist us in the distribution of proxy materials and solicitation of votes for a fee of $11,000, plus out-of-pocket expenses. We also reimburse brokerage firms, banks and other custodians, nominees and fiduciaries for their reasonable expenses for forwarding proxy materials to our shareholders. We will pay all costs of soliciting proxies.

How can I find out the results of the voting at the annual meeting?

Preliminary voting results will be announced at the annual meeting. Voting results will be published in a Current Report on Form 8-K that we will file with the Securities and Exchange Commission within four business days after the annual meeting.

Table of Contents

VOTING

Only shareholders of record at the close of business on March 23, 2015, are entitled to receive notice of and to vote at the annual meeting. As of that date, 208,753,107 shares of our common stock were outstanding. Each outstanding share entitles the holder to one vote on each matter submitted to a vote of shareholders at the meeting.

Shareholders of record may vote in person or by proxy at the annual meeting. All properly submitted proxies received prior to the commencement of voting at the annual meeting will be voted in accordance with the voting instructions contained on the proxy. Shares for which signed proxies are properly submitted without voting instructions will be voted:

(1) **FOR** the election of each of the 10 nominees for director named in this proxy statement to serve a one-year term;

(2) **FOR** the ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2015; and

(3) **FOR** the advisory proposal to approve our executive compensation.

While we know of no other matters that are likely to be brought before the meeting, in the event any other business properly comes before the meeting, proxies will be voted in the discretion of the persons named in the proxy. The persons named as proxies were designated by our Board of Directors.

To vote shares held in street name through a broker, bank, trustee or other similar fiduciary, a shareholder must provide voting instructions to his or her broker, bank or other similar fiduciary. Brokerage firms, banks, trustees and other similar fiduciaries are required to request voting instructions for shares they hold on behalf of their customers and others. We encourage you to provide instructions to your brokerage firm, bank, trustee or other similar fiduciary on how to vote your shares. If your shares are held in street name, to be able to vote those shares in person at the annual meeting, you must obtain a proxy, executed in your favor, from the broker, bank or other similar fiduciary who held those shares as of the close of business on March 23, 2015.

The rules of the NYSE determine whether proposals presented at shareholder meetings are routine or non-routine. If a proposal is routine, a broker, bank, trustee or other similar fiduciary holding shares for an owner in street name may vote for the proposal without receiving voting instructions from the owner under certain circumstances. If a proposal is non-routine, the broker, bank, trustee or other similar fiduciary may vote on the proposal only if the owner has provided voting instructions. A broker non-vote occurs when the broker, bank, trustee or other similar fiduciary is unable to vote on a proposal because the proposal is non-routine and the owner does not provide any voting instructions. Under the rules of the NYSE, Proposals 1 and 3 are considered to be non-routine, and Proposal 2 is considered to be routine. Accordingly, if you do not provide voting instructions to your brokerage firm, bank, trustee or other similar fiduciary holding your shares, your brokerage firm, bank, trustee or other similar fiduciary will not be permitted under the rules of the NYSE to vote your shares on Proposals 1 and 3 and will only be permitted under the rules of the NYSE to vote your shares on Proposal 2 at its discretion.

Please provide your voting instructions to your broker, bank, trustee or other similar fiduciary so that your shares may be voted.

Representatives of our stock transfer agent, Wells Fargo Bank, N.A., will be responsible for tabulating and certifying the votes cast at the meeting.

QUORUM

The holders of a majority of the shares entitled to vote at the annual meeting, present in person or by proxy, constitute a quorum for the transaction of business at the annual meeting. In determining whether we have a quorum, we count abstentions and broker non-votes as present.

If a quorum is not present at the scheduled time of the meeting, the shareholders who are present in person or by proxy may adjourn the meeting until a quorum is present. If the time and place of the adjourned meeting are announced at the time the adjournment is taken, no other notice will be given. However, if the adjournment is for more than 30 days, or if a new record date is set for the adjourned meeting, a notice will be given to each shareholder entitled to receive notice of, and to vote at, the meeting.

Table of Contents

MATTERS TO BE VOTED UPON

At the annual meeting, the following matters will be voted upon:

(1) the election of each of the 10 nominees for director named in this proxy statement to serve a one-year term;

(2) the ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2015;

(3) an advisory vote on executive compensation; and

(4) such other business as may properly come before the meeting, or any adjournment or postponement of the meeting.

VOTES REQUIRED

Proposal 1 Election of Directors. Our bylaws provide for majority voting for directors in uncontested elections. We expect that the election of directors at our 2015 annual meeting will be uncontested. Under the majority voting standard, the election of directors is decided by the affirmative vote of a majority of the votes cast with respect to that nominee s election by the shareholders present in person or by proxy at the meeting and entitled to vote for the election of directors. In other words, to be elected a nominee must receive a number of for votes that exceeds the number of against votes cast with respect to that director s election. Abstentions and broker non-votes, if any, do not count as for or against votes cast with respect to the election of directors.

Our Corporate Governance Guidelines require that if in an uncontested election a nominee for director does not receive the requisite majority vote, he or she must promptly, following certification of the shareholder vote, tender his or her resignation to our Board of Directors. The Board (excluding the director who tendered the resignation) will then evaluate the resignation in light of the best interests of our company and our shareholders in determining whether to accept or reject the resignation, or whether other action should be taken. In reaching its decision, the Board may consider any factors it deems relevant, including the director s qualifications, the director s past and expected future contributions to the company, the overall composition of the board and whether accepting the tendered resignation would cause the company to fail to comply with any applicable rule or regulation (including NYSE listing requirements and the federal securities laws). The Board will act on the tendered resignation and publicly disclose

its decision and rationale within 90 days following certification of the shareholder vote.

Proposal 2 Ratification of Selection of PricewaterhouseCoopers LLP as our Independent Registered Public Accounting Firm for the Year Ending December 31, 2015.

Proposal 3 Advisory Vote on Executive Compensation.

In accordance with our bylaws, approval of each of proposals 2 and 3 requires the affirmative vote of a majority of the voting power of the shareholders present in person or by proxy and entitled to vote on this proposal at the meeting. Abstentions will have the same effect as votes against this proposal and broker non-votes do not count as entitled to vote for purposes of determining the outcome of the vote on this proposal.

REVOKING A PROXY

Any shareholder may revoke his or her proxy at any time before it is voted at the meeting by (1) notifying our corporate secretary in writing (the mailing address of our corporate secretary is 100 West Fifth Street, Tulsa, Oklahoma 74103), (2) authorizing a later proxy via the Internet or by telephone, (3) returning a later dated proxy card, or (4) voting at the meeting in person. A shareholder s presence without voting at the annual meeting will not automatically revoke a previously delivered proxy and any revocation during the meeting will not affect votes previously taken.

If your shares are held in a brokerage account or by a bank, trustee or other similar fiduciary, you may revoke any voting instructions you may have previously provided in accordance with the revocation instructions provided by the broker, bank, trustee or other similar fiduciary.

PROXY SOLICITATION

Solicitation of proxies will be primarily by mail and telephone. We have engaged Morrow & Co., LLC, 470 West Avenue, Stamford, Connecticut 06902, to solicit proxies for a fee of $11,000, plus out-of-pocket expenses. In addition, certain of our officers, directors and employees may solicit proxies on our behalf in person or by mail, telephone, fax or email, for which such persons will receive no additional compensation. We will pay all costs of soliciting proxies. We will also reimburse brokerage firms, banks and other custodians, nominees and fiduciaries for their reasonable expenses for forwarding proxy materials to our shareholders.

Table of Contents

Our Board of Directors and management are committed to maintaining strong corporate governance practices that allocate rights and responsibilities among our Board, management and our shareholders in a manner that benefits the long-term interest of our shareholders. Our corporate governance practices are designed not just to satisfy regulatory and stock exchange requirements, but also to provide for effective oversight and management of our company.

Our Corporate Governance Committee engages in a regular process of reviewing our corporate governance practices, including comparing our practices with those recommended by various corporate governance authorities, the expectations of our shareholders and the practices of other leading public companies. Our Corporate Governance Committee also reviews regularly our corporate governance practices in light of proposed and adopted laws and regulations, including the rules of the Securities and Exchange Commission and the rules and listing standards of the NYSE.

CORPORATE GOVERNANCE GUIDELINES

Our Board of Directors has adopted corporate governance guidelines that address key areas of our corporate governance, including: the Board s mission and responsibilities; Board membership and leadership; the structure and function of the Board s committees; meetings of the Board and its committees, including attendance requirements and executive sessions; Board compensation; Board and officer share ownership requirements; succession planning; evaluation of the performance of our Board; and Board access to management and independent advisors. Our Board periodically reviews our corporate governance guidelines and may revise the guidelines from time to time as conditions warrant. The full text of our corporate governance guidelines is published on and may be printed from our website at *www.oneok.com* and is also available from our corporate secretary upon request.

CODE OF BUSINESS CONDUCT AND ETHICS

Our Board of Directors has adopted a code of business conduct and ethics that applies to our directors, officers (including our principal executive and financial officers, principal accounting officer, controllers and other persons performing similar functions) and all other employees. We require all directors, officers and employees to adhere to our code of business conduct and ethics in addressing the legal and ethical

issues encountered in conducting their work for our company. Our code of business conduct and ethics requires that our directors, officers and employees avoid conflicts of interest, comply with all applicable laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in our company s best interest. All directors, officers and employees are required to report any conduct that they believe to be an actual or apparent violation of our code of business conduct and ethics.

The full text of our code of business conduct and ethics is published on and may be printed from our website at *www.oneok.com* and is also available from our corporate secretary upon request. We intend to disclose on our website any future amendments to, or waivers from, our code of business conduct and ethics, as required by the rules of the Securities and Exchange Commission and the NYSE.

DIRECTOR INDEPENDENCE

Our corporate governance guidelines provide that a majority of our Board of Directors will be independent under the applicable independence requirements of the NYSE. These guidelines and the rules of the NYSE provide that, in qualifying a director as independent, the Board must make an affirmative determination that the director has no material relationship with our company, either directly or as a partner, shareholder or officer of an organization that has a relationship with our company. In making this determination with respect to each director serving on the Executive Compensation Committee, under the rules of the NYSE, the Board is required to consider all factors specifically relevant to determining whether the director has a relationship to our company which is material to that director s ability to be independent from management in connection with the duties of a member of that committee.

Our Board of Directors has also adopted director independence guidelines that specify the types of relationships the Board has determined to be categorically immaterial. Directors who meet these standards are considered to be independent. The full text of our director independence guidelines is published on and may be printed from our website at *www.oneok.com* and is also available from our corporate secretary upon request.

Our Board of Directors has determined affirmatively that members James C. Day, Julie H. Edwards, William L. Ford, Bert H. Mackie, Steven J. Malcolm, Jim W. Mogg, Pattye L. Moore, Gary D. Parker and Eduardo A. Rodriguez have no material relationship with our company, and each qualifies as independent under our corporate governance guidelines, our director independence guidelines and the rules of the NYSE. Accordingly, nine out of our current 11 directors qualify as independent.

BOARD LEADERSHIP STRUCTURE

During 2014, our Board was led by John W. Gibson, who is our non-executive Chairman of the Board, in consultation and coordination with Jim W. Mogg, who is our lead independent director and the Chairman of the Corporate Governance Committee. Effective January 31, 2014, Mr. Gibson retired as our Chief Executive Officer and Terry K. Spencer was named our President and Chief Executive Officer and became a member of our Board. In addition, our Audit Committee and Executive Compensation Committee are each led by a chair and vice chair, each of whom is an independent director.

Our corporate governance guidelines provide that our Board of Directors retains the right to exercise its discretion in combining or separating the offices of the Chairman of the Board and Chief Executive Officer. Our Board reviews the issue as a part of its succession planning process. The Board believes that it is advantageous for the Board to maintain flexibility to determine on a case-by-case basis and, if necessary, change the board leadership structure in order to meet our needs at any time, based on the individuals then available and the circumstances then presented.

In planning for the succession of Mr. Spencer as Chief Executive Officer, the Board carefully reviewed the Board s leadership structure and determined that it would be appropriate to separate the roles of the Chairman of the Board and Chief Executive Officer, effective upon Mr. Spencer s appointment.

The Board believes that maintaining Mr. Gibson s continuing service as non-executive Chairman of the Board following his retirement as Chief Executive Officer presently provides the most effective leadership model for our Board and our company. In making this determination, the Board considered the advantages to our company of maintaining the continuity of Mr. Gibson s effective leadership as Chairman of the Board based on, among other factors, his strong leadership skills, his extensive knowledge and experience regarding our operations and the industries and markets in which we compete, as well as his ability to promote communication and to synchronize strategic objectives and activities between our Board and our senior management. The Board also believes this leadership structure continues to ensure significant independent oversight of management, as Mr. Spencer is the only member of the Board who is also an employee of our company, and Messrs. Gibson and Spencer are the only members of the Board who do not meet the independence criteria set forth in our director independence guidelines and the independence criteria established by the NYSE. In addition, our Board has an ongoing practice of holding executive sessions, without management present, as part of each regularly scheduled in-person Board meeting.

In accordance with our corporate governance guidelines, the Board continues to retain the authority to combine the positions of Chairman and Chief Executive Officer in the future if it determines that doing so is in the best interests of our company and our shareholders.

LEAD INDEPENDENT DIRECTOR

Our corporate governance guidelines vest the lead independent director who, under these guidelines, is also chair of our Corporate Governance Committee, with various key responsibilities, including leading the Board s process for selecting both the Chairman of the Board and the Chief Executive Officer. The guidelines provide that the lead independent director shall have served as a director for a minimum of three years, shall serve for a term of three to five years as determined by the Board of Directors, and that the duties of the lead independent director include but are not limited to:

- presiding as the chair at all meetings of the Board at which the Chairman of the Board is not present, including executive sessions of the independent directors;
- serving as liaison between the Chairman of the Board and the independent directors;
- approving information sent to the Board;
- approving meeting agendas for the Board; and
- approving meeting schedules to assure that there is sufficient time for discussion of all agenda items.

In addition, the lead independent director has the authority to call meetings of the independent directors and, if requested by major shareholders, will ensure that he or she is available for consultation and direct communication.

SUCCESSION PLANNING

A key responsibility of the Chief Executive Officer and the Board is ensuring that an effective process is in place to provide continuity of leadership over the long term at all levels in our company. Each year, succession-planning reviews are held at every significant organizational level of the company, culminating in a full review of senior leadership talent by our independent directors. During this review, the Chief Executive Officer, the Chairman of the Board and the independent directors discuss future candidates for senior leadership positions, succession timing for those positions and development plans for the highest-potential candidates. This process ensures continuity of leadership over the long term, and it forms the basis on which our company makes ongoing leadership assignments. It is a key success factor in managing the long-term planning and investment lead times of our business.

RISK OVERSIGHT

We engage in an annual comprehensive enterprise risk-management (ERM) process to identify and manage risk. Our annual ERM assessment is designed to enable our Board of Directors to establish a mutual understanding with management of the effectiveness of our risk-management practices and capabilities, to review our risk exposure and to elevate certain key risks for discussion at the Board level. Risk management is an integral part of our annual strategic planning process, which addresses, among other things, the risks and opportunities facing our company.

Our ERM program is overseen by our Chief Financial Officer. The program is a companywide process designed to identify, assess, monitor and manage risks that could affect our ability to fulfill our business objectives or execute our corporate strategy. Our ERM process involves the identification and assessment of a broad range of risks and the development of plans to mitigate these risks. These risks generally relate to the strategic, operational, financial, regulatory compliance and human resources aspects of our business.

Not all risks can be dealt with in the same way. Some risks may be easily perceived and controllable. Other risks are unknown. Some risks can be avoided or mitigated by particular behavior, and some risks are unavoidable as a practical matter. For some risks, the potential adverse impact would be minor and, as a matter of business judgment, it may not be appropriate to allocate significant resources to avoid the adverse impact. In other cases, the adverse impact could be significant, and it is prudent to expend resources to seek to avoid or mitigate the potential adverse impact. In some cases, a higher degree of risk may be acceptable because of a greater perceived potential for reward. Management is responsible for identifying risk and risk controls related to our significant business activities; mapping the risks to our corporate strategy; and developing programs and recommendations to determine the sufficiency of risk identification, the balance of potential risk to potential reward and the appropriate manner in which to control and mitigate risk.

The Board implements its risk oversight responsibilities by having management provide periodic briefing and informational sessions on the significant voluntary and involuntary risks that our company faces and how our company is seeking to control and mitigate those risks. In some cases, as with risks relating

Table of Contents

to significant acquisitions, risk oversight is addressed as part of the full Board s ongoing engagement with the Chief Executive Officer and management.

The Board annually reviews a management assessment of the various operational and regulatory risks facing our company, their relative magnitude and management s plan for mitigating these risks. This review is conducted in conjunction with the Board s review of our company s business strategy at its annual strategic planning meeting and at other meetings as appropriate.

In certain cases, a Board committee is responsible for oversight of specific risk topics. For example, the Audit Committee oversees risk issues associated with our overall financial reporting and disclosure process and legal compliance, as well as reviewing policies and procedures on risk-control assessment and accounting-risk exposure, including our companywide risk control activities and our business continuity and disaster-recovery plans. The Audit Committee meets with our Chief Financial Officer and General Counsel, and meets with our Director Audit Services, as well as with our independent registered public accounting firm, in separate executive sessions at each of its in-person meetings

during the year at which time risk issues are discussed regularly.

In addition, our Executive Compensation Committee oversees risks related to our compensation program, as discussed in greater detail elsewhere in this proxy statement, and our Corporate Governance Committee oversees risks related to our governance practices and policies.

BOARD AND COMMITTEE MEMBERSHIP

Our business, property and affairs are managed under the direction of our Board of Directors. Members of our Board are kept informed of our business through discussions with our Chief Executive Officer and other officers, by reviewing materials provided to them periodically and in connection with Board and committee meetings, by visiting our offices and our operating facilities and by participating in meetings of the Board and its committees.

During 2014, the Board held ten regular meetings and two special meetings. All of our incumbent directors who served on the Board during 2014 attended at least 75 percent of the aggregate of all meetings of the Board and Board committees on which they served in 2014.

Table of Contents

Our corporate governance guidelines provide that members of our Board are expected to attend our annual meeting of shareholders. All members of our Board, other than Mr. Mackie, attended our 2014 annual meeting of shareholders.

The Board has four standing committees consisting of the Audit Committee, the Executive Compensation Committee, the Corporate Governance Committee and the Executive Committee. The table below provides the current membership of our Board and each of our Board committees.

Director	Audit	Executive Compensation	Corporate Governance	Executive
James C. Day	Member		Member	
Julie H. Edwards	Chair			Member
William L. Ford	Member		Member	
John W. Gibson				Chair
Bert H. Mackie(1)		Member	Vice Chair	
Steven J. Malcolm		Chair		Member
Jim W. Mogg			Chair	Member
Pattye L. Moore		Vice Chair	Member	
Gary D. Parker	Vice Chair		Member	
Eduardo A. Rodriguez		Member	Member	
Terry K. Spencer				Member

(1) Mr. Mackie will retire from our Board upon reaching his 73rd birthday in May of 2015.

Our Board has adopted written charters for each of its Audit, Executive Compensation, Corporate Governance and Executive Committees. Copies of the charters of each of these committees are available on and may be printed from our website at *www.oneok.com.* Copies are also available from our corporate secretary upon request. The responsibilities of our Board committees are summarized below. From time to time the Board, in its discretion, may form other committees.

The Audit Committee. The Audit Committee represents and assists our Board of Directors with the oversight of the integrity of our financial statements and internal control over financial reporting, our compliance with legal and regulatory requirements, the independence, qualifications and performance of our independent registered public accounting firm and the performance of our internal audit function. The responsibilities of the Audit Committee include:

appointing, compensating and overseeing our independent auditor, including review of their qualifications, independence and performance;

- reviewing the scope, plans and results relating to the internal and external audits and our financial statements;
- monitoring and evaluating our financial condition;
- monitoring and evaluating the integrity of our financial reporting processes and procedures;
- assessing our significant financial risks and exposures and evaluating the adequacy of our internal controls in connection with such risks and exposures, including, but not limited to, internal controls over financial reporting and disclosure controls and procedures;
- reviewing policies and procedures on risk-control assessment and accounting risk exposure, including our companywide risk control activities and our business-continuity and disaster-recovery plans; and
- monitoring our compliance with our policies on ethical business conduct.

Our independent registered public accounting firm reports directly to our Audit Committee.

All members of our Audit Committee are independent under the independence requirements of the NYSE and the Securities and Exchange Commission applicable to audit committee members. The Board has determined that James C. Day, Julie H. Edwards, William L. Ford and Gary D. Parker are each an audit committee financial expert under the applicable rules of the Securities and Exchange Commission.

The Audit Committee held six regular meetings and one special meeting in 2014.

The Executive Compensation Committee. Our Executive Compensation Committee is responsible for establishing and periodically reviewing our executive compensation policies and practices. This responsibility includes:

- evaluating, in consultation with our Corporate Governance Committee, the performance of our Chief Executive Officer, and recommending to our Board of Directors the compensation of our Chief Executive Officer and our other senior executive officers;

- reviewing and approving, in consultation with our Corporate Governance Committee, the annual objectives of our Chief Executive Officer;

- reviewing our executive compensation program to ensure the attraction, retention and appropriate compensation of executive officers in order to motivate their performance in the achievement of our business objectives and to align their interests with the long-term interests of our shareholders;

- assessing the risks associated with our compensation program; and

- reviewing and making recommendations to the full Board on executive officer and director compensation and personnel policies, programs and plans.

Our Executive Compensation Committee meets periodically during the year to review our executive and director compensation policies and practices. Executive officer salaries and short- and long-term incentive compensation are determined annually by this committee. The scope of the authority of this committee is not limited except as set forth in its charter and by applicable law. This committee has the authority to delegate duties to subcommittees of this committee, or to other standing committees of the Board of Directors, as it deems necessary or appropriate. This committee may not delegate to a subcommittee any authority required by any law, regulation or listing standard to be exercised by this committee as a whole.

All members of our Executive Compensation Committee are independent under the independence requirements of the NYSE applicable to compensation committee members.

The executive compensation group in our corporate human resources department supports, in consultation with our Chief Executive Officer, the Executive Compensation Committee in its work.

During 2014, the Executive Compensation Committee engaged Meridian Compensation Partners, LLC (Meridian Compensation Partners), as an independent executive compensation consultant to assist the committee in its evaluation of the amount and form of compensation paid in 2014 to our Chief Executive Officer, our other executive officers and our directors. Meridian Compensation Partners reported directly to the Executive Compensation

Committee. For more information on executive compensation and the role of this consultant, see Executive Compensation Discussion and Analysis Compensation Methodology The Role of the Independent Executive Compensation Consultant at page 56.

The Executive Compensation Committee held four regular and two special meetings in 2014.

The Corporate Governance Committee. Our Corporate Governance Committee is responsible for overseeing our company s governance, including the selection of directors and the Board s practices and effectiveness. These responsibilities include:

- identifying and recommending qualified director candidates, including qualified director candidates suggested by our shareholders in written submissions to our corporate secretary in accordance with our corporate governance guidelines and our bylaws or in accordance with the rules of the Securities Exchange Commission;

- making recommendations to the Board with respect to electing directors and filling vacancies on the Board;

- adopting an effective process for director selection and tenure by making recommendations on the Board s organization and practices and by aiding in identifying and recruiting director candidates;

- reviewing and making recommendations to the Board with respect to the organization, structure, size, composition and operation of the Board and its committees;

Table of Contents

in consultation with our Chairman of the Board, our Chief Executive Officer and the Executive Compensation Committee, overseeing management succession and development; and

reviewing, assessing risk and making recommendations with respect to other corporate governance matters.
All members of our Corporate Governance Committee are independent under the independence requirements of the NYSE.

The Corporate Governance Committee held three meetings in 2014.

The Executive Committee. In the intervals between meetings of our Board of Directors, the Executive Committee may, except as otherwise provided in our bylaws and applicable law, exercise the powers and authority of the full Board in the management of our property, affairs and business. The function of this committee is to act on major matters where it deems action appropriate, which provides a degree of flexibility and ability to respond to time-sensitive business and legal matters without calling a special meeting of our full Board. The Executive Committee reports to the Board at its next meeting on any actions taken by the committee.

The Executive Committee held no meetings in 2014.

DIRECTOR NOMINATIONS

Our corporate governance guidelines provide that the Board of Directors is responsible for selecting candidates for board membership and delegates the screening process to the Corporate Governance Committee of the Board. This committee, with recommendations and input from our Chairman of the Board, our Chief Executive Officer and members of our Board, evaluates the qualifications of each director candidate and assesses the appropriate mix of skills, qualifications and characteristics required of Board members in the context of the perceived needs of the Board at a given point in time. The committee is responsible for recommending to the full Board candidates for nomination by the Board for election as members of our Board.

Our corporate governance guidelines provide that candidates for nomination by the Board must be committed to devote the time and effort necessary to be productive members of the Board and that, in nominating candidates, the Board will

endeavor to establish director diversity in personal background, race, gender, age and nationality. The guidelines also provide that the Board will seek to maintain a mix that includes, but is not limited to, the following areas of core competency: accounting and finance; investment banking; business judgment; management; energy industry knowledge; operations; crisis response; leadership; strategic vision; law; and corporate relations.

The Corporate Governance Committee s charter provides that it has the responsibility, in consultation with the Chairman of the Board and the Chief Executive Officer, to search for, recruit, screen, interview and select candidates for the position of director as necessary to fill vacancies on the Board or the additional needs of the Board and to consider management and shareholder recommendations for candidates for nomination by the Board. In carrying out this responsibility, the Corporate Governance Committee evaluates the qualifications and performance of incumbent directors and determines whether to recommend them for re-election to the Board. In addition, this committee determines, as necessary, the portfolio of skills, experience, diversity, perspective and background required for the effective functioning of the Board considering our business strategy and our regulatory, geographic and market environments. The Corporate Governance Committee has in the past retained an independent search consultant to assist it from time to time in identifying and evaluating qualified director candidates.

Our corporate governance guidelines contain a policy regarding the Corporate Governance Committee s consideration of prospective director candidates recommended by shareholders for nomination by our Board. Under this policy, any shareholder who wishes to recommend a prospective candidate for nomination by our Board for election at our 2016 annual meeting should send a letter of recommendation to our corporate secretary at our principal executive offices by no later than September 30, 2015. The letter should include the name, address and number of shares owned by the recommending shareholder (including, if the recommending shareholder is not a shareholder of record, proof of ownership of the type referred to in Rule 14a-8(b)(2) of the proxy rules of the Securities and Exchange Commission), the prospective candidate s name and address, a description of the prospective candidate s background, qualifications and relationships, if any, with our company and all other information necessary for our Board to determine whether the prospective candidate meets the independence standards under the rules of the NYSE and our director independence guidelines. A signed statement from the prospective candidate should accompany the letter of recommendation indicating that he or she consents to being considered as a nominee of the Board and that, if nominated by the Board and elected by the shareholders, he or she will serve as a director. The committee will evaluate prospective candidates recommended by shareholders for nomination by our Board in light of the various factors set forth above.

Neither the Corporate Governance Committee, the Board, nor our company itself discriminates in any way against prospective candidates for nomination by the Board on the basis of age, sex, race, religion, or other personal characteristics. There are no differences in the manner in which the Corporate Governance Committee or the Board evaluates prospective candidates based on whether the prospective candidate is recommended by a shareholder or by the Corporate Governance Committee, provided that the recommending shareholder furnishes to our company a letter of recommendation containing the information described above along with the signed statement of the prospective candidate referred to above.

In addition to having the ability to recommend prospective candidates for nomination by our Board, under our bylaws, shareholders may themselves nominate candidates for election at an annual meeting of shareholders so long as they are shareholders of record when they give the notice described below and on the record date for the relevant annual meeting. Any shareholder who desires to nominate candidates for election as directors at our 2016 annual meeting must follow the procedures set forth in our bylaws. Under these procedures, notice of a shareholder nomination for the election of a director must be received by our corporate secretary at our principal executive offices not less than 120 calendar days before the first anniversary of the date that our proxy statement was released to shareholders in connection with our 2015 annual meeting of shareholders (i.e., notice must be received no later than December 3, 2015). If the date of the 2016 annual meeting is more than 30 days after May 20, 2016, the first anniversary of our 2015 annual meeting, our corporate secretary must receive notice of a shareholder nomination by

the close of business on the tenth day following the earlier of the day on which notice of the date of the 2016 annual meeting is mailed to shareholders or the day on which public announcement of the 2016 annual meeting date is made. In addition, in accordance with our bylaws, the shareholder notice must contain certain information about the candidate the shareholder desires to nominate for election as a director, the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made.

DIRECTOR COMPENSATION

Compensation for each of our non-management directors for their service on our Board of Directors for the period of May 2013 through April 2014 and for the period May 2014 through April 2015 consists of an annual cash retainer of $65,000 and a common stock annual retainer with a value of $135,000 determined using the average of the high and low trading prices of our company s common stock on the NYSE on the date of the meeting of the Board of Directors immediately following the company s 2013 and 2014 annual shareholders meetings, respectively. The chairs of our Audit and Executive Compensation Committees receive an additional annual cash retainer of $15,000, and our lead director, who is also chair of our Corporate Governance Committee, receives an additional annual cash retainer of $20,000. Our non-executive Chairman of the Board received an additional annual cash retainer of $125,000 for his service for the period May 2014 through April 2015. In addition, for his service during the period February 1, 2014, through April 30, 2014, our non-executive Chairman of the Board received prorated portions of the annual cash and stock retainers paid to all non-management board members, as well as the prorated portion of the cash retainer for service as non-executive Chairman of the Board.

All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board and committee meetings.

Our one management director, Terry K. Spencer, receives no compensation for his service as a director.

Our Board of Directors has established minimum share ownership guidelines for members of our Board that are discussed under Executive Compensation Discussion and Analysis Share Ownership Guidelines at page 67.

Table of Contents

The following table sets forth the compensation paid to our non-management directors in 2014.

Director	Fees Earned or Paid in Cash[1]	Stock Awards[1][2][3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings[4]	Total
James C. Day	$ 65,000	$ 135,000	$ _	$ 200,000
Julie H. Edwards	$ 80,000	$ 135,000	$ _	$ 215,000
William L. Ford	$ 65,000	$ 135,000	$ _	$ 200,000
John W. Gibson	$ 237,500	$ 168,750	$ 1,730	$ 407,980
Bert H. Mackie	$ 65,000	$ 135,000	$ _	$ 200,000
Steven J. Malcolm	$ 80,000	$ 135,000	$ _	$ 215,000
Jim W. Mogg	$ 85,000	$ 135,000	$ _	$ 220,000
Pattye L. Moore	$ 65,000	$ 135,000	$ 108	$ 200,108
Gary D. Parker	$ 65,000	$ 135,000	$ _	$ 200,000
Eduardo A. Rodriguez	$ 65,000	$ 135,000	$ _	$ 200,000

(1) Non-management directors may defer all or a part of their annual cash and stock retainers under our Deferred Compensation Plan for Non-Employee Directors. During the year ended December 31, 2014, $1,093,000 of the total amount payable for directors fees were deferred under this plan at the election of eight of our directors. Deferred amounts are treated, at the election of the participating director, either as phantom stock or as a cash deferral. Phantom stock deferrals are treated as though the deferred amount is invested in our common stock at the fair market value on the date the deferred amount was earned. Phantom stock earns the equivalent of dividends declared on our common stock, reinvested in phantom shares of our common stock based on the fair market value of our common stock on the payment date of each common stock dividend. The shares of our common stock reflected in a non-management director s phantom stock account are issued to the director under our Long-Term Incentive Plan on the last day of the director s service as a director or a later date selected by the director. Cash deferrals earn interest at a rate equal to Moody s Long-Term Corporate Bond Yield AAA on the first business day of the plan year, plus 100 basis points, which, at January 2, 2014, was 4.55 percent.

Table of Contents

The following table sets forth, for each non-management director, the amount of director compensation deferred during 2014 and cumulative deferred compensation as of December 31, 2014.

Director	Board Fees Deferred to Phantom Stock in 2014[(a)]	Dividends Earned on Phantom Stock and Reinvested in 2014[(b)]	Total Board Fees Deferred to Phantom Stock at December 31, 2014[(a)]	Total Phantom Stock Held at December 31, 2014	Board Fees Deferred to Cash in 2014	Total Board Fees Deferred to Cash at December 31, 2014[(c)]
James C. Day	$ 135,000	$ 78,117	$ 1,192,384	38,550	$ _	$ _
Julie H. Edwards	$ _	$ 3,009	$ 71,560	1,447	$ _	$ _
William L. Ford	$ 200,000	$ 328,493	$ 3,459,418	159,466	$ _	$ _
John W. Gibson[(d)]	$ 168,750	$ 3,447	$ 172,197	2,733	$ 237,500	$ 246,995
Bert H. Mackie	$ 135,000	$ 201,551	$ 2,238,403	97,931	$ _	$ _
Steven J. Malcolm	$ _	$ _	$ _	_	$ _	$ _
Jim W. Mogg	$ 177,500	$ 88,457	$ 1,420,600	43,829	$ _	$ _
Pattye L. Moore[(e)]	$ 135,000	$ 174,814	$ 2,067,360	85,068	$ 376	$ 8,115
Gary D. Parker	$ 135,000	$ 137,622	$ 1,698,546	67,176	$ _	$ _
Eduardo A. Rodriguez	$ 6,750	$ 5,121	$ 65,838	2,512	$ _	$ _

(a) Reflects the value of the annual cash and stock retainers (based on the average of our high and low stock price on the NYSE on the grant date) deferred by a director under our Deferred Compensation Plan for Non-Employee Directors.

(b) Dividend equivalents paid on phantom stock are reinvested in additional shares of phantom stock based on the average of the high and low trading prices of our common stock on the NYSE on the date the dividend equivalent was paid.

(c) The amounts shown for Mr. Gibson and Ms. Moore reflect the balances in their cash deferral accounts.

(d) The amounts for Mr. Gibson reflect board fees that were deferred to cash in 2014 by Mr. Gibson and interest accrued on these deferred fees. Cash deferrals earn interest at a rate equal to Moody s Long-Term

Corporate Bond Yield AAA on the first business day of the plan year, plus 100 basis points, which, at January 2, 2014, was 4.55 percent.

(e) The amounts for Ms. Moore reflects interest accrued on prior cash deferrals for Ms. Moore. No board fees were deferred to cash in 2014 by Ms. Moore. Interest earned is at a rate equal to Moody s Long-Term Corporate Bond Yield AAA on the first business day of the plan year, plus 100 basis points which, at January 2, 2014, was 4.55 percent.

(2) The amounts in this column reflect the aggregate grant date fair value, computed in accordance with Financial Accounting Standards Board s Accounting Standards Codification Topic 718, Compensation-Stock Compensation (ASC Topic 718), with respect to stock awards received by directors for service on our Board of Directors. Since the shares are issued free of any restrictions on the grant date, the grant date fair value of these awards is based on the average of our high and low stock price on the NYSE on the date of grant. The following table sets forth the number of shares and grant date fair value of such shares of our common stock issued to our non-management directors during 2014 for service on our Board.

Director	**Shares Awarded in 2014**	**Aggregate Grant Date Fair Value**	
James C. Day	2,124	$	135,000
Julie H. Edwards	2,124	$	135,000
William L. Ford	2,124	$	135,000
John W. Gibson	2,676	$	168,750
Bert H. Mackie	2,124	$	135,000
Steven J. Malcolm	2,124	$	135,000
Jim W. Mogg	2,124	$	135,000
Pattye L. Moore	2,124	$	135,000
Gary D. Parker	2,124	$	135,000
Eduardo A. Rodriguez	2,124	$	135,000

(3) For the aggregate number of shares of our common stock and phantom stock held by each member of our Board of Directors at February 1, 2015, see Stock Ownership Holdings of Officers and Directors at page 47.

(4) Reflects above-market earnings on Board of Directors fees deferred to cash under our Deferred Compensation Plan for Non-Employee Directors which provides for payment of interest on cash deferrals at a rate equal to Moody s Long-Term Corporate Bond Yield AAA on the first business day of the plan year, plus 100 basis points, which, at January 2, 2014, was 4.55 percent.

Table of Contents

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2014, Messrs. Mackie, Malcolm and Rodriguez and Ms. Moore served on our Executive Compensation Committee. No member of the Executive Compensation Committee was an officer or employee of the company or any of its subsidiaries during 2014, and no member of this committee was formerly an officer of the company or any of its subsidiaries. In addition, during 2014, none of our executive officers served as a member of a compensation committee or board of directors of any other entity of which any member of our Board was an executive officer.

EXECUTIVE SESSIONS OF THE BOARD

The non-management members and independent members of our Board of Directors meet in separate regularly scheduled executive sessions during each regular in-person meeting of the Board held during the year. We intend to continue this practice of regularly scheduled separate meetings of the non-management members and independent members of our Board. Our corporate governance guidelines provide that our lead independent director, who is the chair of our Corporate Governance Committee, presides as the chair at executive session meetings of the independent members of our Board.

COMMUNICATIONS WITH DIRECTORS

Our Board believes that it is management s role to speak for our company. Directors refer all inquiries regarding our company from institutional investors, analysts, the news media, customers or suppliers to our Chief Executive Officer or his

designee. Our Board also believes that any communications between members of the Board and interested parties, including shareholders, should be conducted with the knowledge of our Chief Executive Officer. Interested parties, including shareholders, may contact one or more members of our Board, including non-management directors and non-management directors as a group, by writing to the director or directors in care of our corporate secretary at our principal executive offices. A communication received from an interested party or shareholder will be forwarded promptly to the director or directors to whom the communication is addressed. A copy of the communication also will be provided to our Chief Executive Officer. We will not, however, forward sales or marketing materials, materials that are abusive, threatening or otherwise inappropriate, or correspondence not clearly identified as interested party or shareholder correspondence.

COMPLAINT PROCEDURES

Our Board of Directors has adopted procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters and complaints or concerns under our Code of Business Conduct and Ethics. These procedures allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters and matters arising under our Code of Business Conduct and Ethics. The full text of these procedures, known as our whistleblower policy, is published on and may be printed from our website at *www.oneok.com* and is also available from our corporate secretary upon request.

Table of Contents

ONEOK is the sole general partner of ONEOK Partners, one of the largest publicly traded master limited partnerships engaged in the natural gas gathering and processing, natural gas liquids and natural gas pipelines businesses. As we have evolved from a traditional natural gas distributor into a pure-play general partner of ONEOK Partners, we have maintained our focus on our stakeholders and our mission to provide management and resources to ONEOK Partners enabling it to operate in a safe, reliable and environmentally responsible manner.

SAFETY AND HEALTH

The safety of our employees, customers and communities where we operate is at the forefront of each business decision we make. By monitoring the integrity of our assets and promoting the safety and health of our employees, customers and communities, we are investing in the long-term sustainability of our businesses.

We continuously assess the risks our employees face in their jobs, and we work to mitigate those risks through training, appropriate engineering controls, work procedures and other preventive safety and health programs. Reducing incidents and improving our safety incident rates is important, but we are not focused only on statistics. Low incident rates alone cannot prevent a large-scale incident, which is why we continue to focus on enhancing our preventive safety programs, such as near-miss reporting, vehicle-safety monitoring, risk assessment and others.

2012-2014 Safety and Health Performance Updates and Highlights.

We were recognized at the 2013 Southern Gas Association s Environmental, Safety & Health Training Conference for our behavior-based safety training video used to teach employees how to identify and choose safe behaviors over unsafe behaviors.

ONEOK Partners natural gas liquids business was selected as the 2013 CEO Environment, Safety and Health (ESH) Leadership Award winner. The CEO ESH Leadership Award is presented annually to the business segment that demonstrates exceptional performance combined with proactive environmental, safety and health initiatives and the application of best practices.

We completed operational assessments of programs, processes and resources used to manage air emissions across major ONEOK Partners facilities.

ONEOK Partners ONEOK Rockies Midstream, L.L.C. and ONEOK Hydrocarbon, L.P. subsidiaries were recognized by BNSF Railway with the 2013 Product Stewardship Award, which recognizes companies that transported a minimum of 500 loaded tank cars of hazardous materials with zero non-accident releases during the entire transportation cycle.

In 2012, ONEOK Partners natural gas pipelines business achieved 12 consecutive months without an Occupational Safety and Health Administration (OSHA)-recordable injury or illness and earned an American Gas Association (AGA) Safety Achievement Award for achieving the lowest Days Away, Restricted or Transferred (DART) incident rate among medium-sized transmission companies.

ENVIRONMENTAL PERFORMANCE

We continue to focus on being environmentally responsible while operating our assets safely and reliably. Because of the nature of our business, maintaining accurate emissions records and complying with regulatory reporting guidelines continues to be of primary importance to us. A number of emission-reduction efforts have been implemented across our operations, and we continue to look for new ways to improve our environmental stewardship.

Emissions at our facilities result from natural gas combustion from running natural gas compressor engines and process heaters, plus additional methane and carbon dioxide emissions from equipment leaks, venting and other processes common to natural gas systems.

Table of Contents

2013-2014 Environmental Updates and Highlights.

In 2014, we created a new incentive compensation metric for inclusion in the 2014 short-term incentive plan that measures our environmental performance by tracking releases and other emission events that must be reported to regulatory agencies, per capacity unit. While we have measured the number of agency-reportable spills and releases since 2008, the new Agency Reportable Environmental Event Rate (AREER) metric is a subset of that measure. AREER is defined as the total number of releases and excess emission events that trigger a federal, state or local environmental-reporting requirement (with some exceptions to account for events outside of our control, planned maintenance and disputes in reporting requirements across our operations), divided by the applicable number of capacity units (miles of pipelines, storage capacity, natural gas liquids fractionation capacity and natural gas processing capacity).

In 2013, ONEOK Partners participated for the first time in the Carbon Disclosure Project (CDP), an international organization that works to disclose the greenhouse gas emissions of major companies. In 2012, the CDP received carbon data from more than 4,100 companies in more than 60 countries. ONEOK continued to participate in this program in 2014.

In 2014, specific efforts by ONEOK Partners related to methane emissions included:

- Accelerating the construction of pipeline connections between its natural gas gathering systems and new third-party producing oil and natural gas wells, particularly in the Williston Basin in North Dakota, where the natural gas might, in the interim, otherwise be flared or vented into the atmosphere by producers;
- Participating with other energy companies in the North Dakota Flaring Task Force to reduce natural gas flaring in North Dakota to 15 percent of production by the first quarter 2016 and to 5-10 percent by the fourth quarter 2020;
- Using vapor-recovery units to capture natural gas that otherwise would be vented;
- Installing compression-optimization tools on certain transmission pipelines, which has decreased emissions;
- Using hot taps instead of complete venting/flaring of pipeline segments when making connections;
- Reducing pressures on compressors and pipelines prior to venting to conserve natural gas and reduce emissions when taking assets offline for maintenance or other reasons; and
- Implementing rigorous and regular leak-inspection programs for all of our natural gas pipelines and processing plants.

ONEOK Partners also actively participates in the Environmental Protection Agency s Natural Gas STAR Program to reduce methane emissions. In 2010, ONEOK Partners was named the program s natural gas gathering and processing partner of the year.

In 2013, we reported total emissions of approximately 46.7 million metric tons of carbon dioxide equivalents (CO2e). Of these emissions, approximately 1.7 million metric tons of CO2e less than 3 percent of our total emissions were directly attributable to our operations. The remaining emissions reported represent estimated emissions from the products we deliver to our customers.

COMMUNITY INVESTMENTS

We are committed to being active members of the communities where we operate. Investing in the areas where we have operations and where our employees live and work is not only the right thing to do it is smart business. By contributing financially and through volunteer work, we can help build stronger communities and create a better environment for our employees, customers and the general public.

We accomplish this in a number of ways, including grants from the ONEOK Foundation, corporate contributions to nonprofit organizations and by community volunteer efforts. Primary focus areas for our community investments are education, health and human services, environmental, arts and culture, and community improvement. We give priority consideration to educational programs and to health and human services organizations, particularly those with programs that help people become self-sufficient.

Table of Contents

2013-2014 Community Investments Updates and Highlights

In 2014, the ONEOK Foundation contributed approximately $2.8 million and ONEOK made corporate contributions of approximately $2.7 million to support local nonprofit organizations. In 2014, our employees volunteered more than 2,900 hours in our communities, with a value of approximately $66,000 (based on the current volunteer-hour value of $22.50).

We received the 2013 Oklahoma Business Ethics Consortium s Compass Award, recognizing us as a leader in promoting integrity at work and building an ethical business culture.

POLITICAL ADVOCACY AND CONTRIBUTIONS

We actively participate in the political process through the lobbying efforts of our government relations department, involvement in multiple business and industry trade organizations, and through the ONEOK, Inc. Employee Political Action Committee (ONEOK PAC).

Political contributions to federal, state and local candidates are made by the ONEOK PAC which is funded by voluntary contributions from eligible company employees. The ONEOK PAC s activities are guided by a steering committee comprised of senior management and a contribution committee comprised of ONEOK PAC members and are subject to

comprehensive regulation, including detailed disclosure requirements. ONEOK PAC contributions are reported to the Federal Election Commission and applicable state regulatory authorities. During 2014, the ONEOK PAC made contributions to state and federal candidates for office in the amount of $174,115. We also paid $325,862 to state and federal contract lobbyists

We belong to a number of trade associations that participate in the political process. Our sole purpose in becoming a member of these trade associations is not for political purposes, as we may not agree with all positions taken by trade associations on issues. The benefits that we receive from trade associations are primarily expertise and the ability to gain insight on industry related matters. In 2014, we paid dues of approximately $976,000 to 19 trade and industry associations, of which approximately 21 percent was allocated by those associations to lobby expenses and political expenditures.

As a company, we do not contribute corporate funds to political candidates, political action committees or so-called 501(c)(4) social welfare organizations.

Our lobbying and political activities are reviewed annually by the Board of Directors. We believe this oversight process ensures accountability and transparency for our lobbying and political activities.

Table of Contents

ELECTION OF DIRECTORS

ANNUAL ELECTION BY MAJORITY VOTE

Our certificate of incorporation provides for the annual election of directors. Our Board of Directors currently consists of 11 members, each of whose terms will expire at the 2015 annual meeting. Our bylaws provide that a director will retire from the Board on the director s 73rd birthday. Bert H. Mackie, a current member of our Board, will be required to retire from the Board upon reaching his 73rd birthday in May of 2015. Therefore, Mr. Mackie is not standing for re-election at the annual meeting and, in accordance with our bylaws, the Board has reduced the size of the Board to 10 members effective upon Mr. Mackie s retirement. Accordingly, the remaining 10 current members of our Board of Directors named in this proxy statement will stand for re-election at the annual meeting.

In addition, as more fully described above, our bylaws provide for majority voting for directors in uncontested elections and our corporate governance guidelines require that a nominee for director who does not receive the requisite majority vote in an uncontested election must promptly tender his or her resignation to our Board of Directors for its consideration.

The persons named in the accompanying proxy card intend to vote such proxy in favor of the election of each of the nominees named below, who are all currently directors, unless the proxy provides for a vote against the director. Although the Board has no reason to believe that the nominees will be unable to serve as directors, if a nominee withdraws or otherwise becomes unavailable to serve, the persons named as proxies will vote for any substitute nominee designated by the Board, unless contrary instructions are given on the proxy. Except for these nominees, no other person has been recommended to our Board as a potential nominee or otherwise nominated for election as a director.

BOARD QUALIFICATIONS

Our corporate governance guidelines provide that our Corporate Governance Committee will evaluate the qualifications of each director candidate and assess the

appropriate mix of skills and characteristics required of board members in the context of the perceived needs of the Board at a given point in time. Each director also is expected to:

- exhibit high standards of integrity, commitment and independence of thought and judgment;
- use his or her skills and experiences to provide independent oversight to the business of our company;
- be willing to devote sufficient time to carrying out his or her duties and responsibilities effectively;

- devote the time and effort necessary to learn the business of the company and the Board;
- represent the long-term interests of all shareholders; and
- participate in a constructive and collegial manner.

In addition, our governance guidelines provide that, in nominating candidates, the Board will endeavor to establish director diversity in personal background, race, gender, age and nationality, and to maintain a mix that includes, but is not limited to, the following areas of core competency: accounting and finance; investment banking; business judgment; management; energy industry knowledge; operations; crisis response; leadership; strategic vision; law; and corporate relations.

Your Board of Directors believes that each member of our Board possesses the necessary integrity, skills and qualifications to serve on our Board and that their individual and collective skills and qualifications provide them with the ability to engage management and each other in a constructive and collaborative fashion and, when necessary and appropriate, challenge management in the execution of our business operations and strategy.

Set forth below is certain information with respect to each nominee for election as a director, each of whom is a current director.

YOUR BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR EACH NOMINEE.

DIRECTOR NOMINEES

Age 72

Director since 2004

Independent

Committees:

Audit

Corporate Governance

Mr. Day served as Chairman of the Board of Noble Corporation, a U.K.-based offshore drilling contractor, until May 2007, and as a consultant until May 1, 2009. He served as Chairman of the Board from 1992, as Chief Executive Officer from 1984 to October 2006, and as President of Noble Corporation from 1984 to 1999 and again from 2003 to February 2006. Mr. Day is a director of Tidewater, Inc., a publicly traded provider of marine support services for the offshore energy industry, and EOG Resources, Inc., a publicly traded oil and gas exploration and production company. He is a trustee of The Samuel Roberts Noble Foundation, Inc., and is the founder, a director and the President of The James C. and Teresa K. Day Foundation. Mr. Day formerly served as a director for Global Industries and Noble Energy Corporation. He serves, and has served, on the boards of numerous civic and business organizations and not-for-profit associations.

Mr. Day has extensive senior management and operational experience in the oil and gas industry as a result of his service as Chairman, President and Chief Executive Officer of Noble Corporation where he has demonstrated a strong track record of achievement, sound judgment and risk management. During almost 30 years of Mr. Day s leadership, Noble Corporation grew from approximately $32 million in market capitalization to almost $9 billion and its employee count rose from approximately 400 to 6,000. For his achievements, Mr. Day was recognized for four consecutive years by Institutional Investor Magazine as one of the Top Performing CEOs in the energy sector. He has also been recognized for his contributions to the industry by the Offshore Energy Center, Spindletop International and the University of Oklahoma. Mr. Day is the recipient of the American Petroleum Institute s Gold Medal for distinguished achievement, the organization s highest award. He has led several key industry associations, serving as Chairman of the National Ocean Industries Association, President of the International Association of Drilling Contractors, and as a member of the board of directors of the American Petroleum Institute. Mr. Day has shown leadership and has been effective as a past chair of our Executive Compensation Committee. His directorships at other companies also provide him with extensive corporate governance experience. In light of Mr. Day s extensive industry, executive, managerial and financial experience and knowledge, our Board of Directors has concluded that Mr. Day should continue as a member of our Board.

Table of Contents

DIRECTOR NOMINEES

Age 56 Director since 2007	Ms. Edwards retired in 2007 from Southern Union Company where she served as Senior Vice President-Corporate Development from November 2006 to January 2007 and as Senior Vice President and Chief Financial Officer from July 2005 to November 2006. Prior to June 2005, she was an executive officer of Frontier Oil Corporation, having served as Chief Financial Officer from 1994 to 2005 and as Treasurer from 1991 to 1994. Prior to joining Frontier Oil Corporation in 1991, Ms. Edwards was an investment banker with Smith Barney, Harris, Upham & Co., Inc. in New York and Houston, after joining the company as an associate in 1985, when she graduated from the Wharton School of the University of Pennsylvania with an M.B.A. Prior to attending Wharton, she worked as an exploration geologist in the oil industry, having earned a B.S. in Geology and Geophysics from Yale University in 1980.
Independent Committees: Audit (Chair) Executive	Ms. Edwards previously served on our Board of Directors in 2004 and 2005. She is also a member of the Board of Directors of ONEOK Partners GP, L.L.C., the sole general partner of ONEOK Partners, L.P., and is a member of the Board of Directors of Noble Corporation, a U.K.-based offshore drilling contractor. She was a member of the Board of Directors of NATCO Group, Inc., an oil field services and equipment manufacturing company, from 2004 until its sale to Cameron International Corporation in November 2009. In addition to her experience from service on the boards of directors of several public companies, Ms. Edwards brings to our Board broad experience and understanding of various segments within the energy industry (exploration and production, refining and marketing, natural gas transmission, processing and distribution, production technology and contract drilling), and significant senior accounting, finance, capital markets, corporate development and management experience and expertise. Ms. Edwards currently serves as chair of our Audit Committee. In light of Ms. Edwards extensive industry, executive, managerial and financial experience and knowledge, our Board of Directors has concluded that Ms. Edwards should continue as a member of our Board.

Table of Contents

DIRECTOR NOMINEES

Age 72	
Director since 1981	Mr. Ford has served as President of Shawnee Milling Company since 1979. He serves, and has served, on the boards of numerous civic and business organizations and not-for-profit associations.
Independent Committees: Audit Corporate Governance	As the long-time President of Shawnee Milling Company, Mr. Ford has extensive senior management, operational and entrepreneurial experience. In this role, Mr. Ford is responsible for all aspects of Shawnee Milling Company s business, including strategic planning, operating and capital budgets, labor relations and regulatory compliance. During his tenure as President, Shawnee Milling has experienced substantial growth. Mr. Ford also serves as a trustee of the University of Oklahoma Foundation and on the Advisory Board of the University of Oklahoma Price College of Business. In addition, as a long-time member of our Board of Directors, Mr. Ford has extensive knowledge of our business and has shown leadership and has been effective in his role as past chair of our Executive Compensation Committee and our Corporate Governance Committee. In light of Mr. Ford s extensive business experience and his in-depth knowledge of our company, our Board of Directors has concluded that Mr. Ford should continue as a member or our Board.

Table of Contents

DIRECTOR NOMINEES

Age 62 Director since 2006 Non Independent (former Chief Executive Officer)	Mr. Gibson is the non-executive Chairman of the Board of ONEOK, Inc. and ONEOK Partners GP, L.L.C., the general partner of ONEOK Partners, L.P. He served as our Chief Executive Officer from January 1, 2007, to January 31, 2014. He was appointed Chairman of the Board of ONEOK Partners GP, L.L.C. in 2007 and of ONEOK, Inc. in May 2011, and served as our President from 2010 through 2011. He also served as Chief Executive Officer of ONEOK Partners GP, L.L.C. from 2007 until January 31, 2014, and served as President from 2010 through 2011. From 2005 until May 2006, he was President of ONEOK Energy Companies, which included our natural gas gathering and processing, natural gas liquids, pipelines and storage and energy services business segments. Prior to that, he was our President, Energy, from May 2000 to 2005. Mr. Gibson joined ONEOK in May 2000 from Koch Energy, Inc., a subsidiary of Koch Industries, where he was an Executive Vice President. His career in the energy industry began in 1974 as a refinery engineer with Exxon USA. He spent 18 years with Phillips Petroleum Company in a variety of domestic and international positions in its natural gas, natural gas liquids and exploration and production businesses. He holds an engineering degree from Missouri University of Science and Technology, formerly known as the University of Missouri at Rolla. Mr. Gibson also serves as the non-executive Chairman of the Board of ONE Gas, Inc. and as a member of the Board of Directors of BOK Financial Corporation and is a member of the Board of Trustees of Missouri University of Science and Technology.
Committees: Executive (Chair)	Mr. Gibson has served in a variety of roles of continually increasing responsibility at ONEOK since 2000, ONEOK Partners GP, L.L.C. since 2004 and, prior to 2000, at Koch Energy, Inc., Exxon USA and Phillips Petroleum. In these roles, Mr. Gibson had direct responsibility for and extensive experience in strategic and financial planning, acquisitions and divestitures, operations, management supervision and development, and compliance. As the executive responsible for numerous merger and acquisition transactions over the course of his career, Mr. Gibson has significant experience in assessing acquisition opportunities and in structuring, financing and completing merger and acquisition transactions. Over the course of his lengthy career in a variety of sectors of the oil and gas industry, Mr. Gibson has gained extensive management and operational experience and has demonstrated a strong track record of leadership, strategic vision and risk management. In light of Mr. Gibson s role as the former Chief Executive Officer of our company and his extensive industry and managerial experience and knowledge, our Board of Directors has concluded that Mr. Gibson should continue as a member of our Board.

Table of Contents

DIRECTOR NOMINEES

Age 66 Director since 2012 Independent Committees: Executive Compensation (Chair) Executive	Mr. Malcolm served as President of The Williams Companies, Inc. (Williams) from September 2001 until January 2011, Chief Executive Officer of Williams from January 2002 to January 2011, and Chairman of the Board of Directors of Williams from May 2002 to January 2011. Mr. Malcolm served as Chairman of the Board and Chief Executive Officer of Williams Partners GP LLC, the general partner of Williams Partners L.P., from 2005 to January 2011. Mr. Malcolm began his career at Cities Service Company in refining, marketing, and transportation services in 1970. Mr. Malcolm joined Williams in 1984 and performed roles of increasing responsibility related to business development, gas management and supply, and gathering and processing. Mr. Malcolm was Senior Vice President and General Manager of Williams Field Services Company, a subsidiary of Williams, from 1994 to 1998. He was President and Chief Executive Officer of Williams Energy Services, LLC, a subsidiary of Williams, from 1998 to 2001. He was Executive Vice President of Williams from May 2001 to September 2001 and Chief Operating Officer of Williams from September 2001 to January 2002. Mr. Malcolm was also a director of Williams Partners GP LLC, and Williams Pipeline GP LLC, the general partner of Williams Pipeline Partners L.P. Mr. Malcolm currently serves as a director of BOK Financial Corporation. He is also a member of the Board of Directors of ONEOK Partners GP, L.L.C. Mr. Malcolm also serves on the boards of the YMCA of Greater Tulsa, the YMCA of the USA, the Oklahoma Center for Community and Justice, the University of Tulsa Board of Trustees and the Missouri University of Science and Technology Board of Trustees. In light of Mr. Malcolm s extensive industry, financial, corporate governance, public policy and government, operating and compensation experience, and strong track record of leadership and strategic vision, the Board of Directors has concluded that Mr. Malcolm should continue as a member of our Board.

Table of Contents

DIRECTOR NOMINEES

Age 66 Director since 2007 Independent Committees: Corporate Governance (Chair) Executive	Mr. Mogg served as Chairman of the Board of DCP Midstream GP, LLC, the general partner of DCP Midstream Partners, L.P., from August 2005 to April 2007. In addition to presiding over board meetings and providing strategic oversight, he was involved in launching DCP Midstream Partners as a public company. From January 2004 to September 2006, Mr. Mogg served as Group Vice President, Chief Development Officer and advisor to the Chairman of Duke Energy Corporation, and, in that capacity, was responsible for the merger and acquisition, strategic planning and human resources activities of Duke Energy. Additionally, Duke Energy affiliates, Crescent Resources and TEPPCO Partners, LP, reported to Mr. Mogg, and he was the executive sponsor of Duke Energy s Finance and Risk Management Committee of the Board of Directors. Mr. Mogg served as President and Chief Executive Officer of DCP Midstream, LLC from December 1994 to March 2000, and as Chairman, President and Chief Executive Officer from April 2000 through December 2003. Under Mr. Mogg s leadership, DCP Midstream became the nation s largest producer of natural gas liquids and one of the largest gatherers and processors of natural gas. DCP Midstream achieved this significant growth via acquisitions, construction and optimization of assets. DCP Midstream was the general partner of TEPPCO Partners, LP and, as a result, Mr. Mogg was Vice Chairman of TEPPCO Partners from April 2000 to May 2002 and Chairman from May 2002 to February 2005. Mr. Mogg serves on the Board of Directors of Bill Barrett Corporation, where he is currently the non-executive Chairman of the Board, and Matrix Service Company. He is also a member of the Board of Directors of ONEOK Partners GP, L.L.C., the sole general partner of ONEOK Partners, L.P. Mr. Mogg has extensive senior management experience in a variety of sectors in the oil and natural gas industry as a result of his service at DCP Midstream and Duke Energy where he demonstrated a strong track record of achievement and sound judgment. As the executive responsible for numerous merger and acquisition transactions at DCP Midstream, TEPPCO Partners, and Duke Energy, he has significant experience in assessing acquisition opportunities and in structuring, financing and completing merger and acquisition transactions. In addition, Mr. Mogg s current and previous directorships at other companies, including publicly traded master limited partnerships, provide him with extensive corporate and limited partnership governance experience. As a result of his experience, Mr. Mogg is qualified to analyze the various financial and operational aspects of our company. In light of Mr. Mogg s extensive industry and executive managerial experience and knowledge, the Board of Directors has concluded that Mr. Mogg should continue as a member of our Board.

Table of Contents

DIRECTOR NOMINEES

Age 57	Ms. Moore currently serves as the non-executive Chairman of the Board of Red Robin Gourmet Burgers (NASDAQ: RRGB) and is a director of ONE Gas, Inc. In addition, Ms. Moore is a business strategy consultant, speaker and the author of Confessions from the Corner Office, a book on leadership instincts, published by Wiley & Sons in 2007. She also serves on the Board of Directors of QuikTrip Corporation.
Director since 2002	Ms. Moore served on the Board of Directors of Sonic Corp. from 2000 through January 2006 and was the President of Sonic from January 2002 to November 2004. She held numerous senior management positions during her 12 years at Sonic, including Executive Vice President, Senior Vice President-Marketing and Brand Development and Vice President-Marketing.
Independent	
Committees: Executive Compensation (Vice Chair) Corporate Governance	Ms. Moore has extensive senior management, marketing, business strategy, brand development and corporate governance experience as a result of her service at Red Robin and Sonic, her service on other boards and her consulting career. In her role as President of Sonic Corp., Ms. Moore was responsible for company and franchise operations, purchasing and distribution, and marketing and brand development for the 3,000 unit chain with more than $3 billion in system wide sales. As a business strategy consultant and as a board member, Ms. Moore has extensive experience in leadership, management development and strategic planning. In addition, Ms. Moore s directorships at other companies provide her with extensive corporate governance and executive compensation experience. Ms. Moore also has extensive experience as a member of the board of directors of numerous non-profit organizations, including serving as Chairman of the Board of the National Arthritis Foundation. In light of Ms. Moore s extensive executive managerial experience and her leadership skills, our Board of Directors has concluded that Ms. Moore should continue as a member of our Board.

Table of Contents

DIRECTOR NOMINEES

Age 69 Director since 1991 Independent Committees: Audit (Vice Chair) Corporate Governance	Mr. Parker, a certified public accountant, is the senior shareholder of Moffitt, Parker & Company, Inc. and has been President of the firm since 1982. He is a director of Firstar Financial Corp. and Firstar Bank, N.A. in Muskogee, Oklahoma. In addition, he currently serves as a director/trustee of several state and local civic and not-for-profit organizations. Mr. Parker has extensive public accounting practice experience and expertise in accounting, auditing, financial reporting, taxation and management consulting. Mr. Parker s operational and entrepreneurial experience, background in public accounting and his directorships at other companies provide him with comprehensive financial, audit and executive compensation experience. Mr. Parker s directorships at other companies also provide him with extensive corporate governance experience. In light of Mr. Parker s extensive accounting, finance and audit experience, our Board of Directors has concluded that Mr. Parker should continue as a member of our Board.

Table of Contents

DIRECTOR NOMINEES

Age 59 Director since 2004 Independent Committees: Executive Compensation Corporate Governance	Mr. Rodriguez is President of Strategic Communications Consulting Group and is a director of ONE Gas, Inc. Mr. Rodriguez previously served as Executive Vice President of Hunt Building Corporation, a privately held company engaged in construction and real estate development headquartered in El Paso, Texas. He also served as a member of the Board of Directors of Hunt Building Corporation. Prior to his three years with Hunt Building Corporation, Mr. Rodriguez spent 20 years in the electric utility industry at El Paso Electric Company, a publicly traded, investor-owned utility, where he served in various senior-level executive positions, including General Counsel, Senior Vice President for Customer and Corporate Services, Executive Vice President and as Chief Operating Officer. Mr. Rodriguez is a licensed attorney in the states of Texas and New Mexico and is admitted to the United States District Court for the Western District of Texas. Mr. Rodriguez has had extensive senior management, operational, entrepreneurial and legal experience in a variety of industries as a result of his service at Strategic Communications Consulting Group, Hunt Building Corporation and El Paso Electric Company. Mr. Rodriguez has engaged in the practice of law for more than 30 years. In addition to his extensive legal experience, Mr. Rodriguez s senior management positions have included responsibility for strategic planning, corporate governance and regulatory compliance. In these positions, he has demonstrated a strong track record of achievement and sound judgment. Mr. Rodriguez has also shown leadership and has been effective in his role as a past chair of our Audit Committee. In light of Mr. Rodriguez s extensive legal and business experience and knowledge, our Board of Directors has concluded that Mr. Rodriguez should continue as a member of our Board.

Table of Contents

DIRECTOR NOMINEES

Age 55 Director since 2014 Non Independent (Chief Executive Officer)	Mr. Spencer became our Chief Executive Officer and the Chief Executive Officer of ONEOK Partners GP, L.L.C., the sole general partner of ONEOK Partners, L.P., and a member of our Board of Directors, effective January 31, 2014. Mr. Spencer is also our President and President of ONEOK Partners GP, L.L.C. He is also a member of the Board of Directors of ONEOK Partners GP, L.L.C. Mr. Spencer joined our company in 2001 as director, project development, of natural gas gathering and processing. Later, he served as Vice President of natural gas supply and project development in the natural gas gathering and processing segment. In 2005, Mr. Spencer became Senior Vice President of our natural gas liquids business following the asset acquisition from Koch. He became President of natural gas liquids in 2006. From 2007 to 2009, he was Executive Vice President of our company, with responsibilities for ONEOK Partners, L.P. s natural gas liquids gathering and fractionation, and pipeline segments, as well as the Company s energy services segment. He served as Chief Operating Officer of ONEOK Partners GP, L.L.C. and was responsible for the partnership s three operating segments natural gas gathering and processing, natural gas liquids and natural gas pipelines. Mr. Spencer is a member of the Gas Processors Association Board of Directors and its executive and finance committee. He earned a Bachelor of Science degree in petroleum engineering in 1981 from the University of Alabama in Tuscaloosa.
Committees: Executive	Mr. Spencer has served in a variety of roles of continually increasing responsibility at ONEOK since 2001 and ONEOK Partners GP, L.L.C. since 2004. In these roles, Mr. Spencer has had direct responsibility for and extensive experience in strategic and financial planning, acquisitions and divestitures, operations, management supervision and development, and compliance. Mr. Spencer has significant experience in assessing acquisition opportunities and in structuring, financing and completing merger and acquisition transactions. In addition, during the course of his lengthy career in a variety of sectors of the oil and gas industry, Mr. Spencer has gained extensive management and operational experience and has demonstrated a strong track record of leadership, strategic vision and risk management. In light of Mr. Spencer s role as Chief Executive Officer of our company and his extensive industry and managerial experience and knowledge, our Board of Directors has concluded that Mr. Spencer should continue as a member of our Board.

Table of Contents

RATIFY THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2015

RATIFICATION OF SELECTION OF

PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2015

The Audit Committee has the sole authority and responsibility to hire, evaluate and, where appropriate, replace the company s independent auditor and, in its capacity as a committee of our Board of Directors, is directly responsible for the appointment, compensation and general oversight of the work of the independent auditor. The Audit Committee is responsible for approving the audit and permissible non-audit services provided by the independent auditor and the associated fees.

The Audit Committee evaluates the performance of our independent auditor, including the senior audit engagement team, each year and determines whether to reengage the current independent auditor or consider other audit firms. In doing so, the Audit Committee considers the quality and efficiency of the services provided by the auditors, the auditors capabilities and the auditors technical expertise and knowledge of our operations and industry. In connection with the mandated rotation of the independent auditor s lead engagement partner, the Audit Committee and its chairperson are directly involved in the selection of the new lead engagement partner.

Based on this evaluation, the Audit Committee has appointed PricewaterhouseCoopers LLP to serve as our independent auditor for the fiscal year ending December 31, 2015. PricewaterhouseCoopers LLP has served as our independent auditor for eight years and is considered by management to be well qualified. Further, the Audit Committee and the Board of Directors believe that the continued retention of PricewaterhouseCoopers LLP to serve as our independent auditor is in the best interests of the company and its shareholders.

Our Board of Directors has ratified the selection by our Audit Committee of PricewaterhouseCoopers LLP to serve as our independent (consistent with Securities and Exchange

Commission and NYSE policies regarding independence) registered public accounting firm for 2015. As a matter of good corporate governance, the Audit Committee submits its selection of our independent auditor to our shareholders for ratification. If the shareholders should not ratify the appointment of PricewaterhouseCoopers LLP, the Audit Committee will reconsider the appointment.

In carrying out its duties in connection with the 2014 audit, PricewaterhouseCoopers LLP had unrestricted access to our Audit Committee to discuss audit findings and other financial matters. Representatives of PricewaterhouseCoopers LLP will be present at the annual meeting to answer questions. They also will have the opportunity to make a statement if they desire to do so.

Approval of this proposal to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm requires the affirmative vote of a majority of the voting power of the shareholders present in person or by proxy and entitled to vote on this proposal at the meeting. Abstentions will have the effect of a vote against the proposal.

Your Board unanimously recommends a vote FOR the ratification of the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2015.

AUDIT AND NON-AUDIT FEES

Audit services provided by PricewaterhouseCoopers LLP during the 2014 and 2013 fiscal years included an integrated audit of our consolidated financial statements and internal control over financial reporting, review of our unaudited quarterly financial statements, consents and review of documents filed with the Securities and Exchange Commission, and performance of certain agreed-upon procedures.

Table of Contents

The following table presents fees billed for services rendered by PricewaterhouseCoopers LLP for the years ended December 31, 2014 and 2013.

	2014	2013
	Thousands of Dollars	
Audit fees[(1)(2)]	$ 910	$ 2,659
Audit related fees	$ _	$ _
Tax fees	$ _	$ _
All other fees	$ 5	$ 5
Total	$ 915	$ 2,664

(1) 2014 and 2013 audit fees include approximately $200,000 and $1.5 million, respectively, related to audit services provided for the audit of the annual financial statements and reviews of unaudited quarterly financial information included in, and consents related to, the Registration Statement on Form 10 filed with the Securities and Exchange Commission by ONE Gas, Inc. in connection with the separation transaction.

(2) PricewaterhouseCoopers is also the independent auditor for ONEOK Partners. The fees reflected in the table do not include fees billed by PricewaterhouseCoopers to ONEOK Partners for services rendered during the years presented.

AUDIT COMMITTEE POLICY ON SERVICES PROVIDED BY THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Consistent with Securities and Exchange Commission and NYSE policies regarding auditor independence, the Audit Committee has the responsibility for appointing, setting compensation and overseeing the work of our independent auditor. In furtherance of this responsibility, the Audit Committee has established a policy with respect to the pre-approval of audit and permissible non-audit services provided by our independent auditor.

Prior to engagement of PricewaterhouseCoopers LLP as our independent auditor for the 2015 audit, a plan was submitted to and approved by the Audit Committee setting forth the audit services expected to be rendered during 2015, which are comprised of work performed in the audit of our financial statements and to attest and report on our internal controls over financial reporting, as well as work that only the independent auditor can reasonably be expected to provide, including quarterly review of our unaudited financial statements, comfort letters, statutory audits, attest services, consents and assistance with the review of documents filed with the Securities and Exchange Commission.

The Audit Committee has adopted a policy that provides that fees for audit, audit related and tax services that are not included in the independent auditor s annual services plan, and for services for which fees are not determinable on an annual basis, are pre-approved if the fees for such services will not

exceed $75,000. In addition, the policy provides that the Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

2015 REPORT OF THE AUDIT COMMITTEE

The purpose of the Audit Committee is to assist the Board of Directors with the oversight of the integrity of the company s financial statements and internal control over financial reporting, the company s compliance with legal and regulatory requirements, the independence, qualifications and performance of the company s independent registered public accounting firm and the performance of the company s internal audit function. The Audit Committee s function is more fully described in its charter, which the Board reviews and approves on an annual basis. The charter is on and may be printed from the company s website at *www.oneok.com* and is also available from the company s corporate secretary upon request. The Board of Directors annually reviews the definition of independence for audit committee members contained in the listing standards for the NYSE and applicable rules of the Securities and Exchange Commission, as well as our director independence guidelines, and has determined that each member of the Audit Committee is independent under those standards.

Management is responsible for the preparation, presentation and integrity of the company s financial statements, accounting and financial reporting principles, internal controls and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. The company s independent registered public accounting firm, PricewaterhouseCoopers LLP, is responsible for performing an independent audit of the company s consolidated financial statements and the company s internal control over financial reporting and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles and on the effectiveness of the company s internal control over financial reporting.

In this context, the Audit Committee has met and held discussions with management and the company s independent registered public accounting firm, PricewaterhouseCoopers LLP, regarding the fair and complete presentation of the company s financial results and management s report on its assessment of the company s internal control over financial reporting. The Audit Committee has discussed the significant accounting policies applied by the company in its financial statements, as well as alternative treatments. Management has represented to the Audit Committee that the company s consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent auditor.

The Audit Committee has also reviewed and discussed with both management and the independent registered public accounting firm management s assessment of the company s internal control over financial reporting. In addition, the Audit Committee has discussed the independent auditor s report on the company s internal control over financial reporting. The Audit Committee has also discussed with the company s independent auditor the matters required to be discussed by Public Company Accounting Oversight Board (United States) Auditing Standard No. 16, Communications with Audit Committees, and Rule 2-07 of the Securities and Exchange Commission s Regulation S-X (Communication with Audit Committees).

In addition, the Audit Committee has discussed with the independent registered public accounting firm the firm s independence from the company and its management, including the matters in the written disclosures and the letter received from PricewaterhouseCoopers LLP as required by the applicable requirements of the Public Company Accounting Oversight Board (United States) regarding the independent accountant s communications with the Audit Committee concerning independence. While no non-audit services were provided by PricewaterhouseCoopers LLP in 2013 or 2014, the Audit Committee will also consider in the future whether the provision of non-audit services to the company by PricewaterhouseCoopers LLP is compatible with maintaining that firm s independence. The Audit Committee has concluded that the independent registered public accounting firm is independent from the company and its management.

The Audit Committee discussed with the company s internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with both the internal and independent auditors, with and without management present, to discuss the results of their examinations, the assessments of the company s internal control over financial reporting and the overall quality of the company s financial reporting. Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the audited financial statements of the company as of and for the year ended December 31, 2014, in the company s Annual Report on Form 10-K for the year ended December 31, 2014, for filing with the Securities and Exchange Commission.

Respectfully submitted by the members of the Audit Committee of the Board of Directors:

Julie H. Edwards, *Chair*

Gary D. Parker, *Vice Chair*

James C. Day

William L. Ford

Table of Contents

HOLDINGS OF MAJOR SHAREHOLDERS

The following table sets forth the beneficial owners of 5 percent or more of our common stock known to us at December 31, 2014.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	18,678,797[(1)]	8.97%[(1)]
Common Stock	BlackRock, Inc. 55 East 52nd Street New York, NY 10022	14,057,446[(2)]	6.8%[(2)]

(1) Based upon an amendment to Schedule 13G filed with the Securities and Exchange Commission on February 11, 2015, in which The Vanguard Group, Inc. reported that, as of December 31, 2014, The Vanguard Group, Inc. directly and through its wholly-owned subsidiaries, Vanguard Fiduciary Trust Company and Vanguard Investments Australia, Ltd., beneficially owned in the aggregate 18,678,797 shares of our common stock. Of such shares, The Vanguard Group, Inc. reported it had sole dispositive power with respect to 18,340,551 shares, shared dispositive power with respect to 338,246 shares, and sole voting power with respect to 376,253 shares.

(2) Based upon an amendment to Schedule 13G filed with the Securities and Exchange Commission on February 9, 2015, in which BlackRock, Inc. reported that, as of December 31, 2014, BlackRock, Inc. through certain of its subsidiaries, beneficially owned in the aggregate 14,057,446 shares of our common stock with respect to which BlackRock, Inc. had sole voting power with respect to 12,247,129 shares, and sole dispositive power with respect to 14,057,446 shares.

HOLDINGS OF OFFICERS AND DIRECTORS

The following table sets forth the number of shares of our common stock and the number of common units of our affiliate, ONEOK Partners, beneficially owned as of February 1, 2015, by (1) each director and nominee for director, (2) each of

the executive officers named in the Summary Compensation Table for Fiscal 2014 under the caption Executive Compensation Discussion and Analysis in this proxy statement, and (3) all directors and executive officers as a group.

Table of Contents

Name of Beneficial Owner	Shares of ONEOK Common Stock Beneficially Owned[(1)]	ONEOK Directors Deferred Compensation Plan Phantom Stock[(2)]	Total Shares of ONEOK Common Stock Beneficially Owned Plus ONEOK Directors Deferred Compensation Plan Phantom Stock	ONEOK Percent of Class[(3)]	Common Units of ONEOK Partners, Beneficially Owned[(4)]	ONEOK Partners, Percent of Class[(5)]
Wesley J. Christensen [(6)]	19,390		19,390	*		*
James C. Day [(7)]	32,600	38,550	71,150	*		**
Julie H. Edwards	37,499	1,447	38,946	*		**
William L. Ford [(8)]	52,289	159,466	211,755	*		**
John W. Gibson [(9)]	930,222	2,733	932,955	*	70,000	**
Stephen W. Lake	19,140		19,140	*		*
Bert H. Mackie [(10)]	38,476	97,931	136,407	*		**
Steven J. Malcolm	10,213		10,213	*		**
Robert F. Martinovich [(11)]	185,784		185,784	*	288	**
Jim W. Mogg		43,829	43,829	*	2,000	**
Pattye L. Moore	2,000	85,068	87,068	*	1,400	**
Gary D. Parker [(12)]	38,332	67,176	105,508	*		**
Derek S. Reiners	35,175		35,175	*		**
Eduardo A. Rodriguez	18,223	2,512	20,735	*		**
Terry K. Spencer	273,401		273,401	*		**
All directors and executive officers as a group	1,720,868	498,712	2,219,580	*	76,088	**

*Less than 1 percent.

(1) Includes shares of common stock held by members of the family of the director or executive officer for which the director or executive officer has sole or shared voting or investment power, shares of common stock held in our Direct Stock Purchase and Dividend Reinvestment Plan, shares held through our 401(k) Plan, shares held through our Profit Sharing Plan, and shares issuable pursuant to our 2012 grants of restricted stock units and performance units upon vesting on February 15, 2015.

The following table sets forth for the persons indicated the number of shares of our common stock that are held on the person s behalf by the trustee of our 401(k) Plan and our Profit Sharing Plan as of February 1, 2015, and the shares issuable upon vesting of the 2012 grants of restricted stock units and performance units.

Executive Officer/Director	RSU Equity Grants Vesting within 60 Days	PSU Equity Grants Vesting within 60 Days	Stock Held by 401(k) Plan	Stock Held by Profit Sharing Plan
Wesley J. Christensen	1,856	7,424		
James C. Day				
Julie H. Edwards				
William L. Ford				
John W. Gibson		45,632		
Stephen W. Lake	3,480	13,920		
Bert H. Mackie				
Steven J. Malcolm				
Robert F. Martinovich	8,120	32,480	10,333	
Jim W. Mogg				
Pattye L. Moore				
Gary D. Parker				
Derek S. Reiners	1,856	7,424	1,253	426
Eduardo A. Rodriguez				
Terry K. Spencer	9,280	37,120	18,475	
All directors and executive officers as a group	25,520	146,784	34,119	426

(2) Represents shares of phantom stock credited to a director s account under our Deferred Compensation Plan for Non-Employee Directors. Each share of phantom stock is equal to one share of our common stock. Phantom stock has no voting or other shareholder rights, except that dividend equivalents are paid on phantom stock and reinvested in additional shares of phantom stock based on the average of the high and low trading prices of our common stock on the NYSE on the date the dividend equivalent was paid. Shares of phantom stock do not give the holder beneficial ownership of any shares of our common stock because they do not give such holder the power to vote or dispose of any shares of our common stock.

(3) The percent of our voting securities owned is based on our outstanding shares of common stock on February 1, 2015. Shares of our common stock issuable upon vesting of outstanding equity awards within 60 days of February 1, 2015, are deemed to be outstanding and to be beneficially owned by the director or executive officer holding such equity awards for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(4) Includes common units held by members of the family of the director or executive officer for which the director or executive officer has sole or shared voting or investment power. Does not include approximately 19.8 million common units or approximately 73 million Class B units (which represent 100 percent of the outstanding Class B units) of ONEOK Partners, held by ONEOK and its subsidiaries, which, when combined with the 2 percent general partner interest held by a subsidiary of ONEOK, represent an approximate 37.8 percent interest in ONEOK Partners at February 1, 2015, with respect to which each officer and director disclaims beneficial ownership.

(5) The percent of ONEOK Partners voting securities owned is based on the outstanding common units on February 1, 2015.

(6) Excludes 4,755 shares, the receipt of which was deferred by Mr. Christensen upon vesting in January 2009; 4,229 shares, the receipt of which was deferred upon vesting in January 2010; and 4,443 shares, the receipt of which was deferred upon vesting in January 2011, in each case under the deferral provisions of our Equity Compensation Plan (ECP), which shares will be issued to Mr. Christensen upon his separation of service from our company.

(7) Includes 32,600 shares held by The James and Teresa Day Family Trust 1998.

(8) Includes 3,932 shares held by The William L. Ford Revocable Trust.

(9) Excludes 295,544 shares, the receipt of which was deferred by Mr. Gibson upon vesting in January 2012 under the deferral provisions of our Equity Compensation Plan (ECP), which shares will be issued to Mr. Gibson on July 17, 2015.

(10) Includes 4,000 shares held in accounts of third parties over which Mr. Mackie has shared investment power. Mr. Mackie disclaims beneficial ownership of these shares.

(11) Excludes 11,418 shares, the receipt of which was deferred by Mr. Martinovich upon vesting in January 2011, under the deferral provisions of our ECP, which shares will be issued to Mr. Martinovich upon his separation of service from our company.

(12) Includes 1,880 shares held by Mrs. Gary D. Parker. Mr. Parker disclaims beneficial ownership of these shares.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires our directors, executive officers and beneficial owners of 10 percent or more of our common stock to file with the Securities and Exchange Commission and the NYSE initial reports of ownership and reports of changes in ownership of our common stock. Based

solely on a review of the copies of reports furnished to us and representations that no other reports were required, we believe that all of our directors, executive officers, and holders of 10 percent or more of our outstanding shares during the fiscal year ended December 31, 2014, complied on a timely basis with all applicable filing requirements under Section 16(a) of the Exchange Act.

Table of Contents

DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY

Our Business

We are the sole general partner and, as of December 31, 2014, owned 37.8 percent of ONEOK Partners (NYSE: OKS), one of the largest publicly traded master limited partnerships. Our goal is to provide management and resources to ONEOK Partners enabling it to execute its growth strategies and allowing us to grow our dividend.

ONEOK Partners is a leader in the gathering, processing, storage and transportation of natural gas in the United States and applies its core capabilities of gathering, processing, fractionating, transporting, storing and marketing natural gas and natural gas liquids through the re-bundling of services across the energy value chains, primarily through vertical integration, to provide its customers with premium services at lower costs. ONEOK Partners owns one of the nation s premier natural gas liquids systems, connecting natural gas liquids supply in the Mid-Continent, Permian and Rocky Mountain regions with key market centers.

Business Highlights

While 2014 marked another year of uncertainty and challenges in the U.S. economy, especially in the financial and energy markets, our performance in 2014 was solid and continued to reflect our attention to prudent capital deployment and effective execution of our business strategies. Consequently, in 2014, as in 2013, we were able to deliver strong results for our shareholders in a challenging economic environment.

In January 2014, we completed the separation of our natural gas distribution business into a stand-alone, publicly traded company known as ONE Gas, Inc. In addition, during the first quarter of 2014, we completed our exit from the operations of our energy services business segment through a wind down process. In connection with the separation transaction, John W. Gibson retired as our Chief Executive Officer and Terry K. Spencer was named our President and Chief Executive Officer and became a member of our Board of Directors effective January 31, 2014. Mr. Gibson continues to serve as the non-executive Chairman of the Board. We also revised our executive compensation peer group to reflect our new status as a pure play general partner of ONEOK Partners.

The successful completion of the ONE Gas, Inc. separation transaction demonstrated our commitment to create long-term, sustainable shareholder value. The separation transaction created a new ONEOK that, as a pure-play general partner of ONEOK Partners, is now focused on providing management and resources to ONEOK Partners and creating value for our shareholders through its ownership in the partnership. We now have a more tailored growth strategy, more efficient return of capital to shareholders, improved investor transparency and better shareholder alignment.

The impact of operating solely as the general partner of ONEOK Partners was immediate, as we increased our quarterly cash dividend by 16 cents per share, or 40 percent, to 56 cents per share in April 2014 our first dividend increase as a pure-play general partner of ONEOK Partners.

ONEOK Partners increased its cash distributions by 6 percent in 2014, and we received, through our limited and general partner interests in ONEOK Partners, distributions of $605 million in 2014, an increase of 13 percent compared with 2013. As a result, we were able to deliver significant value to our shareholders in the form of a 44 percent increase in our 2014 dividends compared with 2013.

ONEOK Partners businesses generated significant growth in 2014 as operating income increased more than 19 percent in each business segment compared with 2013. ONEOK Partners has benefited from the completion of $3.2 billion of capital-growth projects and acquisitions in 2014 and the completion of approximately $8 billion in capital-growth projects and acquisitions since 2006. These capital investments have resulted in a 36,000-mile integrated natural gas and natural gas liquids pipeline network with a significant platform of fee-based business model as well as associated volume growth in the natural gas gathering and processing business, higher margin natural gas liquids volumes from new natural gas processing plant connections in the natural gas liquids business, and increased natural gas volumes transported and stored in the natural gas pipelines business.

Financial Performance

In connection with the completion of the separation of our former natural gas distribution business into a stand-alone

Table of Contents

publicly traded company called ONE Gas, Inc. and the wind down of our energy services business, we reported such businesses as discontinued operations and references to income from continuing operations reflects the continuing operations of ONEOK Partners and ONEOK as its general partner. All references to income as used in this Financial Performance section refer to income from continuing operations.

Our 2014 operating income was approximately $1.14 billion, compared with approximately $880.6 million in 2013, due primarily to higher volumes across ONEOK Partners systems. 2014 income from continuing operations attributable to us was approximately $319.7 million, or $1.52 per diluted share, which includes non-cash impairment charges of approximately $76.4 million, or $0.09 per diluted share. 2013 income from continuing operations attributable to us was approximately $278.7 million, or $1.33 per diluted share.

Dividends

During 2014, we paid cash dividends of $2.125 per share, an increase of approximately 43.6 percent from the $1.48 per share paid during 2013. We paid total aggregate cash dividends to our shareholders of $443.8 million in 2014, an approximate 45.7 percent increase, compared with $304.7 million paid in 2013. In January 2015, we declared a

dividend of $0.605 per share ($2.42 per share on an annualized basis), an increase of 3 percent from the previous quarter and approximately 51.3 percent from the $0.40 per share dividend declared in January 2014.

Stock Price

The market price of our common stock was $49.79 per share at December 31, 2014, a decrease of approximately 19.9 percent over the past year. The market price of our common stock was $68.49 per share on January 31, 2014. On February 3, 2014, the first day ONEOK traded as a pure play general partner of ONEOK Partners following completion of the ONE Gas, Inc. separation transaction, the market price of our common stock was $57.92 per share, an approximate 15 percent decrease compared with January 31, 2014. This decrease was primarily related to ONE Gas, Inc. s market value no longer being reflected in our stock price.

Shareholder Return

Our one-, three-, five- and 10-year total shareholder returns as of December 31, 2014 (total shareholder return includes share price appreciation/depreciation, dividend reinvestments, stock splits and the impact of the separation of our natural gas distribution business to ONE Gas, Inc. during the periods presented), compared with the referenced indices, are as follows:

	ONEOK	**ONEOK, Inc. Peer Group[1]**	**S&P 500 Index**
One-year	-5%	8%	14%
Three-year	44%	56%	74%
Five-year	200%	132%	105%
10-year	469%	331%	109%

(1) The ONEOK peer group used in this table is the same peer group that will be used in determining our level of performance under our 2014 performance units at the end of the three-year performance period and is comprised of the following companies: Boardwalk Pipeline Partners, LP; Buckeye Partners, L.P.; CenterPoint Energy, Inc.; Energy Transfer Partners, L.P.; EQT Corporation; Magellan Midstream Partners, L.P.; MarkWest Energy Partners, L.P.; MDU Resources Group, Inc.; National Fuel Gas Company; NiSource Inc.; NuStar Energy L.P.; OGE Energy Corp.; Plains All American Pipeline, L.P.; Sempra Energy; Spectra Energy Corp; Targa Resources Partners LP; and The Williams Companies, Inc.

2014 Executive Compensation Highlights

Due to a disciplined effort to achieve our strategic, operating and financial goals, management has strengthened the company s position in the current uncertain and volatile industry climate and enabled us to continue to focus on future

growth. We attribute a meaningful portion of this success to our incentive compensation program that is designed to pay for performance and to closely align our executives interests with those of our shareholders.

Our named executive officers for 2014 were John W. Gibson, Terry K. Spencer, Derek S. Reiners, Robert F. Martinovich, Stephen W. Lake and Wesley J. Christensen (referred to throughout as our named executive officers). The Committee s primary actions regarding 2014 compensation of our named executive officers included:

Revising the composition of our executive compensation peer group to reflect our continuation as the sole general partner of ONEOK Partners following the completion in the first quarter of 2014 of the separation of our former natural gas distribution business into a stand-alone publicly traded company called ONE Gas, Inc. and the wind down of our former energy services business.

Increasing the base salary of Terry K. Spencer in connection with his new role as Chief Executive Officer; increasing the base salary of Derek S. Reiners to reflect his added experience as our Chief Financial Officer; and increasing the base salary of Wesley J. Christensen to reflect his added experience and additional responsibilities in his position. In addition, the short-term incentive targets for Messrs. Spencer, Reiners, Christensen and Stephen W. Lake were increased and the long-term incentive targets for each named executive officer, except Robert F. Martinovich, were increased, in each case to further align their respective compensation to competitive market data for their respective positions.

Setting the metrics under our short-term cash incentive plan for 2014 to reflect our continuation as the sole general partner of ONEOK Partners following the ONE Gas, Inc. separation and the wind down of our former energy services business. 2014 short-term incentive metrics included two financial metrics ONEOK Partners distributable cash flow per limited partner unit (new for 2014) and ONEOK Partners return on invested capital and two operational metrics a total recordable incident rate and an agency reportable environmental event rate (new for 2014).

Ratifying the company s level of achievement with respect to the 2014 goals resulting in a corporate performance payout factor of 66.8 percent for our named executive officers with respect to 2014 performance.

Adjusting the number of outstanding 2012 and 2013 restricted stock units and performance units by issuing additional restricted stock units and performance units with the same vesting period and other terms and conditions to employees remaining at ONEOK for the purpose of preserving the intrinsic value of the 2012 and 2013 grants immediately prior to the separation of ONE Gas, Inc.

Approving long-term equity incentive grants to our named executive officers consisting of approximately 80 percent of the value in performance units and 20 percent of the value in restricted stock units.

Ratifying, based on our total shareholder return performance relative to our peers, a 200 percent payout to our named executive officers with respect to performance units granted in 2011 that vested in January, 2014. This level of payout was achieved due to our relative total shareholder return being above the 90th percentile of the total shareholder return of the specified peer group of energy companies.

Specific Compensation Program Features

Our compensation philosophy and related governance features are complemented by several specific elements that are designed to align our executive compensation with long-term shareholder interests.

The components of our executive compensation program have remained substantially the same for several years. We believe our program is designed effectively, well aligned with the interests of our shareholders and instrumental to achieving our business goals.

The main objectives of our compensation program are to pay for performance, to align our executive officers interests with those of our shareholders and to attract and retain qualified executives.

All compensation decisions regarding our named executive officers are made by the Committee and are then submitted to the full Board of Directors for ratification.

We provide the following primary elements of compensation for our named executive officers: base salary, annual short-term cash incentive awards and long-term equity incentive awards.

The Committee references the median level of the market when determining all elements of compensation with the possibility of above-market short-term incentive and long-term incentive payments for executive and company performance that exceeds our expectations.

We implement our pay-for-performance philosophy with a short-term incentive program providing for cash payments based on achievement of financial and operational goals established annually by the Committee and long-term performance-based equity incentive awards providing for vesting levels based on our total shareholder return over the vesting period compared with a specified peer group of energy companies.

We encourage alignment of our named executive officers interests with those of our shareholders through the award of long-term incentive equity grants, of which 80 percent are performance-vesting stock units and 20 percent are time-vesting restricted stock units.

Our executive officers, including the named executive officers, receive no significant perquisites or other personal benefits.

We have market competitive stock ownership guidelines for our executive officers, including the named executive officers and members of our Board of Directors. As of December 31, 2014, each of the named executive officers and members of our Board of Directors satisfied his or her individual stock ownership requirements under the guidelines.

We have adopted clawback provisions permitting the Committee to use appropriate discretion to seek recoupment of grants of performance units (including any shares earned and the proceeds from any sale of such shares) and short-term cash incentive awards paid to employees in the event of any fraud, negligence or intentional misconduct by such employees that is determined to be a contributing factor to our having to restate all or a portion of our financial statements. We intend to adopt a general clawback policy covering our annual and long-term incentive award plans and arrangements once the Securities and Exchange Commission adopts final clawback rules pursuant to The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

Our Board has adopted a policy prohibiting officers, members of our Board of Directors and certain employees designated as insiders under our Securities/Insider Trading Policy from engaging in short sales, derivative or speculative transactions in our securities, or purchasing or using, directly or indirectly through family members or other persons or entities, financial instruments (including puts or calls, prepaid variable forward contracts, equity swaps, collars and exchange funds) that are designed to hedge or offset any decrease in the market value of our securities.

Our Board has adopted a policy prohibiting officers and directors from holding our securities in a margin account or pledging our securities as collateral for a loan. An exception to this prohibition may be granted by the Chief Executive Officer where an officer or director wishes to pledge shares of our stock as collateral for a loan (but not including a margin account), the officer or director clearly demonstrates the financial capacity to repay the loan without resort to the pledged securities, and the terms of the loan prohibit the sale of any of our stock held as collateral when the officer or director is not permitted to trade in our stock. We are not aware of any officer or member of our Board of Directors who has pledged any of his or her shares of our common stock.

The Committee engages an independent executive compensation consultant that is independent under the Securities and Exchange Commission rules and NYSE listing standards to provide advice and expertise on the design and implementation of our executive and director compensation programs.

The Committee will continue to monitor executive compensation trends and developments to ensure that we provide the appropriate types and levels of incentives in order to remain competitively positioned to attract and retain the executive talent necessary to achieve our strategic, financial and operational goals.

Specific Corporate Governance Features

We seek to maintain good governance standards, including standards applicable to the oversight of our executive compensation policies and practices. The following policies and practices were in effect during 2014.

The Committee is composed solely of independent directors.

The Committee s independent executive compensation consultant, Meridian Compensation Partners, is retained directly by the Committee and performs no other services for the company.

Table of Contents

The Committee regularly meets in executive session with and without the representatives of the Committee s independent executive compensation consultant.

The Committee conducts an annual review and approval of our compensation program to ensure that the risks arising from the program are not reasonably likely to have a material adverse effect on our company.

EXECUTIVE COMPENSATION PHILOSOPHY

Our executive compensation philosophy is based on the following core elements: paying for performance and providing a competitive compensation package to attract and retain qualified executives while ensuring our compensation program does not provide incentives for excessive risk taking.

Pay-for-Performance

We structure our compensation program to align the interests of our employees, including our named executive officers, with the interests of our shareholders. We believe an employee s compensation should be tied directly to the achievement of our strategic, financial and operating goals, all of which are designed to deliver value to our shareholders. Therefore, a significant part of each executive s pay is at risk, in the form of an annual short-term cash incentive award and long-term, equity-based incentive awards. The amount of the annual short-term incentive award paid depends on our company s performance against financial and operating objectives, as well as the executive meeting key leadership and development standards. The portion of our executives compensation in the form of equity awards ties their compensation directly to creating shareholder value over the long-term. We believe this combination of annual short-term incentive awards and long-term equity awards aligns the incentives of our senior executives with our shareholders.

Competitive Pay

We believe a competitive compensation program is an important tool to help us attract and retain talented executives capable of leading our company in the competitive business environment in which we operate. We seek to establish total compensation opportunities for our named executive officers that compare near the median of compensation opportunities awarded at our peer companies. Eventual earned compensation from these opportunities can vary based on the company and individual performance. In certain circumstances,

we may target pay above or below the competitive median. For example, to recognize an individual s unique qualifications or performance, we may choose to set their expected pay level above the median. However, if the executive is new to the role, we may set his or her expected pay below the median level.

Our compensation program is designed with the following principles in mind:

pay our employees equitably and fairly relative to one another and industry peers based on their responsibilities, the capabilities and experience they possess, the performance they demonstrate and market conditions;

motivate our executives to perform with the highest integrity for the benefit of our shareholders;

conduct our business and manage our assets in a safe and environmentally responsible manner;

promote a non-discriminatory work environment that enables us to benefit from the diversity of thought that comes with a diverse workforce; and

continue our focus on sound governance practices by implementing executive compensation best practices and policies.

Risk Assessment

The Committee believes our compensation program does not provide incentives for excessive risk-taking, and therefore does not produce risks that are reasonably likely to have a material adverse effect on the company for the following reasons:

our compensation program is the same for all officers and employees across all of our business units;

our base salary component of compensation is market based and does not encourage risk-taking because it is a fixed amount; and

our current short- and long-term incentive plan awards have the following risk-limiting characteristics:

- awards to each executive officer are subject to fixed maximums established by the Committee;
- awards are made based on the review and approval by the Committee of a variety of indicators of performance,

thus diversifying the risk associated with any single indicator of performance;

- short- and long-term incentive awards are not tied to formulas that could focus executives on specific short-term outcomes;
- the Committee approves the final short- and long-term incentive plan award payouts after the review and confirmation of individual executive, operating and financial performance;
- short-term cash and long-term performance-unit incentive awards are subject to clawback provisions;
- for executive officers, a significant portion of incentive award value is delivered in the form of our common stock that vests over multiple years, which aligns the interests of executive officers to long-term shareholder interests; and
- executive officers are subject to share-ownership guidelines.

COMPENSATION METHODOLOGY

The Executive Compensation Committee

The Committee has the responsibility for reviewing, approving and recommending our executive compensation program to the full Board for ratification. The Committee is composed entirely of individuals who qualify as independent directors under the listing standards of the NYSE. The role of the Committee is to oversee our compensation and benefit plans and policies, direct the administration of these plans and review and approve annually all compensation decisions relating to our executive officers, including compensation decisions for our named executive officers.

The Committee s practice is to review our executive officer compensation program and make specific decisions in February of each year, including review and approval of base salaries; review and approval of the achievement of short-term cash incentive goals for the prior year; review and approval of short-term cash incentive program targets for the upcoming fiscal year; review and approval of the level of vesting of long-term incentive grants which vest during the year; and review and approval of new long-term incentive grants. This review coincides with our Board of Directors review of our financial and operating results for the most recently completed year and

allows the Committee to consider those results, as well as our financial and operating plan for the upcoming year, as it makes compensation decisions. The Committee submits its decisions regarding compensation of our Chief Executive Officer, our other executive officers and our non-management directors to the Board for ratification.

The Committee recognizes the importance of maintaining sound basic principles for the development and administration of our compensation and benefit programs. The Committee has adopted practices to enhance the Committee s ability to carry out effectively its responsibilities, as well as to ensure we maintain strong links between executive pay and performance. Examples of practices the Committee has adopted include:

holding executive sessions without company management present at every in-person meeting of the Committee;

reviewing compensation tally sheets for the named executive officers on an annual basis;

engaging an independent executive compensation consultant to advise the Committee on executive compensation issues;

meeting with the independent executive compensation consultant in executive session without management present at each regularly scheduled in-person meeting of the Committee to discuss our compensation program and actions on a confidential basis;

evaluating the performance of the Committee each year; and

assessing the performance of the Committee s independent executive compensation consultant each year.

Following our 2014 annual meeting of shareholders, the Committee took into account the affirmative vote by 97.2 percent of our shareholders who voted on our executive compensation at our 2014 annual meeting of shareholders and determined to continue to apply the same principles the Committee has used historically in determining the nature and amount of executive compensation.

The Role of Executive Management in the Executive Compensation Process

Each year, our executive management presents our annual strategic and financial plan to our Board of Directors for

Table of Contents

approval. The presentation includes a review of the expected financial and operating performance of each of ONEOK Partners business segments, the expected financial performance of the company and ONEOK Partners on a consolidated basis, the capital expenditure plan, as well as a consolidated five-year strategic and financial outlook. The criteria and targets for our annual short-term cash incentive awards are recommended by executive management to the Committee based on the Board-approved strategic and financial plan, as well as management s judgment regarding the challenges facing our business segments, economic trends related to these businesses and the overall economy. Upon the completion of each fiscal year, and once financial and operating results are final, executive management reviews our actual performance relative to the criteria and targets established for the performance year to determine the short-term cash incentive awards to be presented to the Committee for each executive.

In making individual compensation decisions, the Committee reviews the recommendations from the Chief Executive Officer with respect to all named executive officers other than himself. The Committee reviews and discusses these recommendations in executive session and reaches its own decision with respect to the compensation of the named executive officers, including the Chief Executive Officer. In turn, the Committee presents its compensation decisions with respect to the Chief Executive Officer and the other named executive officers to our full Board of Directors for ratification.

The executive compensation group in our corporate human resources department supports both the Committee and senior management in establishing management s recommendations regarding annual performance metrics and targets and providing periodic analyses and research regarding our executive compensation program.

The Role of the Independent Executive Compensation Consultant

The Committee has the authority under its charter to engage the services of outside advisors, experts and others to assist the Committee in the performance of its duties. During 2014, the Committee engaged Meridian Compensation Partners to serve as the Committee s independent executive compensation consultant on matters related to executive and director compensation. The independent executive

compensation consultant reports directly to the Committee and provides no other services to us.

The Committee annually reviews and establishes the scope of the engagement of the Committee s executive compensation consultant, which is reflected in an annual engagement letter between the consultant and the Committee. During 2014, the scope of the assignment and the material instructions regarding the services of the executive compensation consultant were:

- provide advice to the Committee with respect to executive compensation matters in light of the company s business strategy, pay philosophy, prevailing market practices, shareholder interests and relevant regulatory mandates;

- provide advice on our executive pay philosophy;

- provide advice on the composition of our compensation peer group for competitive compensation analysis;

provide comprehensive competitive market studies to assist the Committee in its consideration of base salary, annual cash incentive opportunity, long-term incentive awards, benefits, incidental perquisites and severance arrangements for our Chief Executive Officer and senior management;

provide incentive plan design advice for both annual and various long-term incentive vehicles and other compensation and benefit programs that meet company objectives;

apprise the Committee regarding emerging best practices and changes in the regulatory and corporate governance environment;

provide advice and competitive market data on director compensation;

attend periodic meetings with our Vice President Human Resources, and our Vice President, Associate General Counsel and Secretary as required from time to time to discuss executive compensation issues and prepare for Committee meetings;

assist with preparation of the Executive Compensation Discussion and Analysis to be included in our annual proxy statement;

assist with the Committee s annual review of compensation tally sheets for our Chief Executive Officer and the other named executive officers; and periodically review the Committee s charter.

In addition, the engagement letter requests the consultant be available to assist the Committee with respect to other executive compensation matters that may arise throughout the year.

The executive compensation consultant attended each regularly scheduled in-person meeting of the Committee in 2014. During a portion of each regular, in-person meeting, the executive compensation consultant met with the Committee in executive session without members of management present. The executive compensation consultant also communicates with members of the Committee outside of the Committee s meetings as desired by the Committee members. The executive compensation consultant reviews briefing materials, including those with respect to individual compensation matters prepared by management for the Committee, reviews recommendations and proposals being submitted to the Committee and provides perspective, advice and recommendations to the Committee regarding the recommendations of management. The executive compensation consultant also gathers and provides competitive market data and other background information for consideration by the Committee.

Our Vice President Human Resources and our Vice President, Associate General Counsel and Secretary worked with the executive compensation consultant from time to time during the year as necessary to support the work of the executive compensation consultant on behalf of the Committee.

It is the Committee s view that its executive compensation consultant should be able to render candid and direct advice independent of management s influence and numerous steps have been taken to satisfy this objective. The executive compensation consultant is engaged by and reports directly to the Committee on matters related to compensation. As noted above, representatives of the executive compensation consultant meet separately with the Committee members outside the presence of management at each regular, in-person meeting and also speak separately with the Committee chair and vice-chair and other Committee members between meetings, as necessary or desired. The executive

compensation consultant interacts from time to time directly with our Vice President Human Resources and our Vice President, Associate General Counsel and Secretary in compensation-related activities such as compensation data collection, analysis and interpretation and application of new regulatory requirements. The interactions of the executive compensation consultant with management are limited to those that are on the Committee s behalf or related to proposals that will be presented to the Committee for review and approval.

At least annually, the Committee conducts a review of the executive compensation consultant s performance and independence. This review includes an evaluation of the services that the executive compensation consultant has provided to the Committee, the related fees and the procedures implemented by the executive compensation consultant with respect to maintaining its independence. During 2014, Meridian Compensation Partners did not advise us or deliver any other services other than the referenced compensation consulting services provided to the Committee. We paid fees to Meridian Compensation Partners of approximately $212,000 for services to the Committee in 2014, which included approximately $61,000 related to the separation of ONE Gas, Inc.

In February 2015, the Committee considered the independence of Meridian Compensation Partners in light of Securities and Exchange Commission rules and NYSE listing standards regarding the independence of consultants to compensation committees. The Committee requested and received a letter from Meridian Compensation Partners addressing the consulting firm s independence, including the following factors: (1) other services provided to us by the consultant; (2) fees paid by us as a percentage of the consulting firm s total revenue; (3) policies or procedures maintained by the consulting firm that are designed to prevent a conflict of interest; (4) any business or personal relationships between the individual consultants involved in the engagement and any member of the Committee; (5) any company stock owned by the individual consultants involved in the engagement; and (6) any business or personal relationships between our executive officers and the consulting firm or the individual consultants involved in the engagement. The

Committee discussed these considerations and concluded that the work of the consultant did not raise any conflict of interest and that the consultant was independent of the Committee and our company.

Competitive Assessment

For 2014 compensation decisions, the Committee asked Meridian Compensation Partners to assist it with the annual competitive assessment of its executive compensation program. The Committee reviewed independent executive compensation data compiled by Meridian Compensation Partners to assess competitive executive compensation levels for our executive officers.

The Committee considers a number of factors in structuring our compensation program and making compensation decisions. This includes the compensation practices of select peer companies in the energy industry, which we refer to as

our Energy Peers. The Committee s independent consultant

annually reviews the peer group with the Committee to assess its continued appropriateness and applicability to our company. The 2014 Energy Peers were updated to both reflect the

separation of our former natural gas distribution business and an updated assessment of appropriate industry peers. The following companies were added to our Energy Peers: Boardwalk Pipeline Partners, LP, Buckeye Partners, L.P., NuStar Energy L.P., and Plains All American Pipeline, L.P. The following companies were removed from the Energy Peers: AGL Resources, Inc., Atmos Energy Corporation, Enbridge, Inc., Enterprise Products Partners, L.P., Kinder Morgan Energy Partners, L.P., Questar Corporation, and TransCanada Corp. The 2014 Energy Peers were recommended by Meridian Compensation Partners and management, and were selected because they have significant lines of business in the energy industry that are similar to our businesses and because the size of their operations (e.g., enterprise value, market value) and the skills and experience required of their senior management to effectively operate their businesses are also similar to our businesses. The Committee believes that reference to the Energy Peers is appropriate when reviewing our compensation program because we compete with these companies for executive talent. Our Energy Peers for 2014 were:

Boardwalk Pipeline Partners, LP

Buckeye Partners, L.P.

CenterPoint Energy, Inc.

Energy Transfer Partners, L.P.

EQT Corporation

Magellan Midstream Partners, L.P.

MarkWest Energy Partners, L.P.

MDU Resources Group, Inc.

National Fuel Gas Company

NiSource Inc.

NuStar Energy L.P.

OGE Energy Corp.

Plains All American Pipeline, L.P.

Sempra Energy

Spectra Energy Corp

Targa Resources Partners LP

The Williams Companies, Inc.

The Committee attempts to set the compensation opportunities of our executive officers at levels that are competitive with the Energy Peers and uses market comparison data from each company s proxy regarding these companies as a guide. The Committee reviews the median salary, annual cash incentive and long-term equity compensation (and the combined total of these elements) of persons holding the same or similar positions at the Energy Peers, based on the most recent market data available. The Committee then generally seeks to set the compensation of our executive officers for each of these elements within a

competitive range of the median, assuming payout of performance-based compensation at target. An executive s actual compensation may vary from the target amount set by the Committee based on individual and the company performance, as well as changes in our stock price. The use of market comparison data, however, is just one of the tools the Committee uses to determine executive compensation, and the Committee retains the flexibility to set target compensation opportunities at levels it deems appropriate for an individual or for a specific element of compensation.

To assess the relative competitiveness of compensation for each named executive officer, the Committee s established practice is to review the peer group base salary, short-term incentives, long-term incentives and total target compensation opportunities for the 25th, 50th and 75th percentiles. Because 2014 base salary and annual short-term incentive and long-term incentive target amounts established by the Committee for the named executive officers were between the 25th and 75th percentiles, the Committee determined that 2014 compensation levels fell within the Committee s established parameters.

Tally Sheets

To better understand the total executive compensation package, the Committee reviewed compensation tally sheets with respect to our named executive officers. These tally sheets were prepared by our human resources department working with the Committee s executive compensation consultant. Each of these tally sheets presented the dollar amount of each component of the named executive officers compensation, including current cash compensation (base salary and any annual short-term cash incentive payment), accumulated deferred compensation balances, outstanding long-term equity awards, retirement benefits, incidental perquisites and any other compensation. These tally sheets also reflected potential payments under selected termination of employment and change-in-control scenarios.

The purpose of these tally sheets is to summarize all of the elements of actual and potential future compensation of our named executive officers so that the Committee may analyze both the individual elements of compensation (including the compensation mix), as well as the aggregate total amount of actual and projected compensation.

Compensation Mix

In determining the overall mix of 2014 compensation for our named executive officers, the Committee considered the competitive market data assembled by its executive compensation consultant in order to assess an appropriate allocation between cash and non-cash compensation. We pay base salary and short-term incentives in the form of cash, which is consistent with competitive market practices. The long-term incentive components of our executive compensation are structured to be paid in shares of our

common stock, which is also consistent with competitive market practice.

A significant portion of total executive compensation is at risk based on both the annual and long-term performance of our company that aligns the interests of our executives with the interests of our shareholders. In 2014, grants to our named executive officers consisted of approximately 80 percent of the value in performance-vesting stock units and 20 percent of the value in time-vested restricted stock units, consistent with our pay-for-performance philosophy. In addition, the payment of long-term incentive compensation in the form of our common stock helps to align the interests of our executive officers with the interests of our shareholders and assists our executives in establishing a meaningful ownership position in our company and in meeting our share-ownership guidelines.

Personal Performance

Executive compensation decisions include an assessment of individual performance, including the named executive officer s contribution to our overall performance for the applicable performance period. Individual performance criteria include:

- business results achieved;
- problem analysis;
- directing business activities;
- utilization of human, capital and material resources;
- initiation of and response to change;
- leadership, planning and organizational abilities;
- decision-making;
- time management;
- communication and employee relations;
- safety;
- regulatory compliance; and
- customer satisfaction.

The Committee, in consultation with our Corporate Governance Committee, completes an individual performance assessment of the Chief Executive Officer each year. This performance assessment is summarized and presented to the Chief Executive

Officer for discussion and is reviewed by the Committee in executive session when evaluating the compensation of the Chief Executive Officer. The other named executive officers are also evaluated each year through our performance appraisal process by the Chief Executive Officer. These performance assessments are considered each year in connection with the overall compensation review process for our executives.

There are no differences in the Committee s compensation policies and practices for determining the compensation awarded to the Chief Executive Officer and the other named executive officers. All executive officers are subject to the same compensation policies. Differences in levels of compensation are attributable to differences in roles and responsibilities, and the Committee s practice of setting pay levels to reflect competitive market conditions on a position by position basis.

COMPONENTS OF COMPENSATION

Total Compensation

The Committee strives to provide a comprehensive executive compensation program that is competitive and performance based. To that end, executive compensation is tied directly to our operating and financial performance. In structuring executive compensation, the Committee considers long- and short-term financial performance, shareholder return, business unit performance, safety, environmental and regulatory compliance and the previously referenced individual performance criteria.

We believe our executive compensation program also must be internally consistent and equitable in order for the company to achieve its corporate objectives. In setting the elements and amounts of compensation, the Committee does not consider amounts of compensation realizable from prior compensation, except when making grants of long-term, equity-based incentive grants each year, the Committee considers, among other factors it deems relevant, the size of grants of long-term, equity-based compensation made in prior years.

Annual Cash Compensation

As in prior years, annual cash compensation in 2014 for the named executive officers consists of two components: base salary and a variable, at-risk annual short-term cash incentive award that is earned based on both the company s financial performance and the executive officer s individual performance.

Base Salary

Annual base salary is designed to compensate executives for their level of responsibility, experience, tenure, sustained individual performance and contribution to our company. Salaries are reviewed annually. While the Committee considers our overall financial performance in establishing levels of executive compensation each year, there are no specific, objective financial results that are quantified by the Committee in establishing or changing the base salaries of our executive officers.

Annual Short-Term Cash Incentive Awards

Variable, at-risk annual short-term cash incentive awards are made under our annual incentive plan and are designed to communicate a collective annual corporate goal, to provide our officers with a direct financial interest in our performance and profitability and to reward performance. The 2014 performance goals established under the short-term cash incentive plan and the company s performance relative to such goals are described under 2014 Annual

Short-Term Incentive Awards.

Long-Term Equity Incentive Awards

Annual grants of long-term equity incentive awards are made under our Long-Term Incentive Plan and our ECP. Since 2004, grants under these plans have consisted of restricted stock units and performance units. These annual grants are designed to provide a meaningful incentive to enhance long-term shareholder value. A higher ratio of performance units to restricted stock units is granted to higher-level officers and those with more direct ability to impact the performance of the company.

Retirement Benefits

We have a defined contribution 401(k) retirement plan covering all of our employees, and we match contributions of our employees under this plan up to 6 percent of eligible compensation. We also maintain a defined benefit pension plan covering our named executive officers, other than Messrs. Martinovich, Reiners and Lake, and certain other employees hired prior to January 1, 2005, and a Profit Sharing Plan covering Messrs. Martinovich, Reiners and Lake, and other employees hired after December 31, 2004. Under the Profit Sharing Plan, we made a contribution to the plan each calendar quarter during 2014 that will result in allocation to the

Table of Contents

participant s plan account of an amount equal to one percent of the participant s eligible compensation for that quarter. We also made an additional discretionary contribution to the participant s account at year end equal to three percent of the participant s eligible 2014 compensation. The Profit Sharing Plan does not provide for any contributions to be made by plan participants.

In addition, we have a supplemental executive retirement plan for the benefit of certain officers, including Messrs. Gibson and Spencer. No new participants in our supplemental executive retirement plan have been approved since 2005 and the plan was closed to new participants in 2013. Additional details regarding our retirement plan and supplemental executive retirement plan are provided under Pension Benefits.

We also sponsor employee health and welfare plans that provide post-retirement medical and life insurance benefits to full-time employees who retire from our company. The pre-Medicare post-retirement plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and co-insurance. The retiree medical plan for Medicare-eligible retirees is an account-based plan pursuant to which certain employee groups are eligible for company contributions that can be applied toward the purchase of Medicare supplement policies through a private exchange.

Nonqualified Deferred Compensation Plan

Our nonqualified deferred compensation plan is available to certain officers who are subject to certain limits established by the Internal Revenue Code of 1986, as amended (the Tax Code), with respect to their qualified benefit plan contributions. Because these arrangements, by their nature, are tied to the qualified plan benefits, they are not considered by the Committee when establishing salary and short-term and long-term incentive measures and amounts. Officers also are eligible to defer the receipt of their long-term equity incentive awards granted under our ECP.

Perquisites and Other Benefits

The company provides only minimal perquisites to the named executive officers, which are not taken into account by the

Committee when establishing salary and short- and long-term incentive compensation.

DETERMINATION OF 2014 COMPENSATION

For each of our named executive officers, 2014 base salary and short- and long-term incentive targets were determined following consideration of referenced market data for our Energy Peers, compiled and furnished by the executive compensation consultant to the Committee, internal equity considerations and a subjective determination of the achievement of the referenced individual performance criteria. The Committee does not use objective targets when evaluating performance with respect to those individual performance criteria, and does not have a specific weighting for any of the factors. The final determination is based upon all of the individual performance criteria, considered in the aggregate and in light of the surrounding circumstances, but such determination and the assessment of each individual factor is entirely subjective. The Committee includes and reviews those subjective factors to ensure that it undertakes a comprehensive review of individual performance when setting compensation.

When targeted levels of individual performance and company financial performance are achieved, the Committee seeks to pay our named executive officers a base salary and short- and long-term incentives at approximately the median level of pay for that position at our Energy Peers and other organizations with which we compete for executive talent as referenced in the market data. In determining 2014 compensation levels, the Committee targeted compensation opportunities between the 25th and 50th percentiles of peer compensation opportunities based on each executive s tenure with us, level of responsibility and time in the executive s current position.

Generally, the Committee prefers a total compensation mix that favors a larger portion of compensation at risk, resulting in a large portion of compensation being granted in the form of long-term incentive awards to promote strong alignment with shareholder goals. For 2014, the Committee determined that the compensation of each of the named executive officers was within the desired competitive range and, as a result, did not make any material changes to their compensation opportunity, except that the Committee: increased the base salary of Terry K. Spencer in connection with his new role as Chief Executive

Table of Contents

Officer; increased the base salary of Derek S. Reiners to reflect his added experience as our Chief Financial Officer; and increased the base salary of Wesley J. Christensen to reflect his added experience and additional responsibilities in his position. In addition, the short-term incentive targets for Messrs. Spencer, Reiners, Christensen and Stephen W. Lake were increased and the long-term incentive targets for each named executive officer, except Robert F. Martinovich, were increased, in each case to further align their respective compensation to competitive market data for their respective positions.

2014 ANNUAL SHORT-TERM INCENTIVE AWARDS

Following the completion of the separation of our natural gas distribution business into a stand-alone, publicly traded company and the wind down of our energy services business, the Committee adopted financial and operational metrics under the 2014 short-term incentive plan that were designed to reflect the continuation of our business as the sole general partner of ONEOK Partners.

The Committee approved a threshold, target and maximum level for each measure. These levels are based on the expectation that there is: a high likelihood the threshold will be achieved; a reasonable likelihood the target will be achieved; and a low likelihood the maximum will be achieved.

Based upon the company s performance against these measures, targeted annual short-term cash incentive awards for 2014 company performance could range from zero to a maximum of 200 percent of target. In determining the actual annual short-term incentive award to be paid to each executive, assuming the company s performance measures are met, the award is adjusted based on individual performance, specifically, the individual s contributions to achieving corporate goals and the behaviors exhibited by the individual that are described above. As in past years, tying the annual short-term cash incentive award to individual performance raises the level of personal accountability for each executive officer.

Financial Measures

The 2014 short-term incentive plan included the measurement of financial results that take into account the impact of anticipated market conditions (commodity prices, natural gas

liquids price differentials and natural gas and natural gas liquids volumes). The financial measures included in the 2014 short-term incentive plan were:

ONEOK Partners distributable cash flow (DCF) per limited partner unit (LP Unit) was a new financial measure for 2014, replacing ONEOK earnings per share. ONEOK Partners DCF per LP Unit is defined Adjusted EBITDA (as defined below) less interest expense, maintenance capital expenditures and equity earnings from investments, adjusted for cash distributions received from unconsolidated affiliates and certain other items and less distributions to the general partner, divided by the weighted-average number of ONEOK Partners limited partner units outstanding at the end of the fiscal year. Adjusted EBITDA is defined as net income adjusted for interest expense, depreciation and amortization, income taxes and allowance for equity funds used during construction. ONEOK Partners DCF per LP Unit and Adjusted EBITDA do not include the cumulative effects of accounting changes reported below the line. ONEOK Partners DCF per LP Unit measures the amount of cash generated by ONEOK Partners to payout in the form of distributions to its unitholders. The threshold for ONEOK Partners DCF per LP Unit was the previous year s actual results for DCF per LP unit.

ONEOK Partners return on invested capital (ROIC) is a financial measure used also in 2013. ONEOK Partners ROIC is earnings before interest and taxes (EBIT) divided by invested capital, where invested capital is the daily average for the fiscal year of short-term debt, less cash, long-term debt and equity, excluding accumulated other comprehensive income. ROIC is a critical indicator of how effectively we use our capital invested in our operations and is an important measurement for judging how much value we are creating for our shareholders. The computed ROIC percentage can be compared with the cost of capital, which is what investors would expect to receive if they were to invest their capital elsewhere. The relationship between the threshold, target and maximum for the ONEOK Partners ROIC in 2014 was the same as was approved in 2013 (the 2014 target was 8.6 percent higher than the 2014 threshold, and the 2014 maximum was 6.2 percent higher than the 2014 target).

Table of Contents

Operational Measures

The operational measures included in the 2014 short-term incentive plan were:

Total Recordable Incident Rate (TRIR). TRIR is the number of Occupational Safety and Health Administration incidents per 200,000 work-hours. The inclusion of this important safety factor is designed to emphasize our commitment to the safe operation of our business and to reward safe behavior throughout our company. The 2014 target for TRIR represented a 15 percent improvement from the previous year s target results.

A new metric known as Agency Reportable Environmental Event Rate (AREER). While the company has been measuring the number of agency reportable spills and releases since 2008, the AREER is a refined subset of that measure. The AREER is a company-specific measure since there is no comprehensive industry metric for environmental performance. AREER is defined as the total number of releases and excess emission events that trigger a federal, state or local environmental reporting requirement (with some exceptions to account for events outside our control, planned maintenance and disparities in reporting requirements across our operations), divided by the applicable number of capacity units (miles of pipelines, storage capacity, natural gas liquids fractionation capacity and natural gas processing capacity). Using capacity units allows the AREER measure to take into account future changes in our asset base. The 2014 AREER target was set at the previous year s actual results since this was a new measure. The 2014 AREER target was 42 events which was set after we reviewed 2013 AREER performance and determined that we had 42 events in 2013 that met this new definition. Our 2014 target AREER of 42 events, divided by 49.0 capacity units, equals 0.86 events per capacity unit.

The 2014 annual short-term cash incentive plan measures and weighting were developed and recommended to the Committee by executive management, were reviewed and approved by the Committee, and were ratified by our Board of Directors in February 2014. The 2014 metrics and targets are summarized as follows:

ONEOK, Inc. Corporate Criteria 2014 Fiscal Year	**Threshold (0% of Target)**	**Target (100% of Target)**	**Maximum (200% of Target)**	**Weight**	**Target Percentage of Target Payable**	**Maximum Percentage of Target Payable**
ONEOK Partners Distributable Cash Flow Per Unit	$2.99	$3.47	$3.95	40%	40%	80%
ONEOK Partners Return On Invested Capital	9.9%	10.8%	11.4%	40%	40%	80%
Total Recordable Incident Rate	0.97	0.84	0.71	10%	10%	20%
Agency Reportable Environmental Event Rate	0.99	0.86	0.73	10%	10%	20%
				Total	100%	200%

For each performance measure in the table above, no incentive amount would be paid for that measure if the company s actual result was below the threshold level. If our actual result was between the stated performance levels, the percentage payable was interpolated between the stated payout percentages. Maximum corporate payout percentages were set for each performance level. The cumulative maximum corporate payout percentage was 200 percent of target for 2014.

The awards under the 2014 annual incentive plan were eligible for further adjustment based upon the recommendation of our Chief Executive Officer as a result of his assessment of

business segment performance and its contribution to our overall performance. The Chief Executive Officer did not recommend, and the Committee did not make, any further adjustment to the 2014 annual short-term incentive awards for the named executive officers.

In addition to taking into account the established corporate criteria and the allocation to business units based upon their respective performance, annual short-term cash incentive awards to the named executive officers and all other participants are subject to further adjustment through the application of an individual performance multiplier ranging from zero to 125 percent. The individual performance multiplier is set

Table of Contents

by the Committee annually, taking into consideration management s recommendation regarding individual performance and contribution. The named executive officers

maximum incentive award for 2014 could have been as high as 250 percent of their target award, taking into account the

maximum corporate payout percentage of 200 percent and the maximum individual performance multiplier of 125 percent.

The following table sets forth the 2014 target and maximum award opportunity for each of the named executive officers expressed as a percentage of his base salary.

Name	Target Award as Percentage of Base Pay	Maximum Award as a Percentage of Base Pay
John W. Gibson (1)	100%	250%
Terry K. Spencer	100%	250%
Derek S. Reiners	65%	163%
Robert F. Martinovich	70%	175%
Stephen W. Lake	65%	163%
Wesley J. Christensen	70%	175%

(1) Mr. Gibson retired as our Chief Executive Officer on January 31, 2014. As a result, Mr. Gibson s 2014 short-term incentive payout was prorated.

At the regular meeting of the Committee held in February 2015, the Committee determined that payouts under the 2014 short-term incentive plan would be based on a 66.8 percent corporate multiplier. This determination was made following the calculation of the year-end results of the company s achievement with respect to the four objective performance criteria referenced above. The percentage multiplier was calculated based on a sum of the following determinations:

- the 2014 ONEOK Partners DCF per LP Unit was $3.39 which was above the threshold but below the target. As a result, the weighted average percentage of 33.3 percent was earned toward the overall corporate multiplier;

- the 2014 ONEOK Partners ROIC was 10.41 percent, which exceeded the 2014 ROIC threshold but was below the 2014 performance target. As a result, the weighted percentage of 22.7 percent was earned toward the overall corporate multiplier;

the 2014 TRIR performance measure was 0.83, which was better than the 2014 recordable incident rate performance target. As a result a weighted percentage of 10.8 percent was earned toward the overall corporate multiplier; and

the 2014 AREER was below the threshold. As a result, zero percent was earned toward the overall corporate multiplier.

These performance measure percentages were added together to arrive at the 66.8 percent multiplier.

To determine the short-term awards payable to each of our named executive officers with respect to 2014, the company s 66.8 percent multiplier was multiplied by the named executive officer s base salary, times his short-term incentive percentage as set forth in the table above, and times his individual performance multiplier as described above. The annual calculation for our named executive officers may be stated as follows: short-term incentive award = corporate performance multiplier x base salary x established short-term incentive percentage x established individual performance multiplier.

The Committee did not exercise its discretion to adjust the amount of the 2014 corporate multiplier for extraordinary circumstances.

The Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for Fiscal 2014 on page 70 contains the annual short-term incentive awards under the annual officer incentive plan earned by each of the named executive officers for 2014 and paid in 2015.

LONG-TERM INCENTIVE AWARDS

Overview

We maintain a Long-Term Incentive Plan (LTI Plan) and the ECP, pursuant to which various types of long-term equity incentives may be granted, including restricted and performance units. We have not granted stock options since 2007, and no options are held by our named executive officers or any other employee. Participation in the LTI Plan and the ECP is limited to those officers and employees who are in a position to contribute significantly to our long-term growth and profitability. These plans are administered by the Committee, and the Committee is authorized to make all grants of long-term incentive awards under the plans, as well as to make all decisions and interpretations required to administer the plans.

Equity-based long-term incentive awards are approved and granted on an annual cycle, typically in the first quarter of each year. Awards made by the Committee in 2014 were based upon competitive market data provided to the Committee by the Committee s executive compensation consultant, as well as the Committee s assessment of our overall performance and the individual executive s performance and contribution. The Committee also considered the size of equity grants made in prior years to each executive.

The form of award agreements for the ECP provide that the Committee may approve the deferral by officers, for income-tax-planning purposes, of the receipt of shares otherwise issuable to participants upon vesting of performance units granted to them under the plan. With respect to any such deferrals, the issuance of shares is deferred until the date indicated in the participant s election. Dividend equivalents are earned on the deferred awards during the deferral period and are deemed to be reinvested in our common stock. At the distribution date, the remaining state and federal taxes are due, and the net shares are distributed to participants based on the number of shares deferred and the fair market value of our common stock price on that date.

2014 Awards

In 2014, restricted stock units were granted pursuant to the LTI Plan and performance units were granted pursuant to the ECP. With respect to awards to our named executive officers in 2014, 80 percent were performance-vested stock awards and 20 percent were time-vested restricted stock unit awards, reflecting our practice to deliver more value in awards based on a performance metric than in awards based on a time-based service metric. The aggregate grant date fair value of the restricted stock units and performance units granted under the LTI Plan and the ECP to the named

executive officers in 2014, as determined in accordance with ASC Topic 718, is shown in the Stock Awards column of the Summary Compensation Table for Fiscal 2014 on page 70.

2014 Restricted Units. Restricted stock units granted under the LTI Plan in 2014 vest three years from the date of grant, at which time the holder is entitled to one share of our common stock for each restricted stock unit held. If a holder of restricted stock units retires, becomes disabled or dies prior to vesting, the restricted stock units will vest immediately on a prorated basis based on the number of full months elapsed from the date of grant and the date of such holder s retirement, disability or death. In cases of termination of employment for any reason other than retirement, disability or death restricted stock units are forfeited. In the event of a change in control of the company, restricted stock unit awards vest as of the effective date of the change in control. Dividend equivalents are payable with respect to these restricted stock units over the term of the vesting period.

2014 Performance Units. Performance units granted under the ECP in 2014 vest three years from the date of grant, at which time the holder is entitled to receive a percentage of the performance units granted in shares of our common stock. The number of shares of common stock to be issued upon vesting will range from zero to 200 percent of the number of units granted based on our total shareholder return (TSR) over the performance period of February 19, 2014, to February 19, 2017, compared with the TSR of a peer group, consisting of the following companies: Boardwalk Pipeline Partners, LP; Buckeye Partners, L.P.; CenterPoint Energy, Inc.; Energy Transfer Partners, L.P.;

EQT Corporation; MDU Resources Group, Inc.; Magellan Midstream Partners, L.P.; MarkWest Energy Partners, L.P.; National Fuel Gas Company; NiSource Inc.; NuStar Energy L.P.; OGE Energy Corp.; Plains All American Pipeline, L.P.; Sempra Energy; Spectra Energy Corp; Targa Resources Partners LP; and The Williams Companies, Inc. TSR includes both the change in market price of the stock and the value of dividends paid and reinvested in the stock during the three-

year performance period. Peer companies that are no longer publicly traded on the closing date of the performance period will not be considered in the performance calculation.

Table of Contents

The following table reflects the percentage of units that will be earned at the end of the performance period based on our TSR

performance during such period as compared with our peer group:

ONEOK TSR Ranking vs. ONEOK Peer Group	Percentage of Performance Units Earned
90th percentile and above	200%
75th percentile	150%
50th percentile	100%
25th percentile	50%
Below the 25th percentile	0%

If our TSR ranking at the end of the performance period is between the stated percentage levels set forth in the table above, the percentages of performance units earned will be interpolated between the earnings levels.

If a holder of performance units retires, becomes disabled, dies or is terminated other than for cause prior to vesting, the performance units will vest based on the performance results at the end of the performance period on a prorated basis based on the number of full months elapsed from the date of grant and the date of such holder s retirement, disability, death or involuntary termination other than for cause. In cases of termination of employment for any reason other than retirement, disability, death or involuntary termination other than for cause, performance units are forfeited. Outstanding performance units that vest in connection with a change of control will vest in an amount based on the total shareholder return performance results over the period from the date of grant through the effective date of the change of control. Dividend equivalents are payable with respect to these performance units over the term of the vesting period.

2014 Separation Transaction One Time Adjustment Grants

On January 31, 2014, we completed the separation of our former natural gas distribution business into a stand-alone, publicly traded company known as ONE Gas, Inc. As a result of this transaction, the number of unvested 2012 and 2013 restricted stock units and performance units held by employees who remained as employees of ONEOK following the separation transaction was adjusted by issuing additional

restricted stock units and additional performance units to these employees to preserve the intrinsic value of the awards held by them immediately prior to the separation. There were no changes to the original vesting or performance criteria of the 2012 and 2013 restricted stock units and performance units and none of the 2012 or 2013 restricted stock units or performance units vested as a result of the separation transaction. See footnote (3) to the Outstanding Equity Awards at 2014 Fiscal Year table under the caption Outstanding Equity Awards in this proxy statement.

CLAWBACK PROVISIONS

Our Board believes that employees who are responsible for material noncompliance with applicable financial reporting requirements resulting in accounting errors leading to a financial statement restatement should not benefit monetarily from such noncompliance. We have adopted clawback provisions to permit our Board or a committee of our Board to use appropriate discretion to recapture grants of performance units and short-term cash incentive awards paid to employees who bear responsibility for such noncompliance. We believe that these clawbacks discourage employees from taking actions that could result in material excessive risk to us.

Our outstanding performance-unit grants contain provisions that allow the Committee, in its sole discretion, to seek recoupment of the grant of the performance units, any resulting shares earned and the gross proceeds from the sale of such shares in the event of fraud, negligence or intentional misconduct by the holder of the performance units that is determined to be a contributing factor to our having to restate all or a portion of our financial statements.

In addition, our annual short-term incentive plan provides that the Committee, in its sole discretion, may call for repayment of all or a portion of a short-term cash incentive award to a participant in the event of fraud, negligence or intentional misconduct by the participant that is determined to be a contributing factor to our having to restate all or a portion of our financial statements.

In fiscal 2014, we had no financial statement corrections requiring a restatement, and the Board has not needed to consider taking any action under these clawback provisions.

SECURITIES TRADING POLICY

We have a policy that employees, including our officers and directors, may not purchase or sell our stock when they are in possession of material non-public information. This policy also provides that officers, directors and employees in certain designated work groups may trade in our securities only during open window periods (beginning the third day after our release of quarterly or annual earnings and continuing until the first day of the following calendar quarter) and must pre-clear all purchases and sales of our securities with our senior management. This policy also prohibits officers, members of our Board of Directors and employees in certain designated work groups from engaging in short sales, derivative or speculative transactions in our securities, or purchasing or using, directly or indirectly through family members or other persons or entities, financial instruments (including puts or calls, prepaid variable forward contracts, equity swaps, collars and exchange funds) that are designed to hedge or offset any decrease in the market value of our securities.

The policy also prohibits officers and directors from holding our securities in a margin account or pledging our securities as collateral for a loan. An exception to this prohibition may be granted by the Chief Executive Officer when an officer or director wishes to pledge shares of our stock as collateral for a loan (but not including a margin account), the officer or director clearly demonstrates the financial capacity to repay the loan without resorting to the pledged securities, and the terms of the loan prohibit the sale of any of our stock held as collateral when the officer or director is not permitted to trade in our stock.

SHARE OWNERSHIP GUIDELINES

Our Board of Directors strongly advocates executive share ownership as a means to align executive interests with those of our shareholders and has adopted share-ownership guidelines for our Chief Executive Officer and all other officers of the company. These guidelines are mandatory and generally must be achieved by each officer over the course of the later of five years after becoming an officer or three years after January 31, 2014, the effective date of the separation of ONE Gas, Inc. The ownership guideline for the Chief Executive Officer is a share ownership position with a value of six times base salary. The ownership guidelines for the other officers provide for share ownership positions ranging from two to five times base salary, depending on the office held. As of December 31, 2014, each of the named executive officers satisfied his individual stock ownership requirements under the guidelines.

Our Board of Directors has also established minimum share-ownership guidelines for our directors that provide that, within five years after joining the Board, each non-management director will own shares of our common stock having a minimum value of five times the annual cash retainer paid for service on our Board. As of December 31, 2014, each member of our Board satisfied this stock ownership guideline.

No named executive officer or member of our Board of Directors has pledged any of their shares of our common stock.

CHANGE-IN-CONTROL PAYMENTS

Our senior management and other employees have built our company into the successful enterprise that it is today, and we believe that it is important to protect their interests in the event of a change in control of our company. Further, it is our belief that the interests of our shareholders will be best served if the interests of our senior management are aligned with our shareholders, and that providing change in control benefits should mitigate the reluctance of senior management to pursue potential change-in-control transactions that may be in the best interests of our shareholders.

We have a Change-in-Control Plan that provides for certain payments in the event of termination of employment of an executive officer of our company (including the named executive officers) following a change in control. The plan does not provide for additional pension benefits upon a change in control. In addition, the plan does not provide a tax gross-up feature but provides plan participants a net best approach to excise taxes in determining the benefit payable to a participant under the plan. This approach determines a participant s net best benefit based on the full benefit being paid to a participant and the participant paying the applicable federal excise tax, if any, or reducing the benefit to a level that would not trigger the payment of federal excise tax. To determine the levels of benefits to be paid to the named executive officers under the plan when the plan was adopted, the Committee consulted with Meridian Compensation Partners, its independent executive compensation consultant, to determine competitive practices in our industry with respect to change in control arrangements. The Committee determined that the levels of benefits provided under the plan, including the payment of various multiples of salary and target short-term incentive compensation, accomplished our objective of providing competitive benefits and that these benefits are consistent with the general practice among our peers. The Committee annually reviews the eligible participants and benefit levels under the plan. Under this plan, all change-in-control benefits are double trigger and are payable only if the officer s employment is terminated without just cause or by the officer for good reason at any time during the two years following a change in control.

The 2014 separation of our natural gas distribution business into a standalone, publicly traded company known as ONE Gas, Inc. was not considered a change in control under any of our benefit plans.

For additional information on this plan, see Potential Post-Employment Payments and Payments upon a Change in Control below.

REIMBURSEMENT FROM ONEOK PARTNERS

We have entered into a services agreement with ONEOK Partners pursuant to which we provide various services to ONEOK Partners, including the services of certain members of our management who serve as officers of the sole general partner of ONEOK Partners. Under the services agreement, we allocate to and are reimbursed by ONEOK Partners all or a portion of the total compensation paid by us to Messrs.

Gibson, Spencer, Reiners, Martinovich, Christensen and Lake in connection with their services rendered on behalf of ONEOK Partners. In 2014, the respective portions of total compensation paid to such individuals for which we were reimbursed by ONEOK Partners were as follows: Mr. Gibson (95.7 percent), Mr. Spencer (95.7 percent), Mr. Martinovich (95.7 percent), Mr. Reiners (95.7 percent), Mr. Christensen (100 percent), and Mr. Lake (95.7 percent). This allocation is determined using the modified Distrigas method, a widely recognized method of allocating costs, which uses a combination of ratios that include gross plant and investment, operating income and labor expense.

INTERNAL REVENUE SERVICE LIMITATIONS ON DEDUCTIBILITY OF EXECUTIVE COMPENSATION

Section 162(m) of the Tax Code, places a limit of $1,000,000 on the amount of compensation our company may deduct in any one year with respect to its Chief Executive Officer or any of the three other most highly compensated executive officers, other than the principal financial officer, who are employed by us on the last day of the taxable year. There is an exception to the $1,000,000 limitation for performance-based compensation that meets certain requirements. To maintain flexibility in compensating executive officers in a manner designed to promote varying corporate goals in the best interest of our company, the Committee has not adopted a policy requiring all compensation to be fully deductible under Section 162(m).

EXECUTIVE COMPENSATION COMMITTEE REPORT

The Executive Compensation Committee of the Board of Directors has the responsibility for reviewing and recommending to the full Board of Directors the company s executive compensation program. The Committee is composed entirely of persons who qualify as independent directors under the listing standards of the NYSE.

In this context, the Committee has met, reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement. Based on this review and discussion, the Committee recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the Compensation Discussion and Analysis in this proxy statement.

Respectfully submitted by the members of the Executive Compensation Committee of the Board of Directors:

Steven J. Malcolm, *Chair*

Pattye L. Moore, *Vice Chair*

Bert H. Mackie

Eduardo A. Rodriguez

Table of Contents

NAMED EXECUTIVE OFFICER COMPENSATION

The following table reflects the compensation paid to the named executive officers in respect of our 2014 fiscal year.

Name and Principal Position	Year	Salary	Stock Awards[1]	Non-Equity Incentive Plan Compensation[2]	Change in Pension Value and Nonqualified Deferred Compensation Earnings[3]	All Other Compensation[4]	Total
John W. Gibson	2014	$ 79,167[5]	$ _	$ 54,000[6]	$ 3,767,497	$ 5,146	$ 3,905,810
Chairman and Chief Executive Officer through January 30, 2014	2013	$ 950,000	$ 2,979,895	$ 447,000	$ _	$ 120,732	$ 4,497,627
Chairman of the Board effective January 31, 2014	2012	$ 950,000	$ 3,339,711	$ 1,050,000	$ 3,578,970	$ 147,411	$ 9,066,092
Terry K. Spencer	2014	$ 700,000	$ 2,254,239	$ 468,000	$ 563,529	$ 57,154	$ 4,042,922
President through January 30, 2014	2013	$ 600,000	$ 1,364,875	$ 235,000	$ 45,587	$ 67,932	$ 2,313,394
President and Chief Executive Officer effective January 31, 2014	2012	$ 600,000	$ 1,649,240	$ 520,000	$ 531,532	$ 75,411	$ 3,376,183
Derek S. Reiners	2014	$ 375,000	$ 845,029	$ 150,000	$ _	$ 47,254	$ 1,417,283
Senior Vice President, Chief Financial Officer and Treasurer	2013	$ 325,000	$ 541,391	$ 85,000	$ _	$ 44,382	$ 995,773
	2012	$ 290,000	$ 329,848	$ 160,000	$ _	$ 57,061	$ 836,909
Robert F. Martinovich	2014	$ 500,000	$ 845,029	$ 225,000	$ _	$ 67,054	$ 1,637,083
Executive Vice President, Operations through January 30, 2014	2013	$ 500,000	$ 813,271	$ 160,000	$ _	$ 80,382	$ 1,553,653
Executive Vice President, Commercial effective January 31, 2014 through February 17, 2015	2012	$ 500,000	$ 1,443,085	$ 385,000	$ _	$ 113,361	$ 2,441,446

Executive Vice President and Chief Administrative Officer effective February 18, 2015													
Stephen W. Lake	2014	$	450,000	$	845,029	$	190,000	$	_	$	58,054	$	1,543,083
Senior Vice President, General	2013	$	450,000	$	541,391	$	120,000	$	_	$	67,332	$	1,178,723
	2012	$	425,000	$	618,465	$	290,000	$	_	$	66,961	$	1,400,426
Counsel and Assistant Secretary													
Wesley J. Christensen	2014	$	400,000	$	845,029	$	195,000	$	138,304	$	40,654	$	1,618,987
Senior Vice President, Operations	2013	$	340,000	$	541,391	$	100,000	$	33,100	$	43,482	$	1,057,973
	2012	$	300,000	$	329,848	$	220,000	$	102,794	$	46,211	$	998,853

(1) The amounts included in the table relate to restricted stock units and performance-units granted under our LTI Plan and our ECP, respectively, and reflect the aggregate grant date fair value calculated pursuant to ASC Topic 718. Material assumptions used in the calculation of the value of these equity grants are included in Note M to our audited

Table of Contents

financial statements for the year ended December 31, 2014, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2015.

The aggregate grant date fair value of restricted stock units for purposes of ASC Topic 718 was determined based on the closing price of our common stock on the grant date, adjusted for the current dividend yield. With respect to the performance units, the aggregate grant date fair value for purposes of ASC Topic 718 was determined using the probable outcome of the performance conditions as of the grant date based on a valuation model that considers the market condition (total shareholder return) and using assumptions developed from historical information of the company and each of the referenced peer companies. The value included for the performance units is based on 100 percent of the performance units vesting at the end of the three-year performance period. Using the maximum number of shares issuable upon vesting of the performance units (200 percent of the units granted), the aggregate grant date fair value of the performance units would be as follows:

Name	2014	2013	2012
John W. Gibson	$	$ 4,858,670	$ 5,493,744
Terry K. Spencer	$ 3,708,300	$ 2,225,365	$ 2,712,960
Derek S. Reiners	$ 1,388,850	$ 883,870	$ 542,592
Robert F. Martinovich	$ 1,388,850	$ 1,325,805	$ 2,373,840
Stephen W. Lake	$ 1,388,850	$ 883,870	$ 1,017,360
Wesley J. Christensen	$ 1,388,850	$ 883,870	$ 542,592

(2) Reflects short-term cash incentives earned in 2012, 2013 and 2014 and paid in 2013, 2014 and 2015, respectively, under our annual short-term incentive plan. For a discussion of the performance criteria established by the Committee for awards under the 2014 annual short-term incentive plan, see 2014 Annual Short-Term Incentive Awards above.

(3) The amounts reflected represent the aggregate change during 2014 in the actuarial present value of the named executive officers accumulated benefits under our qualified Retirement Plan and Supplemental Executive Retirement Plan. For a description of these plans, see Pension Benefits below. The change in the present value of the accrued pension benefit is impacted by variables such as additional years of service, age and the discount rate used to calculate the present value of the change. For 2014, the change in pension value reflects not only the increase due to additional service and pay for the year, but also an increase in present value due to the lower discount rate (4.50 percent for fiscal 2014, down from 5.25 percent in 2013). The Retirement Plan was closed to new participants as of December 31, 2004, and the named executive officers who participate in the plan are Messrs. Gibson, Spencer and Christensen. Messrs. Gibson, Spencer and Christensen also participate in our Supplemental Executive Retirement Plan. This plan has not accepted any new participants since December 31, 2004.

During 2013, the pension value for Mr. Gibson decreased $564,987. There were no above-market or preferential earnings credited on any named executive officer s non-qualified deferred compensation.

(4) Reflects (i) the amounts paid as our dollar-for-dollar match of contributions made by the named executive officer under our Nonqualified Deferred Compensation Plan and our 401(k) Plan as well as quarterly and annual Company contributions to our Profit Sharing Plan and corresponding excess contributions to our Nonqualified Deferred Compensation Plan, (ii) amounts paid for length of service awards, and (iii) the value of shares received under our Employee Stock Award Program as of the date of issuance as follows:

Name	Year	Match Under Nonqualified Deferred Compensation Plan[(a)]	Match Under 401(k) Plan[(b)]	Company Contribution to Profit Sharing Plan[(c)]	Service Award	Stock Award
John W. Gibson	2014	$	$ 4,750	$	$	$ 396
	2013	$ 104,700	$ 15,300	$	$	$ 732
	2012	$ 132,000	$ 15,000	$	$	$ 411
Terry K. Spencer	2014	$ 40,500	$ 15,600	$	$	$ 1,054
	2013	$ 51,900	$ 15,300	$	$	$ 732
	2012	$ 60,000	$ 15,000	$	$	$ 411
Derek S. Reiners	2014	$ 20,000	$ 15,600	$ 10,400	$ 200	$ 1,054
	2013	$ 20,700	$ 15,300	$ 7,650	$	$ 732
	2012	$ 29,150	$ 15,000	$ 12,500	$	$ 411
Robert F. Martinovich	2014	$ 40,000	$ 15,600	$ 10,400	$	$ 1,054
	2013	$ 56,700	$ 15,300	$ 7,650	$	$ 732
	2012	$ 85,250	$ 15,000	$ 12,500	$ 200	$ 411
Stephen W. Lake	2014	$ 31,000	$ 15,600	$ 10,400	$	$ 1,054
	2013	$ 43,650	$ 15,300	$ 7,650	$	$ 732
	2012	$ 39,050	$ 15,000	$ 12,500	$	$ 411
Wesley J. Christensen	2014	$ 24,000	$ 15,600	$	$	$ 1,054
	2013	$ 27,450	$ 15,300	$	$	$ 732
	2012	$ 30,800	$ 15,000	$	$	$ 411

(a) For additional information on our Nonqualified Deferred Compensation Plan, see Pension Benefits Nonqualified Deferred Compensation Plan below.

(b) Our 401(k) Plan is a tax-qualified plan that covers substantially all of our employees. Employee contributions are discretionary. Subject to certain limits, we match 100 percent of employee contributions to the plan up to a maximum of 6 percent of eligible compensation.

(c) At December 31, 2014, our Profit Sharing Plan covered all full-time employees hired after December 31, 2004, and employees who accepted a one-time opportunity to opt out of our Retirement Plan. We plan to make a contribution to the Profit Sharing Plan each quarter equal to 1 percent of each participant s eligible compensation during the quarter. Additional discretionary employer contributions may be made at the end of each year. Employee contributions are not allowed under the plan.

The named executive officers did not receive other perquisites or other personal benefits with an aggregate value of $10,000 or more during 2012, 2013 or 2014.

(5) Mr. Gibson retired as our Chief Executive Officer on January 31, 2014. His annual salary prior to his retirement was $950,000. For a description of director fees received by Mr. Gibson in 2014, see Director Compensation at page 26

(6) As a result of his retirement as our Chief Executive Officer effective January 31, 2014, Mr. Gibson s 2014 short-term incentive payout was prorated.

Table of Contents

2014 GRANTS OF PLAN-BASED AWARDS

The following table reflects the grants of plan-based awards to the named executive officers during 2014.

Name	Grant Date	Threshold	Target	Maximum	Threshold	Target	Maximum	All Other Stock Awards: Number of Shares of Stock or Units[3]	Grant Date Fair Value of Stock Awards[4]
John W. Gibson[5]									
Restricted Units	2/19/2014								$
Performance Units	2/19/2014								$
Short-Term Incentive	1/1/2014	$	$ 79,167	$ 197,917					
Terry K. Spencer									
Restricted Units	2/19/2014							6,575	$ 400,089
Performance Units	2/19/2014					26,300	52,600		$ 1,854,150
Short-Term Incentive	1/1/2014	$	$ 700,000	$ 1,750,000					
Derek S. Reiners									
Restricted Units	2/19/2014							2,475	$ 150,604
Performance Units	2/19/2014					9,850	19,700		$ 694,425
Short-Term Incentive	1/1/2014	$	$ 243,750	$ 609,375					
Robert F. Martinovich									
Restricted Units	2/19/2014							2,475	$ 150,604
Performance Units	2/19/2014					9,850	19,700		$ 694,425
Short-Term Incentive	1/1/2014	$	$ 350,000	$ 875,000					
Stephen W. Lake									
Restricted Units	2/19/2014							2,475	$ 150,604
Performance Units	2/19/2014					9,850	19,700		$ 694,425
Short-Term Incentive	1/1/2014	$	$ 292,500	$ 731,250					
Wesley J. Christensen									
Restricted Units	2/19/2014							2,475	$ 150,604
Performance Units	2/19/2014					9,850	19,700		$ 694,425
Short-Term Incentive	1/1/2014	$	$ 280,000	$ 700,000					

(1) Reflects estimated payments that could have been made under our 2014 annual short-term cash incentive plan. The plan provides that our officers may receive annual short-term incentive cash awards based on the performance and

profitability of the company, the performance of particular business units of the company and individual performance during the relevant fiscal year. The corporate and business-unit criteria and individual performance criteria are established annually by the Committee. The Committee also establishes annual target awards for each officer expressed as a percentage of their base salaries. The actual amounts earned by the named executive officers in 2014 under the plan and paid in 2015 are set forth under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table for Fiscal 2014 above.

(2) Reflects the performance units that could be earned pursuant to awards granted under our ECP that are earned three years from the date of grant, at which time the holder is entitled to receive a percentage (0 to 200 percent) of the performance-units granted based on our total shareholder return over the period of February 19, 2014, to February 19, 2017, compared with the total shareholder return of the referenced peer group. One share of our common stock is payable in respect of each performance unit that vests. Performance units are also subject to accelerated vesting upon a change in control based on actual total shareholder return performance relative to the designated peer group as of the effective date of the change in control.

(3) Reflects restricted stock units granted under our LTI Plan that vest three years from the date of grant, at which time the grantee is entitled to receive the grant in shares of our common stock.

(4) With respect to the performance units, the aggregate grant date fair value for purposes of ASC Topic 718 was determined using the probable outcome of the performance conditions as of the grant date based on a valuation model that considers market conditions (such as total shareholder return) and using assumptions developed from historical information of the company and each of the peer companies referenced under Long-Term Incentive Awards 2014 Awards above. This amount is consistent with the estimate of aggregate compensation cost to be recognized over the performance period determined as of the grant date under ASC Topic 718. The value presented is based on 100 percent of the performance units vesting at the end of the three-year performance period.

(5) Mr. Gibson retired as our Chief Executive Officer effective January 31, 2014.

OUTSTANDING EQUITY AWARDS

The following table shows the outstanding equity awards held by the named executive officers as of December 31, 2014.

Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested[(1)(3)(4)]	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested[(2)(3)(4)]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
John W. Gibson[(5)]				$			$		$
Terry K. Spencer				$		22,570	$ 1,123,741	55,628	$ 2,769,730
Derek S. Reiners				$		6,977	$ 347,364	14,775	$ 735,649
Robert F. Martinovich				$		14,557	$ 724,771	43,507	$ 2,166,210
Stephen W. Lake				$		8,601	$ 428,223	21,271	$ 1,059,085

Wesley J. Christensen	$	6,977	$	347,364	14,775	$	735,649

(1) Represents restricted stock units that have not yet vested, including additional restricted stock units issued to the named executive officers in connection with the ONE Gas, Inc. separation transaction. Restricted stock units vest three years from the date of grant, at which time the grantee is entitled to receive one share of our common stock for each vested restricted stock unit.

Table of Contents

The following table reflects the vesting schedule for our outstanding restricted stock units.

Name	Number of Restricted Units	Vest Date
Terry K. Spencer	9,280	on February 15, 2015
	6,527	on February 20, 2016
	6,763	on February 19, 2017
Derek S. Reiners	1,856	on February 15, 2015
	2,575	on February 20, 2016
	2,546	on February 19, 2017
Robert F. Martinovich	8,120	on February 15, 2015
	3,891	on February 20, 2016
	2,546	on February 19, 2017
Stephen W. Lake	3,480	on February 15, 2015
	2,575	on February 20, 2016
	2,546	on February 19, 2017
Wesley J. Christensen	1,856	on February 15, 2015
	2,575	on February 20, 2016
	2,546	on February 19, 2017

(2) Represents performance units that have not yet vested, including additional performance units issued to the named executive officers in connection with the ONE Gas, Inc. separation transaction. Performance units vest three years from the date of grant, at which time the holder is entitled to receive a percentage (0 to 200 percent) of the performance-units granted based on our total shareholder return over the three-year performance period, compared with the total shareholder return of the referenced peer group. One share of our common stock is payable in respect of each performance-unit granted that becomes vested.

The following table reflects the projected vesting level based on our total shareholder return compared with the total shareholder return of the referenced peer group at December 31, 2014 for our outstanding performance units due to vest on February 15, 2015 (100 percent),, February 20, 2016 (70 percent) and February 19, 2017 (zero percent).

Name	Number of Performance Units	Vest Date
Terry K. Spencer	37,120	on February 15, 2015
	18,508	on February 20, 2016
		on February 19, 2017
Derek S. Reiners	7,424	on February 15, 2015
	7,351	on February 20, 2016
		on February 19, 2017
Robert F. Martinovich	32,480	on February 15, 2015
	11,027	on February 20, 2016
		on February 19, 2017
Stephen W. Lake	13,920	on February 15, 2015
	7,351	on February 20, 2016
		on February 19, 2017
Wesley J. Christensen	7,424	on February 15, 2015
	7,351	on February 20, 2016
		on February 19, 2017

(3) On January 31, 2014 we completed the separation of our former natural gas distribution business into a stand-alone, publicly traded company known as ONE Gas, Inc. As a result of this transaction, we made certain adjustments to the number of our outstanding 2012 and 2013 restricted stock units and performance units held by employees, including the named executive officers, for the purpose of preserving the intrinsic value of each award immediately prior to the separation. The adjustments were made by the issuance of additional restricted stock units

and performance units with the same terms and vesting periods of the outstanding 2012 and 2013 restricted stock units and performance units. The additional units issued to the named executive officers are included in the table above and are as follows:

Name	Restricted	Performance	Restricted	Performance
John W. Gibson		2,300		6,624
Terry K. Spencer	870	3,447	1,280	5,120
Derek S. Reiners	344	1,369	256	1,024
Robert F. Martinovich	518	2,054	1,120	4,480
Stephen W. Lake	344	1,369	480	1,920
Wesley J. Christensen	344	1,369	256	1,024

(4) The terms of our restricted stock units provide that any such unvested units will vest upon a change in control. Our performance units will vest upon a change in control based on our total shareholder return relative to the designated peer group over the period from the date of grant through the effective date of the change in control. See Post-Employment Payments and Payments upon a Change in Control.

(5) Mr. Gibson s unvested restricted units vested and were paid to him on a prorated basis upon his retirement as Chief Executive Officer on January 31, 2014, as follows: 64 percent of the restricted units that were scheduled to vest on February 15, 2015, and 31 percent of the restricted units that were scheduled to vest on February 20, 2016, for a total of 13,978 shares. Mr. Gibson s performance units also vested on a prorated basis upon his retirement on January 31, 2014. No shares will be paid out to Mr. Gibson in connection with these vested performance units until the conclusion of their respective performance periods. A total of 108,007 performance units vested upon Mr. Gibson s retirement and will be paid out (including dividend equivalents earned prior to pay out) on a prorated basis at the conclusion of the vesting period as follows: 64 percent of the performance units scheduled to pay out on February 15, 2015; and 31 percent of the performance units scheduled to pay out on February 20, 2016.

Table of Contents

OPTION EXERCISES AND STOCK VESTED

The following table sets forth stock awards held by the named executive officers that vested during 2014, including restricted units and performance units that were granted in 2011 and, with respect to Mr. Gibson, restricted units granted in 2012 and 2013 that vested upon his retirement as Chief Executive

Officer effective January 31, 2014. No named executive officer exercised any options during 2014, and no named executive officer or any other employee currently holds any unexercised options.

Name	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting[(2)]	Value Realized on Vesting[(3)]
John W. Gibson[(4)]		$	238,978	$ 15,458,851
Terry K. Spencer		$	103,500	$ 6,677,820
Derek S. Reiners		$	18,000	$ 1,161,360
Robert F. Martinovich		$	76,500	$ 4,935,780
Stephen W. Lake		$		$
Wesley J. Christensen		$	18,000	$ 1,161,360

(1) Certain of the named executive officers elected to have vested shares withheld to cover applicable state and federal taxes incurred upon vesting. As a result, the net shares received upon the vesting and the related net value realized are as follows:

Name	Net Shares Acquired on Exercise	Net Value Realized on Exercise	Net Shares Acquired on Vesting	Net Value Realized on Vesting
John W. Gibson		$	128,389	$ 8,304,895
Terry K. Spencer		$	56,845	$ 3,667,733
Derek S. Reiners		$	11,692	$ 754,436
Robert F. Martinovich		$	42,586	$ 2,747,715
Stephen W. Lake		$		$

Wesley J. Christensen	$	11,693	$	754,473

(2) Includes restricted stock units and performance units granted in 2011 that vested in 2014 and that were paid in shares of our common stock. Performance units vested at 200 percent of the initial grant. This level of payout was achieved due to our relative total shareholder return being above the 90th percentile of the total shareholder return of the specified peer group of energy companies.

(3) The value received on vesting represents the market value of the shares received based on the average of the high and low prices of our common stock on the NYSE on the date of vesting.

(4) Mr. Gibson s unvested restricted units vested and were paid to him on a prorated basis upon his retirement as Chief Executive Officer on January 31, 2014, as follows: 64 percent of the restricted units that were scheduled to vest on February 15, 2015, and 31 percent of the restricted units that were scheduled to vest on February 20, 2016. Mr. Gibson s performance units also vested on a prorated basis upon his retirement on January 31, 2014. No shares will be paid out to Mr. Gibson in connection with these vested performance units until the conclusion of their respective performance periods. The performance units vested on a prorated basis as follows: 64 percent of the performance units scheduled to vest on February 15, 2015; and 31 percent of the performance units scheduled to vest on February 20, 2016.

Table of Contents

PENSION BENEFITS

The following table sets forth the estimated present value of accumulated benefits as of December 31, 2014, and payments

made during 2014, in respect of each named executive officer under each of the referenced retirement plans.

Name	Plan Name	Number of Years Credited Service		Present Value of Accumulated Benefit[1]		Payments During Last Fiscal Year
John W. Gibson	Supplemental Executive Retirement Plan	24.00[2]	$	17,216,097	$	972,573
	Retirement Plan	14.00[3]	$	853,204	$	48,199
Terry K. Spencer	Supplemental Executive Retirement Plan	13.25	$	1,487,760	$	
	Retirement Plan	13.25	$	588,800	$	
Derek S. Reiners	Supplemental Executive Retirement Plan		$		$	
	Retirement Plan		$		$	
Robert F. Martinovich	Supplemental Executive Retirement Plan		$		$	
	Retirement Plan		$		$	
Stephen W. Lake	Supplemental Executive Retirement Plan		$		$	
	Retirement Plan		$		$	
Wesley J. Christensen	Supplemental Executive Retirement Plan		$		$	
	Retirement Plan	10.00	$	575,235	$	

(1) Each executive officer s benefit is determined as of age 62 when an unreduced benefit can be received under the plans. The present value of the unreduced benefit is determined using the assumptions from the pension plan measurement date of December 31, 2014. Material assumptions used in the calculation of the present value of accumulated benefits are included in Note N to our audited financial statements for the year ended December 31, 2014, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2015.

(2)

Pursuant to a 2000 agreement between the company and Mr. Gibson, 10 additional years of service are included for purposes of calculating Mr. Gibson s benefits under our Supplemental Executive Retirement Plan. This additional 10 years of service results in a benefit augmentation with an actuarial present value of $5,420,790, or $27,839.24 per month.

(3) Mr. Gibson s actual service is 13 years and eight months. There is no resulting benefit augmentation with respect to the additional four months credit to Mr. Gibson s years of service.

Table of Contents

Retirement Plan

The ONEOK, Inc. Retirement Plan is a defined benefit pension plan qualified under the Tax Code and is subject to the Employee Retirement Income Security Act of 1974, as amended. At December 31, 2014, the plan covered full-time employees hired prior to January 1, 2005. Employees hired after January 1, 2005, and employees who accepted a one-time opportunity to opt out of our Retirement Plan in 2004 are now covered by our Profit Sharing Plan.

Benefits under our Retirement Plan generally become vested and non-forfeitable after completion of five years of continuous employment. Under the plan, a vested participant receives a monthly retirement benefit at normal retirement age, unless an early retirement benefit is elected under the plan, in which case the retirement benefit may be actuarially reduced for early commencement. Generally, participants retiring on or after age 62 through normal retirement age receive 100 percent of their accrued monthly benefit which may be reduced depending on the optional form of payment elected at retirement. Benefits are calculated at retirement date based on a participant s credited service, limited to a maximum of 35 years, and final average earnings. The earnings utilized in the Retirement Plan benefit formula for employees includes the base salary and short-term incentive compensation paid to an employee during the period of the employee s final average earnings, less any amounts deferred under our non-qualified deferred compensation plan. The period of final average earnings means the employee s highest earnings during any 60 consecutive months during the last 120 months of employment. The amount of eligible compensation that may be considered in calculating retirement benefits is also subject to limitations in the Tax Code.

Supplemental Executive Retirement Plan

We maintain a Supplemental Executive Retirement Plan (SERP) as a supplemental retirement benefit plan for certain

officers. The SERP provides that officers may be selected for participation in a supplemental retirement benefit or an excess retirement benefit, or both. If a participant is eligible for both the supplemental retirement benefit and the excess retirement benefit, the excess retirement benefit and benefits payable under our Retirement Plan are treated as an offset that reduces the supplemental retirement benefit.

Participants in the SERP were selected by our Chief Executive Officer or, in the case of our Chief Executive Officer, by our Board of Directors. Our Board of Directors may amend or terminate the SERP at any time, provided that accrued benefits to current participants may not be reduced.

No new participants have been added to our SERP since 2005, and, in November 2013, our Board of Directors approved an amendment to the SERP that closed the SERP to any additional participants as of January 1, 2014.

Supplemental benefits payable to participating employees in the SERP are based upon a specified percentage (reduced for early retirement and commencement of payment of benefits under the SERP) of the highest 36 consecutive months compensation of the employee s last 60 months of service. The excess retirement benefit under the SERP pays a benefit equal at least to the benefit that would be payable to the participant under our Retirement Plan if limitations imposed by the Tax Code were not applicable, less the benefit payable under our Retirement Plan with such limitations. Benefits under the SERP are offset by the payment of benefits under our Retirement Plan that were or would have been paid if Retirement Plan benefits were commenced at the same time as the SERP benefits. We fund benefits payable under the SERP through a rabbi trust arrangement.

Table of Contents

Nonqualified Deferred Compensation Plan

The following table sets forth certain information regarding the participation by the named executive officers in our Nonqualified Deferred Compensation Plan.

Name	Year	Executive Contributions in Last Fiscal Year	Registrant Contributions in Last Fiscal Year[(1)]	Aggregate Earnings in Last Fiscal Year[(2)]	Aggregate Withdrawals / Distributions	Aggregate Balance at Last Fiscal Year End[(3)]
John W. Gibson[(4)]	2014	$ 1,583	$ _	$ (331,523)	$ 18,028,951	$ 16,340,699
	2013	$ 121,500	$ 854,064	$ 10,468,554	$ _	$ 34,699,590
	2012	$ 149,000	$ 13,574,860	$ (263,266)	$ _	$ 23,255,472
Terry K. Spencer	2014	$ 207,000	$ 40,500	$ 188,948	$ _	$ 1,834,827
	2013	$ 270,500	$ 51,900	$ 300,660	$ _	$ 1,398,379
	2012	$ 180,000	$ 60,000	$ 81,908	$ _	$ 775,319
Derek S. Reiners	2014	$ 10,100	$ 20,000	$ 28,413	$ _	$ 352,947
	2013	$ 37,350	$ 20,700	$ 61,347	$ _	$ 294,434
	2012	$ 37,400	$ 29,150	$ 17,506	$ _	$ 175,037
Robert F. Martinovich	2014	$ 32,100	$ 40,000	$ (31,502)	$ _	$ 1,823,406
	2013	$ 45,600	$ 74,866	$ 421,793	$ _	$ 1,782,808
	2012	$ 54,500	$ 100,387	$ 72,218	$ _	$ 1,240,549
Stephen W. Lake	2014	$ 52,700	$ 31,000	$ 17,658	$ _	$ 347,446
	2013	$ 111,900	$ 43,650	$ 30,050	$ _	$ 246,088
	2012	$ 19,300	$ 39,050	$ 2,138	$ _	$ 60,488
Wesley J. Christensen	2014	$ 22,500	$ 24,000	$ (108,801)	$ _	$ 1,525,358
	2013	$ 56,300	$ 27,450	$ 371,938	$ _	$ 1,587,659
	2012	$ 56,400	$ 30,800	$ 53,718	$ _	$ 1,131,971

(1) The All Other Compensation column of the Summary Compensation Table for Fiscal 2014 at page 70 includes these amounts paid under our Nonqualified Deferred Compensation Plan as our excess matching contributions with respect to our 401(k) Plan and excess quarterly and annual company contributions, if applicable, with respect to our Profit Sharing Plan.

(2) There were no above-market earnings in 2014, 2013, or 2012.

(3) Includes amounts previously reported in the Summary Compensation Table in the previous years when earned, if that officer s compensation was required to be disclosed in a previous year. Amounts reported in such years include

previously earned, but deferred, salary and annual incentive awards; Company matching quarterly and annual contributions; and shares that were deferred upon vesting of long-term incentive grants and the dividend equivalents accumulated on these deferrals.

(4) Includes the value of 295,544 shares, the receipt of which was deferred by Mr. Gibson upon vesting in January 2012, under the deferral provisions of the ECP, plus the dividend accumulation on these deferrals for a year-end deferred share balance of 304,360, 313,264 and 324,336 for 2012, 2013 and 2014, respectively.

Table of Contents

We maintain a Nonqualified Deferred Compensation Plan (Deferred Compensation Plan) to provide select employees with the option to defer portions of their compensation and provide nonqualified deferred compensation benefits that are not otherwise available due to limitations on employer and employee contributions to qualified defined contribution plans under the federal tax laws. We match contributions for the benefit of plan participants to replace any company contributions a participant may lose because of limits imposed under the federal tax laws on contributions by a participant in the 401(k) Plan and limits on our contributions to our Profit Sharing Plan, as well as benefits limited by federal tax laws for participants in the ONEOK, Inc. Retirement Plan who do not participate in the SERP.

The Deferred Compensation Plan also allows for supplemental credit amounts, which are amounts that can be contributed at the discretion of the Committee. Under the Deferred Compensation Plan, participants have the option to defer a portion of their salary and/or short-term incentive compensation to a short-term deferral account, which pays out a minimum of five years from the date of election to defer compensation into the short-term deferral account, or to a long-term deferral account, which pays out at retirement or termination of the participant s employment. Participants are immediately 100 percent vested. Short-term deferral accounts are credited with an investment return based on the five-year United States Treasury bond rate as of the first business day of January each year that, for 2014, was 1.72 percent. Long-term deferral accounts are credited with the actual investment return based on the amount of gains, losses and earnings for each of the investment options selected by the participant. For the year ended December 31, 2014, the investment return for the investment options for long-term investment accounts were as follows:

Fund Name	Plan Level Returns
Fidelity Balanced Fund Class K	10.52%
Moody s Corporate Bond Long-Term Yield AAA	5.55%
Vanguard Institutional Index	13.65%
Dodge & Cox International Stock Fund	0.08%
American Beacon Funds Large Cap Value	10.55%
Vanguard PRIMECAP	18.72%
Schwab Mgd Retirement Trust Class IV	4.85%
Schwab Mgd Retirement Trust 2010 Class IV	5.45%
Schwab Mgd Retirement Trust 2020 Class IV	6.03%
Schwab Mgd Retirement Trust 2030 Class IV	6.48%
Schwab Mgd Retirement Trust 2040 Class IV	6.70%
Schwab Mgd Retirement Trust 2050 Class IV	6.75%
JPMorgan Small Cap Equity (VSEIX)	7.33%
JPMorgan Large Cap Growth Fund Class R6	11.13%
PIMCO Total Return Administration Fund	4.69%

At the distribution date, cash is distributed to participants based on the fair market value of the deemed investment of the participant s accounts at that date. We fund benefits payable under the Deferred Compensation Plan through a rabbi trust arrangement.

POTENTIAL POST-EMPLOYMENT PAYMENTS AND PAYMENTS UPON A CHANGE IN CONTROL

Described below are the post-employment compensation and benefits that we provide to our named executive officers. The objectives of the post-employment compensation and benefits that we provide are to:

assist in recruiting and retaining talented executives in a competitive market;

provide security for any compensation or benefits that have been earned;

permit executives to focus on our business;

eliminate any potential personal bias of an executive against a transaction that is in the best interest of our shareholders;

avoid the costs associated with separately negotiating executive severance benefits; and

provide us with the flexibility needed to react to a continually changing business environment.

Table of Contents

We do not enter into individual employment agreements with our executive officers. Instead, in general, the rights of our executives with respect to specific events are covered by our compensation and benefit plans. Under this approach, post-employment compensation and benefits are established separately from the other compensation elements of our executives.

The use of a plan approach instead of individual employment agreements serves several objectives. First, the plan approach provides us with more flexibility to change the terms of severance benefits from time to time if necessary. Second, the plan approach is more transparent, both internally and externally. Internal transparency eliminates the need to negotiate separation benefits on a case-by-case basis and assures an executive that his or her severance benefits are comparable with those of his or her peers. Finally, the plan approach is easier for us to administer, as it requires less time and expense.

Payments Made upon Any Termination

Regardless of the manner in which a named executive officer s employment terminates, he or she is entitled to receive amounts earned during his or her term of employment. These amounts include:

- accrued but unpaid salary;
- amounts contributed under our 401(k) Plan, Profit Sharing Plan and Deferred Compensation Plan;
- amounts accrued and vested through our Retirement Plan and SERP; and
- unused prorated vacation.

Payments Made upon Retirement

In the event of the retirement of a named executive officer, in addition to the items identified above, such named executive officer will be entitled to:

- receive a prorated share of each outstanding performance unit granted under our ECP upon completion of the performance period;
- receive a prorated portion of each outstanding restricted stock unit granted under our LTI Plan; and
- participate in health and life benefits for the retiree and qualifying dependents.

Payments Made upon Death or Disability

In the event of the death or disability of a named executive officer, in addition to the benefits listed under the headings Payments Made Upon Any Termination and Payments Made Upon Retirement above, the named executive officer will receive applicable benefits under our disability plan or payments under our life insurance plan.

Payments Made upon or Following a Change in Control

We believe that the possibility of a change in control creates uncertainty for executive officers because such transactions frequently result in changes in senior management. Our Board of Directors has adopted a Change-in-Control Plan that covers all of our executive officers, including the named executive officers. Subject to certain exceptions, the Change-in-Control Plan will provide our officers with severance benefits if they are terminated by us without cause (as defined in the Change-in-Control Plan) or if they resign for good reason (as defined in the Change-in-Control Plan), in each case within two years following a change in control of ONEOK or ONEOK Partners. All Change-in-Control Plan benefits are double trigger, meaning that payments and benefits under the plan are payable only if the officer s employment is terminated by us without cause or by the officer for a good reason at any time during the two years following a change in control. Severance payments under the plan consist of a cash payment that may be up to three times the participant s base salary and target short-term incentive bonus, plus reimbursement of COBRA healthcare premiums for 18 months. Our Board of Directors, upon the recommendation of the Committee, established a severance multiplier of one or two times annual salary plus target annual bonus for all participants in the Change-in-Control Plan, including two times for each of the named executive officers.

The Change-in-Control Plan does not provide for additional pension benefits upon a change in control. In addition, the Change-in-Control Plan does not contain an excise tax gross-up for any participant. Rather, severance payments and benefits under the Change-in-Control Plan will be reduced if, as a result of such reduction, the officer would receive a greater total payment after taking taxes, including excise taxes, into account.

Relative to the overall value of our company, we believe the potential benefits payable upon a change in control under the

Table of Contents

Change-in-Control Plan are comparatively minor, and we believe that the level of benefits is consistent with the general practice among our peers.

For the purposes of the Change-in-Control Plan, a change in control generally means any of the following events:

- an acquisition of our voting securities by any person that results in the person having beneficial ownership of 20 percent or more of the combined voting power of our outstanding voting securities, other than an acquisition directly from us;

- the current members of our Board of Directors, and any new director approved by a vote of at least two-thirds of our Board, cease for any reason to constitute at least a majority of our Board, other than in connection with an actual or threatened proxy contest (collectively, the Incumbent Board);

- a merger, consolidation or reorganization with us or in which we issue securities, unless (a) our shareholders immediately before the transaction, as a result of the transaction, own, directly or indirectly, at least 50 percent of the combined voting power of the voting securities of the company resulting from the transaction, (b) the members of our Incumbent Board after the execution of the transaction agreement constitute at least a majority of the members of the Board of the company resulting from the transaction, or (c) no person other than persons who, immediately before the transaction owned 30 percent or more of our outstanding voting securities, has beneficial ownership of 30 percent or more of the outstanding voting securities of the company resulting from the transaction;

- our complete liquidation or dissolution or the sale or other disposition of all or substantially all of our assets; or

- we cease to own, directly or indirectly, a majority of each class of the outstanding equity interests of ONEOK Partners GP, L.L.C., the sole general partner of ONEOK Partners, we cease to hold the power to designate a majority of the Board of Directors of the general partner of ONEOK Partners, or the general partner of ONEOK Partners is removed.

For the purposes of the Change-in-Control Plan, termination for cause means a termination of employment of a participant in the Change-in-Control Plan by reason of:

- a participant s indictment for or conviction in a court of law of a felony or any crime or offense involving misuse or misappropriation of money or property;

- a participant s violation of any covenant, agreement or obligation not to disclose confidential information regarding the business of the company (or a division or subsidiary) or a participant s violation of any covenant, agreement or obligation not to compete with the company (or a division or subsidiary);

- any act of dishonesty by a participant that adversely affects the business of the company (or a division or subsidiary) or any willful or intentional act of a participant that adversely affects the business, or reflects unfavorably on the reputation, of the company (or a division or subsidiary);

a participant s material violation of any written policy of the company (or a division or subsidiary); or

a participant s failure or refusal to perform the specific directives of the Board or its officers, which are consistent with the scope and nature of the participant s duties and responsibilities, to be determined in the Board s sole discretion.

For the purposes of the Change-in-Control Plan, good reason means:

a participant s demotion or material reduction of the participant s significant authority or responsibility with respect to employment with the company from that in effect on the date the change in control occurred;

a material reduction in the participant s base salary from that in effect immediately prior to the change in control;

a material reduction in short-term and/or long-term incentive targets from those applicable to the participant immediately prior to the change in control;

the relocation to a new principal place of employment of the participant s employment by the company, which is more than 35 miles farther from the participant s principal place of employment prior to such change; and

the failure of a successor company to explicitly assume the Change-in-Control Plan.

Table of Contents

Potential Post-Employment Payments Tables

The following tables reflect estimates of the incremental amount of compensation due each named executive officer in the event of such executive s termination of employment by reason of death, disability or retirement, termination of employment without cause, or termination of employment without cause or with good reason within two years following a change in control. The amounts shown assume that such termination was effective as of December 31, 2014, and are estimates of the amounts that would be paid to the executives

upon such termination, including, with respect to performance units, the performance factor calculated as if the performance period ended on December 31, 2014. The amounts reflected in the Qualifying Termination Following a Change in Control column of the tables that follow are the amounts that would be paid pursuant to our Change-in-Control Plan and, with respect to outstanding performance units, assume a change in control effective December 31, 2014 and a performance factor based on our total shareholder return relative to the designated peer group on that date.

John W. Gibson	**Termination upon Death, Disability or Retirement**[1]	**Termination Without Cause**	**Qualifying Termination Following a Change in Control**
Cash Severance	$	$	$
Health and Welfare Benefits	$ 75,817	$	$
Equity			
Restricted Units	$ 941,851	$	$
Performance Units	$	$	$
Total	$ 941,851	$	$
Total	$ 1,017,668	$	$

(1) Mr. Gibson retired as our Chief Executive Officer effective January 31, 2014. The amounts reflected in the table represent payments to Mr. Gibson upon his retirement and include $75,817 in accrued vacation pay and the value of 13,978 restricted units that vested on a prorated basis upon his retirement. These amounts do not include the value of 108,007 performance units that vested at retirement but which will not be paid out until the end of their respective performance periods, at which time they will pay out a prorated basis, including dividend equivalents earned prior to pay out.

Terry K. Spencer	**Termination upon Death, Disability or Retirement**	**Termination Without Cause**	**Qualifying Termination Following a Change in Control**

Cash Severance	$		$		$	2,800,000
Health and Welfare Benefits	$	67,308	$	67,308	$	95,913
Equity						
Restricted Units	$	728,511	$	728,511	$	1,123,741
Performance Units	$	2,308,681	$		$	2,769,730
Total	$	3,037,192	$	728,511	$	3,893,471
Total	$	3,104,500	$	795,819	$	6,789,384

Table of Contents

Derek S. Reiners	Termination upon Death, Disability or Retirement	Termination Without Cause	Qualifying Termination Following a Change in Control
Cash Severance	$	$	$ 1,237,500
Health and Welfare Benefits	$ 36,058	$ 36,058	$ 64,130
Equity			
Restricted Units	$ 200,833	$ 200,833	$ 347,364
Performance Units	$ 572,777	$	$ 735,649
Total	$ 773,610	$ 200,833	$ 1,083,013
Total	$ 809,668	$ 236,891	$ 2,384,643

Robert F. Martinovich	Termination upon Death, Disability or Retirement	Termination Without Cause	Qualifying Termination Following a Change in Control
Cash Severance	$	$	$ 1,700,000
Health and Welfare Benefits	$ 48,077	$ 48,077	$ 67,171
Equity			
Restricted Units	$ 535,432	$ 535,432	$ 724,771
Performance Units	$ 1,862,855	$	$ 2,166,210
Total	$ 2,398,287	$ 535,432	$ 2,890,981
Total	$ 2,446,364	$ 583,509	$ 4,658,152

Stephen W. Lake	Termination upon Death, Disability or Retirement	Termination Without Cause	Qualifying Termination Following a Change in Control
Cash Severance	$	$	$ 1,485,000
Health and Welfare Benefits	$ 34,615	$ 34,615	$ 63,220
Equity			
Restricted Units	$ 277,199	$ 277,199	$ 428,223
Performance Units	$ 878,244	$	$ 1,059,085
Total	$ 1,155,443	$ 277,199	$ 1,487,308
Total	$ 1,190,058	$ 311,814	$ 3,035,528

Wesley J. Christensen	Termination upon Death, Disability or Retirement	Termination Without Cause	Qualifying Termination Following a Change

						in Control
Cash Severance	$		$		$	1,360,000
Health and Welfare Benefits	$	38,462	$	38,462	$	57,556
Equity						
Restricted Units	$	200,833	$	200,833	$	347,364
Performance Units	$	572,777	$		$	735,649
Total	$	773,610	$	200,833	$	1,083,013
Total	$	812,072	$	239,295	$	2,500,569

Table of Contents

ADVISORY VOTE ON EXECUTIVE COMPENSATION

INTRODUCTION

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (known as the Dodd-Frank Act) added provisions to Section 14A of the Securities and Exchange Act of 1934 to provide that a public company s proxy statement in connection with the company s annual meeting of shareholders must, at least once every three years, allow shareholders to cast a non-binding advisory say-on-pay vote regarding the compensation of the company s named executive officers as disclosed pursuant to Item 402 of Securities and Exchange Commission Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion. Section 14A of the Securities and Exchange Act of 1934, as amended by the Dodd-Frank Act, also requires us, not less frequently than once every six years, to provide our shareholders the opportunity to vote, on a non-binding advisory basis, on the frequency with which we will submit to shareholders a say-on-pay advisory vote.

At our 2011 annual meeting of shareholders, a substantial majority of our shareholders voted for an annual say-on-pay vote. Based on these results, we intend to provide our shareholders with an annual, non-binding advisory say-on-pay vote on executive compensation until the next required non-binding advisory vote on the frequency of future advisory say-on-pay votes as required by the rules of the Securities and Exchange Commission.

OUR EXECUTIVE COMPENSATION PROGRAM

As described in the Compensation Discussion and Analysis section of this proxy statement and the compensation tables and narrative discussion set forth above, our executive compensation program is based on our pay-for-performance philosophy and is designed with the following goals in mind:

- to align the interests of our executive officers with the interests of our shareholders;
- to attract, retain and motivate highly talented and diverse executives who are critical to the successful implementation of our strategic plan;
- to pay our executives fairly relative to one another and our industry peers based on their responsibilities, experience and performance; and
- to implement sound governance practices by implementing executive compensation best practices and policies.

Our Executive Compensation Committee regularly reviews the compensation program for our named executive officers to assess its effectiveness in delivering these goals.

Examples of how the various elements of our compensation program for our named executive officers are linked to company performance and are designed to achieve the goals set forth above include:

a substantial portion of our named executive officers compensation is variable or at-risk incentive compensation, meaning that it is tied to our performance relative to various short-term and long-term objectives, which are based on a number of financial and operational goals;

awards to each executive officer are subject to fixed maximums established by our Executive Compensation Committee;

short-term incentive awards are based on a review of a variety of indicators of performance, thus diversifying the risk associated with any single indicator of performance;

short-term and long-term incentive awards are not tied to formulas that could focus executives on specific short-term outcomes;

the Executive Compensation Committee approves the final annual incentive plan awards after the review and confirmation of executive and operating and financial performance;

short-term cash and long-term performance-unit incentive awards are subject to clawback provisions;

for executive officers, a significant portion of incentive award value is delivered in the form of our stock-based compensation that vests over multiple years;

for executive officers, 80 percent of the long-term, stock-based incentive amounts are in the form of performance units; and executive officers are subject to our share-ownership guidelines.

For additional information on the compensation program for our named executive officers, including specific information about compensation in fiscal year 2014, please read the Executive Compensation Discussion and Analysis, along with the subsequent tables and narrative descriptions, beginning on page 50.

Following our 2014 annual meeting of shareholders, the Executive Compensation Committee took into account the affirmative vote by 97.2 percent of our shareholders who voted on our executive compensation at our 2014 annual meeting of shareholders and determined to continue to apply the same principles applied in recent years in determining the nature and amount of executive compensation.

For the reasons discussed above, the Board recommends that shareholders vote in favor of the following resolution:

RESOLVED, that the shareholders hereby approve, on an advisory basis, the compensation paid to the named executive officers, as disclosed in the company s Proxy Statement for the 2015 Annual Meeting of Shareholders pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion.

VOTE REQUIRED AND BOARD RECOMMENDATION

This vote is advisory and will not be binding on the company, our Board of Directors or our Executive Compensation Committee. Our Board and our Executive Compensation Committee value the opinions of our shareholders and, to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, we will consider our shareholders concerns, and the Executive Compensation Committee will evaluate whether any actions are necessary to address those concerns.

In accordance with our bylaws, approval of this proposal requires the affirmative vote of a majority of the voting power of the shareholders present in person or by proxy and entitled to vote on this proposal at the meeting. Abstentions will have the same effect as votes against this proposal and broker non-votes do not count as entitled to vote for purposes of determining the outcome of the vote on this proposal.

The Board of Directors unanimously recommends a vote FOR the approval of the compensation of our named executive officers, as disclosed in this proxy statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables and the related narrative discussion.

Table of Contents

Our Board of Directors recognizes that transactions in which we participate and in which a related person (executive officer, director, director nominee, 5 percent or greater shareholder and their immediate family members) has a direct or indirect material interest can present potential or actual conflicts of interest and create the appearance that company decisions are based on considerations other than the best interests of the company and its shareholders.

Accordingly, as a general matter, it is our preference to avoid related-person transactions. Nevertheless, we recognize that there are situations where related-person transactions may be in, or may not be inconsistent with, the best interests of the company and its shareholders including, but not limited to, situations where we provide products or services to related persons on an arm s length basis and on terms comparable with those provided to unrelated third parties.

In the event we enter into a transaction in which an executive officer (other than an employment relationship), director (other than compensation arrangements for service on our Board provided to each director), director nominee, 5 percent or greater shareholder, or a member of their immediate family has a direct or indirect material interest, the transaction is presented to our Audit Committee and, if warranted, our Board, for review to determine if the transaction creates a conflict of interest and is otherwise fair to the company. In determining whether a particular transaction creates a conflict of interest and, if so, is fair to the company, our Audit Committee and, if warranted, our Board of Directors, consider the specific facts and circumstances applicable to each such transaction, including: the parties to the transaction, their relationship to the company and nature of their interest in the transaction; the nature of the transaction; the aggregate value of the transaction; the length of the transaction; whether the transaction occurs in the normal course of our business; the benefits to our company provided by the transaction; if

applicable, the availability of other sources of comparable products or services; and, if applicable, whether the terms of the transaction, including price or other consideration, are the same or substantially the same as those available to the company if the transaction were entered into with an unrelated party.

We require each executive officer and director to annually provide us written disclosure of any transaction in which we participate and in which the officer or director or any of his or her immediate family members has a direct or indirect material interest. Our Corporate Governance Committee reviews our disclosure of related-party transactions in connection with its annual review of director independence. These procedures are not in writing but are documented through the meeting agendas and minutes of our Audit and Corporate Governance Committees.

Table of Contents

The rules of the Securities and Exchange Commission provide when a company must include a shareholder s proposal in its proxy statement and identify the proposal in its form of proxy when the company holds an annual or special meeting of shareholders.

Under these rules, proposals that shareholders would like to submit for inclusion in our proxy statement for our 2016 annual meeting of shareholders should be received by our corporate secretary at our principal executive offices no later than December 3, 2015. Only those shareholder proposals eligible for inclusion under the rules of the Securities and Exchange Commission will be included in our proxy statement.

If a shareholder desires to present a proposal, other than the nomination of directors at our 2016 annual meeting, outside the process provided by the rules of the Securities and Exchange Commission, the shareholder must follow the

procedures set forth in our bylaws. Our bylaws generally provide that a shareholder may present a proposal at an annual meeting if (1) the shareholder is a shareholder of record at the time the shareholder gives written notice of the proposal and is entitled to vote at the meeting and (2) the shareholder gives timely written notice of the proposal, including any information regarding the proposal required under our bylaws, to our corporate secretary. To be timely for our 2016 annual meeting, a shareholder s notice must be delivered to, or mailed and received at, our principal executive offices no later than December 3, 2015.

Shareholders with multiple accounts that share the same last name and household mailing address will receive a single copy of shareholder documents (annual report, proxy statement, or other informational statement) unless we are instructed otherwise.

Each shareholder, however, will continue to receive a separate proxy card. This practice, known as householding, is designed to reduce our printing and postage costs.

If you are a registered shareholder and received only one copy of the proxy statement and annual report in your household, we will promptly deliver copies, to the extent you request copies, for each member of your household who was a registered shareholder as of the record date. You may make this request by calling Wells Fargo Shareowner Services at 1-877-602-7615, or by providing written instructions to Wells Fargo Shareowner Services, Attn: Householding/ONEOK, Inc.,

P.O. Box 64854, St. Paul, Minnesota 55164-0854. You also may contact us in the same manner if you are currently receiving a single copy of the proxy statement and annual report in your household and desire to receive separate copies in the future for each member of your household who is a registered shareholder, or if your household is currently receiving multiple copies of the proxy statement and annual report and you desire to receive a single copy in the future for your entire household. If you are not a registered shareholder and your shares are held by a broker, bank, trustee or other holder of record, you will need to contact that entity to revoke your election and receive multiple copies of these documents.

Table of Contents

Our 2014 annual report to shareholders (which includes our Annual Report on Form 10-K for the year ended December 31, 2014 is available on our corporate website at ***www.oneok.com***. We will provide, without charge, on the written request of any person solicited hereby, a copy

of our Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the year ended December 31, 2014. Written requests should be mailed to Eric Grimshaw, Secretary, ONEOK, Inc., 100 West Fifth Street, Tulsa, Oklahoma 74103.

So far as is now known to us, there is no business other than that described in this proxy statement above to be presented to the shareholders for action at the annual meeting. Should other business come before the annual meeting, votes may be cast pursuant to proxies in respect to any such business in the best judgment of the persons acting under the proxies.

Please return your proxy as soon as possible. Unless a quorum consisting of a majority of the outstanding shares entitled to vote is represented at the annual meeting, no business can be transacted. Therefore, please authorize a proxy electronically via the Internet, by telephone, or by mail. Please act promptly to ensure that you will be represented at this important meeting.

By order of the Board of Directors.

Eric Grimshaw

Secretary
Tulsa, Oklahoma

April 1, 2015

Table of Contents

100 West Fifth Street

Tulsa, Oklahoma 74103

www.oneok.com

Table of Contents

Shareowner Services

P.O. Box 64945

St. Paul, MN 55164-0945

Address Change? Mark box, sign, and indicate changes below: ¨

TO VOTE BY INTERNET OR

TELEPHONE, SEE REVERSE SIDE OF

THIS PROXY CARD.

TO VOTE BY MAIL AS THE BOARD OF DIRECTORS RECOMMENDS ON ALL ITEMS BELOW,

SIMPLY SIGN, DATE, AND RETURN THIS PROXY CARD.

Your Board of Directors recommends a vote FOR the election of each of the nominees listed below.

1. **Election of ten directors:**

	FOR	AGAINST	ABSTAIN		FOR	AGAINST	ABSTAIN
01 James C. Day	¨	¨	¨	**06** Jim W. Mogg	¨	¨	¨
02 Julie H. Edwards	¨	¨	¨	**07** Pattye L. Moore	¨	¨	¨
03. William L. Ford	¨	¨	¨	**08** Gary D. Parker	¨	¨	¨
04 John W. Gibson	¨	¨	¨	**09** Eduardo A. Rodriguez	¨	¨	¨
05 Steven J. Malcolm	¨	¨	¨	**10** Terry K. Spencer	¨	¨	¨

Your Board of Directors recommends a vote FOR Proposals 2 and 3:

2. Ratification of the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm of ONEOK, Inc. for theyear ending December 31, 2015. ¨ For ¨ Against ¨ Abstain

3. An advisory vote to approve ONEOK, Inc. s executive compensation. ¨ For ¨ Against ¨ Abstain

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED AS THE BOARD RECOMMENDS.

Date ____

Signature(s) in Box

Please sign exactly as your name(s) appears on the Proxy. If held in joint tenancy, all persons should sign. Trustees, adminis-trators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.

Table of Contents

ONEOK, Inc.

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, May 20, 2015

9:00 a.m. Central Time

100 West Fifth Street

Tulsa, Oklahoma 74103

proxy

ANNUAL MEETING OF SHAREHOLDERS MAY 20, 2015

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints John W. Gibson and Stephen W. Lake, or either of them, with the power of substitution in each, as proxies to vote all shares of stock of the undersigned in ONEOK, Inc. at the Annual Meeting of Shareholders to be held May 20, 2015, and at any and all adjournments or postponements thereof, upon the matter of the election of directors, the proposals referred to in Items 2 and 3 of this Proxy, and any other business that may properly come before the meeting.

Shares will be voted as specified**. IF YOU SIGN BUT DO NOT GIVE SPECIFIC INSTRUCTIONS, YOUR SHARES WILL BE VOTED FOR THE ELECTION OF EACH OF THE LISTED NOMINEES FOR DIRECTOR AS PROPOSED, AND FOR PROPOSALS 2 AND 3.**

This card also constitutes voting instructions by the undersigned participant to the trustee of the ONEOK, Inc. 401(k) Plan, the ONEOK, Inc. Profit Sharing Plan, the ONE Gas, Inc. 401(k) Plan and the ONE Gas, Inc. Profit Sharing Plan for all shares votable by the undersigned participant and held of record by such trustee, if any. The trustee will vote these shares as directed provided your voting instruction is received by 11:59 p.m. Central Daylight Time on May 17, 2015. If there are any shares for which instructions are not timely received, the trustee will cause all such shares to be voted in the same manner and proportion as the shares of the plan for which timely instructions have been received, unless to do so would be contrary to ERISA. All voting instructions for shares held of record by the plans shall be confidential.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH OF THE LISTED NOMINEES FOR DIRECTOR AS PROPOSED AND FOR PROPOSALS 2 AND 3.

If you vote by the Internet or Telephone, DO NOT return your proxy card.

Please mark, sign and date the proxy card. Detach the proxy card and return it in the postage-paid envelope.

Vote by Internet, Telephone or Mail

24 Hours a Day, 7 Days a Week

Your phone or Internet vote authorizes the named proxies to vote your shares

in the same manner as if you marked, signed and returned your proxy card.

INTERNET	PHONE	MAIL
www.proxypush.com/oke	**1-866-883-3382**	
Use the Internet to vote your proxy until 11:59 p.m. (CT) on May 19, 2015.	Use a touch-tone telephone to vote your proxy until 11:59 p.m. (CT) on May 19, 2015.	Mark, sign and date your proxy card and return it in the postage-paid envelope provided.

If you vote your proxy by Internet or by Telephone, you do NOT need to mail back your Proxy Card.

line-height:12pt; color: #000000; border-bottom: 1px solid #ffffff;padding-top: 0pt; background-color: #cceeff;font-weight: normal; font-style: normal; " valign="bottom">

Gross cumulative redundancy (deficiency) $253,134
$225,440
$187,578
$105,002
$106,029
$0

(1)The paid and reserve data in the preceding table is presented on a calendar year basis. We commenced operations as a non-governmental mutual insurance company on January 1, 2000 when our Nevada insurance subsidiary assumed the assets, liabilities and operations of the Fund. Paid and reserve data for the years 1995 through 1999 has not been included in the preceding tables because (i) prior to December 31, 1999, the Fund was not required to include reserves related to losses and LAE for claims occurring prior to July 1, 1995 in its annual statutory financial statements filed with the Nevada Division of Insurance (consequently, the financial statements made no provision for such liabilities and complete information in respect of those years is not available in a manner that conforms with the information in this table) and (ii) for claims occurring subsequent to July 1, 1995 and prior to the Company's inception on January 1, 2000, we believe that the loss development pattern was uniquely attributable to Nevada workers' compensation reforms adopted in the early 1990s, which pattern is not indicative of development that would be expected to be repeated in our prospective operations.

127

Table of Contents

Reinsurance

Reinsurance is a transaction between insurance companies in which an original insurer, or ceding company, remits a portion of its premiums to a reinsurer, or assuming company, as payment for the reinsurer assuming a portion of the risk. Reinsurance agreements may be proportional in nature, under which the assuming company shares proportionally in the premiums and losses of the ceding company. This arrangement is known as quota share reinsurance. Reinsurance agreements may also be structured so that the assuming company indemnifies the ceding company against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called an ''attachment level'' or ''retention'' in return for a premium, usually determined as a percentage of the ceding company's primary insurance premiums. This arrangement is known as excess of loss reinsurance. Excess of loss reinsurance may be written in layers, in which a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. Any liability exceeding the outer limit of the program is retained by the ceding company. The ceding company also bears the credit risk of a reinsurers' insolvency. In accordance with general industry practices, we purchase excess of loss reinsurance to protect against the impact of large, irregularly-occurring losses, which would otherwise cause sudden and unpredictable changes in net income and the capital of our insurance subsidiaries.

Reinsurance is used principally:

- to reduce net liability on individual risks;
- to provide protection for catastrophic losses; and
- to stabilize underwriting results.

Our current reinsurance treaty applies to all loss occurrences during and on policies which are in force between 12:01 a.m. July 1, 2006 through 12:01 a.m. July 1, 2007. The treaty consists of two master interests and liabilities agreements, one excess of loss agreement and one catastrophic loss agreement, entered into between EICN and its current and future affiliates and the subscribing reinsurers. We have the ability to extend the term of the treaty to continue to apply to policies which are in force at the expiration of the treaty generally for a period of 12 months. We may cancel the treaty upon 60 days written notice, generally, if any reinsurer ceases its underwriting operations, becomes insolvent, is placed in conservation, rehabilitation, liquidation, has a receiver appointed or if any reinsurer is unable to maintain a rating by A.M. Best and/or Standard and Poor's of at least A− throughout the term of the treaty. Covered losses which occur prior to expiration or cancellation of the treaty continue to be obligations of the reinsurer, subject to the other conditions in the agreement. The subscribing reinsurers may terminate the treaty only for our breach of the obligations of the treaty. We are responsible for the losses if the reinsurer cannot or refuses to pay.

The treaty includes certain exclusions for which our reinsurers are not liable for losses, including but not limited to, losses arising from the following: war, strikes or civil commotion; nuclear incidents other than incidental or ordinary industrial or educational pursuits or the use, handling or transportation of radioisotopes for medical or industrial use or radium or radium compounds; underground mining except where incidental; oil and gas drilling, refining and manufacturing; manufacturing, storage and transportation of fireworks or other explosive substances or devices; asbestos abatement, manufacturing or distribution; excess policies attaching excess of a self-insured retention or a deductible greater than $25,000; and commercial airlines personnel. The reinsurance coverage includes coverage for acts of terrorism other than losses directly or indirectly caused by, contributed to, resulting from, or arising out of or in connection with nuclear, radiological, biological or chemical pollution, contamination or explosion. We have underwriting guidelines which generally require that insured risks fall within the coverage provided in the reinsurance treaty. Any risks written outside the treaty coverage require the review and approval of our chief underwriting officer and/or chief operating officer. Finally, the treaty includes a mandatory commutation (a contractual obligation where the reinsurer makes a final payment of the present value of unpaid ultimate losses covered during the treaty period and is relieved from any additional obligations on those losses) at 84 months following the expiration or cancellation of the agreement for the reinsurance layer (the reinsurance treaty is comprised of a series of insurance coverage by one or more reinsurers that are stacked on top of each other to bring the total reinsurance coverage to a maximum of $175 million)

Table of Contents

to $10 million and commutation by mutual agreement in the layers above $10 million; and, the reinsurance layers above $10 million provide for a single reinstatement of the coverage upon exhaustion of the respective layers of coverage.

The table below provides information about our reinsurers and their participation in our reinsurance program:

		All Treaties are Per Occurrence Excess of Loss with a term of July 1, 2006 to June 30, 2007					
	A.M. Best Ratings	$6m excess of $4m	$10m excess of $10m	$30m excess of $20m	$50m excess of $50m	$25m excess of $100m	$50m excess of $125m
		(in thousands, except for percentages)					
Reinsurers:							
Allied World Assurance Company Ltd	A	—	—	—	—	20.00%	—
American Reinsurance Company	A	15.00%	—	—	—	—	—
Arch Reinsurance Company	A–	—	—	—	8.00%	12.00%	6.00%
Aspen Insurance UK Limited	A	17.50%	9.00%	11.00%	9.17%	9.00%	14.00%
Catlin Insurance Company Ltd.	A	—	7.50%	7.50%	7.50%	7.50%	15.00%
Endurance Specialty Insurance Ltd.	A–	—	20.00%	15.00%	20.00%	10.00%	10.00%
Federal Insurance Company	A++	—	—	2.00%	5.00%	—	—
Hannover Re (Bermuda) Ltd.	A	—	—	—	5.00%	10.00%	10.00%
Hannover Rueckversicherung-AG	A	15.00%	15.00%	15.00%	—	—	—
Lloyds Syndicate #0435 FDY	A	—	5.00%	—	6.00%	—	3.80%
Lloyds Syndicate #0570 ATR	A	1.00%	2.25%	3.25%	2.50%	—	1.25%
Lloyds Syndicate #0623 AFB	A	—	3.75%	—	3.00%	—	—
Lloyds Syndicate #0727 SAM	A	—	2.00%	2.00%	2.00%	1.75%	1.50%
Lloyds Syndicate #0780 ADV	A	—	—	1.25%	1.00%	2.75%	2.00%
Lloyds Syndicate #0958 GSC	A	—	2.50%	3.00%	3.75%	3.00%	—
	A	—	—	—	2.75%	3.75%	3.77%

Lloyds Syndicate #1084 CSL							
Lloyds Syndicate #2000 HAR	A	5.85%	3.50%	5.85%	5.33%	6.75%	6.38%
Lloyds Syndicate #2001 AMLIN UND	A	—	—	—	—	—	5.00%
Lloyds Syndicate #2003 SJC	A	—	—	2.00%	7.50%	7.00%	—
Lloyds Syndicate #2020 WEL	A	32.00%	17.00%	18.00%	—	—	—
Lloyds Syndicate #2987 BRT	A	7.80%	5.00%	6.65%	5.00%	—	8.80%
Lloyds Syndicate #4472 LIB	A	5.85%	—	—	4.00%	4.00%	5.00%
Odyssey America Reinsurance Corporation	A	—	5.00%	5.00%	—	—	—
Validus Reinsurance Ltd.	A−	—	2.50%	2.50%	2.50%	2.50%	7.50%
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Excess of Loss Reinsurance

Our practice is to select reinsurers with an A.M. Best rating of ''A−'' or better. We currently purchase excess of loss reinsurance. We purchase reinsurance to cover larger individual losses and aggregate catastrophic losses from natural perils and terrorism. For the treaty, or contract, year beginning July 1, 2006, we have purchased reinsurance up to $175 million to protect against natural perils and acts of terrorism, excluding nuclear, biological, chemical and radiological events. We would be solely responsible for any losses we suffer above $175 million. Our loss retention for the treaty year beginning July 1, 2006 is $4 million. This means we have reinsurance for covered losses we suffer between $4 million and $175 million, subject to an aggregate loss cession limitation in the first layer ($6 million in excess of $4 million) of $18 million. However, any loss to a single person involving the second through sixth layers of our reinsurance program is limited to $7.5 million, and the second through sixth layers ($165 million in excess of $10 million) are limited to one mandatory reinstatement with an additional premium.

Quota Share Reinsurance

We have not entered into any quota share reinsurance for new and renewal business since our Nevada insurance subsidiary assumed the assets and liabilities of the Fund on January 1, 2000. We may, however, determine to purchase such coverage in the future based upon our premium growth and capitalization and the terms of available quota share reinsurance.

LPT Agreement

On July 1, 1999, the Nevada legislature enacted Senate Bill 37 (SB37). The provisions of SB37 specifically stated that the Fund could take retroactive credit as an asset or a reduction of liability, amounts ceded to (reinsured with) assuming insurers with security based on discounted reserves for losses related to periods beginning before July 1, 1995, at a rate not to exceed 6%.

As a result of SB37, the Fund entered into the LPT Agreement, a retroactive 100% quota share reinsurance agreement, in a loss portfolio transfer transaction with third party reinsurers. The LPT Agreement commenced on June 30, 1999 and will remain in effect until all claims for loss and outstanding loss under the covered policies have closed, the agreement is commuted, or terminated, upon the mutual agreement of the parties or the reinsurer's aggregate maximum limit of liability is exhausted, whichever occurs earlier. The LPT Agreement does not provide for any additional termination terms. The LPT Agreement substantially reduced the Fund's exposure to losses for pre-July 1, 1995 Nevada insured risks. On January 1, 2000, our Nevada insurance subsidiary assumed all of the assets, liabilities and operations of the Fund, including the Fund's rights and obligations associated with the LPT Agreement.

Under the LPT Agreement, the Fund initially ceded $1.525 billion in liabilities for the incurred but unpaid losses and LAE related to claims incurred prior to July 1, 1995, for consideration of $775 million in cash. The LPT Agreement, which ceded to the reinsurers substantially all of the Fund's outstanding losses as of June 30, 1999 for claims with original dates of injury prior to July 1, 1995, provides coverage for losses up to $2 billion, excluding losses for burial and transportation expenses. As of September 30, 2006 the estimated remaining liabilities subject to the LPT Agreement were approximately $1 billion. Losses and LAE paid with respect to the LPT Agreement totaled approximately $353.6 million at September 30, 2006.

The reinsurers agreed to assume responsibilities for the claims at the benefit levels which existed in June 1999. Also, the LPT Agreement required the reinsurers to each place assets supporting the payment of claims by them in individual trusts that require that collateral be held at a specified level. The level must not be less than the outstanding reserve for losses and a loss expense allowance equal to 7% of estimated paid losses discounted at a rate of 6%. If the assets held in trust fall below this threshold, we can require the reinsurers to contribute additional assets to maintain the required minimum level. The value of these assets as of September 30, 2006 was $1.1 billion. One of the reinsurers has collateralized its obligations under the LPT Agreement by placing the stock of a publicly held corporation, with a value of $667.0 million at September 30, 2006, in a trust to secure the reinsurer's obligation of $569.4 million. The value of this collateral is therefore subject to fluctuations in the market price of such stock. The other reinsurers have placed treasury and fixed income securities in trusts to collateralize their obligations.

The original reinsurers party to the LPT Agreement included ACE Bermuda Insurance Limited, XL Mid Ocean Reinsurance Company Ltd. and Gerling. The contract provides that during the term of the agreement all reinsurers need to maintain a rating of no less than ''A–'' as determined by A.M. Best. On October 18, 2002, the rating of Gerling dropped below the mandatory ''A–'' rating to ''B+''. Therefore, on May 28, 2003, EICN entered into an agreement with NICO and Gerling. Under the terms of this agreement, Gerling was released from its percentage participation (55%) in the LPT Agreement and NICO assumed such participation. The cost to EICN of the novation was $32.8 million.

Clarendon Fronting Facility

Effective July 1, 2002, ECIC entered into a fronting facility with Clarendon in connection with the Fremont transaction, pursuant to which we effectively acted as a reinsurer and provided administrative and claims services. Under the Clarendon fronting facility, ECIC assumed liability for 100% of the post-June 30, 2002 losses under Fremont policies in force as of July 1, 2002 and for 90% of the losses under

Table of Contents

new and renewal policies written through Clarendon after June 30, 2002. This arrangement was necessary because, at the time of the Fremont transaction, ECIC did not have a financial strength rating, which is typically required by market participants, such as agents and brokers, and, accordingly, we could not write policies directly in California. Clarendon had such a financial strength rating and, because of the fronting facility, ECIC was able to utilize such rating to write policies indirectly in California. ECIC obtained the relevant financial strength rating in the fourth quarter of 2003 and, as a result, was able to issue new and renewal policies on its own without the fronting facility after that date. Due to the ability of ECIC to write and renew business, the fronting facility was no longer needed for issuing or renewing policies. Our obligations to Clarendon under the fronting facility were initially collateralized with assets placed in a trust. This trust fund had a market value at September 30, 2006 of $16.3 million. In October 2006, the trust agreement with Clarendon was terminated and the funds were released to us.

Recoverability of Reinsurance

In addition to selecting financially strong reinsurers, we continue to monitor and evaluate our reinsurers to minimize our exposure to credit risks or losses from reinsurer insolvencies. Reinsurance makes the assuming reinsurer liable to the ceding company, or original insurer, to the extent of the reinsurance. It does not, however, discharge the ceding company from its primary liability to its policyholders in the event the reinsurer is unable to meet its obligations under such reinsurance. Therefore, we are subject to credit risk with respect to the obligations of our reinsurers. Recent natural disasters, such as Hurricanes Katrina, Rita and Wilma have caused unprecedented insured property losses, a significant portion of which will be borne by reinsurers. If a reinsurer is active both in the property and in the workers' compensation insurance market, its ability to perform its obligations in the latter market may be adversely affected by events unrelated to workers' compensation insurance losses. We regularly perform internal reviews of the financial strength of our reinsurers. However, if a reinsurer is unable to meet any of its obligations to our insurance subsidiaries under the reinsurance agreements, our insurance subsidiaries would be responsible for the payment of all claims and claims expenses that we have ceded to such reinsurer. We do not believe that our insurance subsidiaries are currently exposed to any material credit risk.

The availability, amount and cost of reinsurance are subject to market conditions and to our experience with insured losses. There can be no assurance that our reinsurance agreements can be renewed or replaced prior to expiration upon terms as satisfactory as those currently in effect. If we were unable to renew or replace our reinsurance agreements, or elect not to obtain quota share reinsurance:

- our net liability on individual risks would increase;
- we would have greater exposure to catastrophic losses;
- our underwriting results would be subject to greater variability; and
- our underwriting capacity would be reduced.

Table of Contents

Certain information regarding our ceded reinsurance recoverables as of September 30, 2006 for reinsurance programs incepted prior to June 30, 2006 is provided in the following table:

	Rating[1]	Total Paid	Total Unpaid Losses and	Total

			LAE	
		(dollars in thousands)		
ACE Bermuda Insurance Limited	A+	$ 1,137	$ 102,383	$ 103,520
Ace Property & Casualty Insurance Company	A+	0	2,303	2,303
American Healthcare Indemnity Co	B	0	4,684	4,684
American Reinsurance Company	A	1	2,986	2,987
Aspen Insurance UK Limited	A	0	4,923	4,923
Converium Reinsurance (North America) Inc.	B−	0	7,426	7,426
GE Reinsurance Corporation	A	(10)	13,515	13,505
Gerling Global Reinsurance Corp of America	NR-3	23	3,174	3,196
National Indemnity Company	A++	6,253	563,108	569,361
National Union Fire Insurance Company of Pittsburgh PA	A+	7	1,087	1,094
Odyssey America Reinsurance Corp	A	0	1,232	1,232
ReliaStar Life Insurance Company	A+	31	2,596	2,627
St. Paul Fire & Marine Insurance Company	A+	16	5,933	5,949
Tokio Marine and Fire Insurance Company (US)	A++	39	6,362	6,400
Underwriters Reinsurance Company	A	0	2,382	2,382
XL Reinsurance Ltd	A+	3,979	358,342	362,321
Lloyds Syndicates	A	0	14,602	14,602
All Other	Various	63	7,757	7,822
Total		$ 11,539	$ 1,104,795	$ 1,116,334

(1)A.M. Best's highest financial strength ratings for insurance companies are ''A++'' and ''A+'' (superior) and ''A'' and ''A−'' (excellent).

We review the aging of our reinsurance recoverables on a quarterly basis. At September 30, 2006, 0.2% of our reinsurance recoverables on paid losses were 90 days overdue.

Investments

We derive investment income from our invested assets. We invest our insurance subsidiaries' total statutory surplus and funds to support our loss reserves and our unearned premiums. As of September 30, 2006, the amortized cost of our investment portfolio was $1.6 billion and the fair market value of the portfolio was $1.7 billion.

We employ an investment strategy that emphasizes asset quality and the matching of maturities of fixed maturity securities against anticipated claim payments and expenditures or other liabilities. The amounts and types of our investments are governed by statutes and regulations in the states in which our insurance companies are domiciled. Investment guidelines require that the minimum weighted average quality of the portfolio shall be ''AA.'' As of December 31, 2006, our combined portfolio consisted principally of fixed maturity securities. Our bond portfolio is heavily weighted toward short-to intermediate- term, investment grade securities rated ''A'' or better, with approximately 90.6% of the carrying value of our investment portfolio rated ''AA'' or better at September 30, 2006.

Our overall investment philosophy is to maximize total investment returns within the constraints of prudent portfolio risk. We employ Conning Asset Management to act as our independent investment advisor. Conning follows our written investment guidelines based upon strategies approved by our Board of Directors. In addition to the construction and management of the portfolio, we utilize investment advisory services of Conning. These services include investment accounting and company modeling using DFA. The DFA tool is utilized in developing a tailored set of portfolio targets and objectives which, in turn, is used in constructing an optimal portfolio.

Table of Contents

We regularly monitor our portfolio to preserve principal values whenever possible. All securities in an unrealized loss position are reviewed to determine whether the impairment is other-than-temporary. Factors considered in determining whether a decline is considered to be other-than-temporary include length of time and the extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer, and our ability and intent to hold the security until its expected recovery.

The following table shows the market values of various categories of invested assets, the percentage of the total market value of our invested assets represented by each category and the tax equivalent yield based on the market value of each category of invested assets as of September 30, 2006:

	Market Value	Percent of Total	Yield
	(in thousands, except percentages)		
Category:			
U.S. Treasury securities	$ 141,133	8.2%	4.08
U.S. Agency securities	129,518	7.5	5.07
Corporate securities	206,841	12.0	5.19
Tax-exempt municipal securities	713,017	41.2	5.72
Mortgage-backed securities	211,697	12.2	5.42
Commercial Mortgage-backed securities	44,274	2.5	5.15
Asset-backed securities	24,806	1.4	4.63
Equities	259,502	15.0	2.23
Total	$ 1,730,788	100.0%	
Weighted average yield			4.88

The average credit rating for our fixed maturity securities investment portfolio, using ratings assigned by Standard & Poor's, was AA+ at September 30, 2006. The following table shows the Standard & Poor's ratings distribution of our fixed maturity portfolio as of September 30, 2006, as a percentage of total market value:

	Percentage of Total Market Value
Rating:	
''AAA''	78.22%
''AA''	12.40
''A''	6.44
''BBB''	2.94
Total	100.00%

133

Table of Contents

The following table shows the composition of our fixed maturity securities investment portfolio by remaining time to maturity at September 30, 2006. For securities that are redeemable at the option of the issuer and have a market price that is greater than par value, the maturity used for the table below is the earliest redemption date. For securities that are redeemable at the option of the issuer and have a market price that is less than par value, the maturity used for the table below is the final maturity date. For mortgage-backed securities, mortgage prepayment assumptions are utilized to project the expected principal redemptions for each security, and the maturity used in the table below is the average life based on those projected redemptions:

	As of September 30, 2006	
Remaining Time to Maturity	Market Value	Percent of Total Market Value
	(in thousands, except percentages)	
Less than one year	$ 80,859	5.5%
One to five years	448,800	30.5
Five to ten years	605,723	41.2
More than ten years	335,904	22.8
Total	$ 1,471,286	100%

Competition

The market for workers' compensation insurance policies is highly competitive. Our competitors include, but are not limited to, other specialty workers' compensation carriers, state agencies, multi-line insurance companies, professional employer organizations, third-party administrators, self-insurance funds and state insurance pools. Many of our existing and potential competitors are significantly larger and possess considerably greater financial and other resources than we do. Consequently, they can offer a broader range of products, provide their services nationwide, and/or capitalize on lower expense to offer more competitive pricing. In Nevada, our three largest competitors are American International Group, Inc., Builders Insurance Company Inc. and Liberty Mutual Insurance Company. In California, our three largest competitors are the California State Compensation Insurance Fund, American International Group, Inc. and Zenith National Insurance Company.

Competition in the workers' compensation insurance industry is based on many factors, including:

- Pricing (either through premium rates or participating dividends);
- Level of service;
- Insurance ratings;
- Capitalization levels;
- Quality of care management services;
- The ability to reduce loss ratios;
- Effective loss prevention; and
- The ability to reduce claims expense.

Inter-company Reinsurance Pooling Agreement

Our insurance subsidiaries are parties to an inter-company pooling agreement. Under this agreement, the results of underwriting operations of ECIC are transferred to and combined with those of EICN and the combined results are then reapportioned. The allocations under the pooling agreement are as follows:

- EICN – 53%
- ECIC – 47%

The pooling percentages are set forth in the inter-company pooling agreement and do not change between periods. The pooling percentages were established July 1, 2003, the effective date of the

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Table of Contents

agreement. The allocation percentages were based upon the relative amount of unconsolidated company statutory surplus of the respective companies at the time of the agreement. The pooling percentages were originally established by management to re-allocate surplus between our insurance subsidiaries to ensure adequate surplus to cover writings in each subsidiary and were originally established based on an analysis of the relationship of the estimated surplus of ECIC, including projected surplus contributions from EICN as its parent to support its premium writings, and EICN, excluding its investment in ECIC.

ECIC and EICN rely on the capacity of the entire pool rather than just on their own capital and surplus. Transactions under the pooling agreement are eliminated on consolidation and have no impact on our consolidated GAAP financial statements.

Legal Proceedings

On October 10, 2006, a qui tam action captioned State of Nevada, ex rel., David J. Otto v. Employers Insurance Company of Nevada, et al. (referred to herein as the ‘‘complaint’’) in the second judicial district court of the State of Nevada was commenced pursuant to Nevada’s False Claims Act. The Nevada False Claims Act authorizes a private plaintiff to commence an action on behalf of the State of Nevada under the circumstances prescribed by the statute (‘‘qui tam action’’). Nevada law requires that a qui tam action be filed under seal and remain under seal pending a decision by the Attorney General of the State of Nevada regarding whether to intervene in the action within the requisite statutory period. On March 6, 2006, the complaint was filed under seal, but the Attorney General did not intervene within the period prescribed under the Nevada qui tam statute.

The complaint alleges, among other things, that EICN has violated the provisions of the Nevada False Claims Act embodied in Nevada Revised Statutes 357.040(1)(d), (g) and (h) in connection with an allegedly unconstitutional transfer of assets from the Fund to EICN on January 1, 2000 pursuant to Amendment No. 190 to SB 37 passed in the 1999 Nevada Legislature and signed into law by gubernatorial proclamation allegedly in abrogation of Article 9, Section 2 of the Nevada Constitution. Article 9, Section 2 provides in pertinent part under subparagraph 2: ‘‘Any money paid for the purpose of providing compensation for industrial accidents and occupational diseases, and for administrative expenses incidental thereto . . . must be segregated in proper accounts in the state treasury, and such money must never be used for any other purposes, and they are hereby declared to be trust funds for the uses and purposes herein specified.’’ The complaint contends that although Article 9, Section 2 requires that the assets that were transferred to EICN be held in trust for the benefit of the State of Nevada, EICN has falsely and knowingly claimed that (i) it had and has legal title to these assets, (ii) it was not and is not a trustee with respect to such assets, and (iii) it failed to report any of the assets to the State (otherwise known as a reverse false claim). The complaint also asserts a number of common law causes of action arising out of the same allegations.

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 EICN under SB 37 and the gubernatorial proclamation as well as three times the amount of all rents, profits and income from the funds so transferred. The complaint also seeks declaratory and injunctive relief as well as an accounting. The plaintiff requests that he be awarded between 14 and 50 percent of any recovery by the State of Nevada, together with attorneys' fees and costs in accordance with the Nevada False Claims Act.

While the case is in a very preliminary stage, EICN believes that it has meritorious defenses to all of plaintiffs claims and intends to defend the action vigorously. Nonetheless, should the plaintiff obtain an adverse judgment for the maximum amount potentially sought in the complaint, such an adverse judgment would have a material adverse impact on EICN's financial condition. On November 20, 2006, EICN moved to dismiss the complaint in its entirety and with prejudice. On December 20, 2006, the plaintiff opposed EICN's motion to dismiss. No hearing has been set on EICN's motion.

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

135

Table of Contents

Employees

As of December 31, 2006, we had 628 full-time employees, five of whom were executive officers, and four part-time employees. None of our employees are covered by a collective bargaining agreement. We believe our relations with our employees are excellent.

Real Property

Our principal executive offices are located in leased premises in Reno, Nevada. In addition to serving as our principal executive office, our Reno location also serves as our corporate headquarters providing corporate services in a variety of areas including finance, human resources, information technology, marketing and communications, legal, administration, corporate underwriting and claims. It also serves as a territorial office providing services in underwriting, marketing, loss control and claims related support. Our other territorial offices are located in Glendale, Newbury Park and San Francisco, California, Henderson, Nevada and Boise, Idaho. Our offices in Fresno, California, Denver, Colorado, Irving, Texas, Phoenix, Arizona, Salt Lake City, Utah, and Schaumburg, Illinois, are primarily focused on marketing and underwriting services.

As of January 16, 2007, we leased approximately 240,547 square feet of total office space in the following locations:

Location	Square Feet

Reno, Nevada	75,909
Henderson, Nevada	44,953
Glendale, California	61,637
Newbury Park, California	12,512
Fresno, California	5,997
San Francisco, California	23,342
Boise, Idaho	11,295
Denver, Colorado	4,090
Phoenix, Arizona	220
Salt Lake City, Utah	215
Schaumburg, Illinois	215
Irving, Texas	162

In addition, we own a 15,120 square foot building in Carson City, Nevada, which is used as a storage facility.

We are currently in negotiations for additional and renewal leased premises. On January 25, 2007, we entered into a lease which takes effect on February 1, 2007, for an office suite in Tampa, Florida. It is anticipated that this office suite will be approximately 200 square feet in size. Our current leases for our Glendale and Newbury Park locations expire in September 2007. We are in active negotiations to renew our existing leases in both locations. The lease for our Reno, Nevada, offices expires in March 2008. We are currently in lease renewal negotiations for this location. The lease for our Fresno, California office expires in July 2008. We anticipate beginning lease renewal negotiations for that space in the second quarter of 2007.

We believe that our existing office space is adequate for our current needs and we will continue to enter into new lease agreements as needed to address future space requirements.

136

Table of Contents

REGULATION

General

Our insurance subsidiaries are subject to regulation by government agencies in the states in which they do business. The nature and extent of such regulation varies by jurisdiction but typically involve:

- standards of solvency, including risk-based capital measurements;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the types of terms that we can include in the insurance policies we offer;
- mandates that may affect wage replacement and medical care benefits paid under the workers' compensation system;
- requirements for the handling and reporting of claims;
- procedures for adjusting claims, which can affect the ultimate amount for which a claim is settled;
- restrictions on the way rates are developed and premiums are determined;
- the manner in which agents may be appointed;

- required methods of accounting that are different from GAAP;
- form and content of required financial statements;
- establishment of reserves for unearned premiums, losses and other purposes;
- limitations on our ability to transact business with affiliates;
- mergers, acquisitions and divestitures involving our insurance subsidiaries;
- licensing requirements and approvals that affect our ability to do business;
- compliance with medical privacy laws;
- potential assessments for the closure of covered claims under insurance policies issued by impaired, insolvent or failed insurance companies; and
- the amount of dividends that our insurance subsidiaries may pay to us, the parent holding company.

In addition, state regulatory examiners perform periodic examinations of insurance companies. These examinations are generally intended for the protection of policyholders, not insurance companies or their stockholders. State regulations governing workers' compensation systems and the insurance business impose restrictions and limitations on our business operations that are not imposed on unregulated businesses.

Changes in individual state regulation of workers' compensation may create a greater or lesser demand for some or all of our products and services, or require us to develop new or modified services in order to meet the needs of the marketplace and to compete effectively in that marketplace. In addition, many states limit the maximum amount of dividends and other payments that may be paid in any year by insurance companies to their stockholders and affiliates. This may limit the amount of distributions that may be made by our insurance subsidiaries.

Holding Company Regulation

As an insurance holding company, we, as well as EICN and ECIC, our insurance company subsidiaries, are subject to regulation by the states in which our insurance company subsidiaries are domiciled or transact business. EICN is domiciled in Nevada and only transacts business in Nevada. ECIC is domiciled in California and transacts business in Arizona, California, Colorado, Illinois, Idaho, Montana, Texas and Utah. Additionally, ECIC currently holds certificates of authority to write property and casualty insurance in Florida, Maryland, New Mexico, New York, Pennsylvania and Oregon. We have applications pending in Georgia and Massachusetts.

Table of Contents

Pursuant to applicable insurance holding company laws, EICN is required to register with the Nevada Department of Business and Industry, Division of Insurance, and pursuant to the insurance holding company laws of California, ECIC is required to register with the California Department of Insurance. All transactions within a holding company system affecting an insurer must have fair and reasonable terms, charges or fees for services performed must be reasonable, and the insurer's total statutory surplus following any transaction must be both reasonable in relation to its outstanding liabilities and adequate for its needs. Notice to state insurance regulators is required prior to the consummation of certain affiliated and other transactions involving EICN or ECIC, and such transactions may be disapproved by the state insurance regulators.

Change of Control

Under Nevada insurance law and our amended and restated articles of incorporation that will become effective as of the completion of the conversion, for a period of five years following the effective date of the plan of conversion, no person may acquire or offer to acquire beneficial ownership of five percent or more of any class of our voting securities without the prior approval by the Nevada Commissioner of Insurance of an application for acquisition. Under Nevada insurance law, the Nevada Commissioner of Insurance may not approve an application for such acquisition unless the Commissioner finds that (1) the acquisition will not frustrate the plan of conversion as approved by our members and the Commissioner, (2) the board of directors of EICN has approved the acquisition or extraordinary circumstances not contemplated in the plan of conversion have arisen which would warrant approval of the acquisition, and (3) the acquisition is consistent with the purpose of relevant Nevada insurance statutes to permit conversions on terms and conditions that are fair and equitable to the members eligible to receive consideration. Accordingly, as a practical matter, any person seeking to acquire us within five years after the effective date of the plan of conversion may only do so with the approval of our board of directors.

In addition, the insurance laws of Nevada and California generally require that any person seeking to acquire control of a domestic insurance company must obtain the prior approval of the insurance commissioner. Insurance laws in many states in which we are licensed contain provisions that require pre-notification to the insurance commissioner of a change in control of a non-domestic insurance company licensed in those states. ‘‘Control’’ is generally presumed to exist through the direct or indirect ownership of ten percent or more of the voting securities of a domestic insurance company or of any entity that controls a domestic insurance company. The insurance laws of Nevada and California generally require that any person seeking to acquire control of a domestic insurance company must obtain the prior approval of the insurance commissioner. In addition, many other state insurance laws require prior notification to the insurance department of those states of a change of control of a non-domiciliary insurance company licensed to transact insurance in that state. Because we have an insurance subsidiary domiciled in Nevada and another insurance subsidiary domiciled in California and licensed in numerous other states, any future transaction that would constitute a change in control of us would generally require the party seeking to acquire control to obtain the prior approval of the Nevada Commissioner of Insurance and the California Commissioner of Insurance, and may require pre-notification of the change of control in those states that have adopted pre-notification provisions upon a change of control.

Premium Rate Restrictions

Among other matters, state laws regulate not only the amounts and types of workers’ compensation benefits that must be paid to injured workers, but in some instances the premium rates that may be charged by us to insure employers for those liabilities. For example, in approximately sixteen states, including Florida and Idaho, workers’ compensation insurance rates are set by the state insurance regulators and are adjusted periodically. This style of rate regulation is sometimes referred to as ‘‘administered pricing.’’ In some of these states, insurance companies are permitted to file rates that deviate upwards or downwards from the bench mark rates set by the insurance regulators. In the vast majority of states, workers’ compensation insurers have more flexibility to offer rates that reflect the risk the insurer is taking based on each employer’s profile. These states are often referred to as ‘‘loss cost’’ states. Except for Idaho, all of the states in which we currently operate, including California and Nevada, are ‘‘loss cost’’ states.

138

Table of Contents

In ‘‘loss cost’’ states, the state first approves a set of loss costs that provide for expected loss and, in most cases, LAE payments, which are prepared by an insurance rating bureau (for example, the WCIRB in California and NCCI in Nevada). An insurer then selects a factor, known as a loss cost multiplier, to apply to loss costs to determine its insurance rates. In these states, regulators permit pricing flexibility primarily through (1) the selection of the loss cost multiplier and (2) schedule rating modifications that allow an insurer to adjust premiums upwards or downwards for specific risk characteristics of the policyholder such as:

- type of work conducted at the premises or work environment;
- on-site medical facilities;
- level of employee safety;
- use of safety equipment; and
- policyholder management practices.

Financial, Dividend and Investment Restrictions

State laws require insurance companies to maintain minimum surplus balances and place limits on the amount of insurance a company may write based on the amount of that company's surplus. These limitations may restrict the rate at which our insurance operations can grow.

State laws also require insurance companies to establish reserves for payments of policyholder liabilities and impose restrictions on the kinds of assets in which insurance companies may invest. These restrictions may require us to invest in assets more conservatively than we would if we were not subject to state law restrictions and may prevent us from obtaining as high a return on our assets as we might otherwise be able to realize.

See the charts set forth under ''The Conversion'' in this prospectus for a description of our structure to be in effect upon the consummation of the conversion and the completion of this offering. The ability of EIG to pay dividends on our common stock, and to pay other expenses, will be dependent, to a significant extent, upon the ability of our Nevada domiciled insurance company, EICN, to pay dividends to its immediate holding company and, in turn, the ability of that holding company to pay dividends to EIG.

Nevada law limits the payment of cash dividends by EICN to its immediate holding company 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. A cash or stock dividend otherwise prohibited by these restrictions may only be declared and distributed upon the prior approval of the Nevada Commissioner of Insurance.

EICN must give the Nevada Commissioner of Insurance prior notice of any extraordinary dividends or distributions that it proposes to pay to its immediate holding company, even when such a dividend or distribution is to be paid out of available and otherwise unrestricted (unassigned) surplus. EICN may pay such an extraordinary dividend or distribution if the Nevada Commissioner of Insurance either approves or does not disapprove the payment within 30 days after receiving notice of its declaration. 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 12 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 September 30, 2006, EICN had positive unassigned surplus of $23.4 million and therefore had the capability of paying a dividend to us of up to such an amount without the prior approval of the Nevada Commissioner of Insurance. As of December 31, 2004 and 2005, EICN had negative unassigned surplus of $198.7 million and $71.9 million, respectively, and therefore was unable to pay a dividend to us at such dates without the prior approval of the Nevada Commissioner of Insurance.

Table of Contents

On October 17, 2006, the Nevada Commissioner of Insurance granted EICN permission to pay up to an additional $55 million in one or more extraordinary dividends to us subsequent to the successful completion of this offering and before December 31, 2008. The payment of these dividends is conditioned upon the expiration of any underwriter's over-allotment option period, prior repayment of any expenses of EIG and its subsidiaries arising from the conversion and this offering, the exhaustion of any proceeds retained by EIG from this offering, maintaining the RBC total adjusted capital of EICN above a specified level on the date of declaration and payment of any particular extraordinary dividend after taking into account the effect of such dividend, and maintaining all required filings with the Nevada Commissioner of Insurance. We may use these dividends, as well as any ordinary dividends that we may receive from EICN, to pay quarterly dividends to our stockholders, to repurchase our stock, in each case, as described under ''Dividend Policy,'' and/or for general corporate purposes. However, the October 17, 2006 extraordinary dividend approval prohibits us from using any such dividends to increase executive compensation.

At September 30, 2006, assuming the timing conditions described in the preceding paragraph had been satisfied, EICN would have had RBC total adjusted capital in excess of the level permitting it to pay the entire $55 million dividend to us.

As the direct owner of ECIC, EICN will be the direct recipient of any dividends paid by ECIC. The ability of ECIC to pay dividends to EICN is limited by California law. California law provides that, absent prior approval of the California Insurance Commissioner, dividends can only be declared from earned surplus, excluding any earned surplus (1) derived from the net appreciation in the value of assets not yet realized, or (2) derived from an exchange of assets, unless the assets received are currently realizable in cash. In addition, California law provides that the appropriate insurance regulatory authorities in the State of California must approve (or, within a 30-day notice period, not disapprove) any dividend that, together with all other such dividends paid during the preceding 12 months, exceeds the greater of: (a) 10% of ECIC's statutory surplus as regards policyholders at the preceding December 31; or (b) 100% of the net income for the preceding year. The maximum pay-out that may be made by ECIC to EICN during 2006 without prior approval is $44.6 million.

California regulations require 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 LAE 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 such regulations 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.

Statutory Accounting and Solvency Regulations

In 1998, the NAIC adopted the Codification of Statutory Accounting Principles guidance, or the Codification, which, effective January 2001, replaced the previous Accounting Practices and Procedures manual as the NAIC's primary guidance on statutory accounting applicable to insurance companies in the U.S. (including our insurance subsidiaries). Statutory accounting is a comprehensive basis of accounting for insurance companies based on the Codification and state laws, regulations and general administrative rules. The Codification provides guidance for the areas where statutory accounting had been silent and changed previous statutory accounting in some areas. The Nevada Division of Insurance has adopted the Codification. Upon adopting the Codification, effective on January 1, 2001, EICN reported changes in accounting principles as an adjustment that increased the aggregate statutory surplus by $9.9 million. The adjustment is comprised of an increase in surplus of $89.3 million related to the establishment of the net deferred tax asset and a decrease in surplus of $79.4 million related to the establishment of the non-admitted portion of the deferred tax asset.

Statutory accounting principles, or SAP, are a basis of accounting developed to assist state insurance regulators in monitoring and regulating the solvency of insurance companies. SAP is primarily concerned with measuring an insurer's statutory surplus. Accordingly, statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance law and regulatory provisions applicable in each insurer's domiciliary state.

140

Table of Contents

Statutory accounting practices established by the NAIC and adopted by the Nevada regulators and, in part, the California regulators, determine, among other things, the amount of statutory surplus and statutory net income of EICN and ECIC and thus determine, in part, the amount of funds each of EICN and ECIC has available to pay dividends to us.

Generally accepted accounting principles, or GAAP, are concerned with a company's solvency, but such principles are also concerned with other financial measurements, such as income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses and accounting for management's stewardship of assets than does SAP. As a direct result, different assets and liabilities and different amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as opposed to SAP.

State insurance regulators closely monitor the financial condition of insurance companies reflected in SAP financial statements and can impose significant financial and operating restrictions on an insurance company that becomes financially impaired under SAP guidelines. State insurance regulators generally have the power to impose restrictions or conditions on the following kinds of activities of a financially impaired insurance company: transfer or disposition of assets, withdrawal of funds from bank accounts, extension of credit or advancement of loans and investment of funds, as well as disallowance of dividends or other distributions and business acquisitions or combinations.

The NAIC is a group formed by state insurance regulators to discuss issues and formulate policy with respect to regulation, reporting and accounting of and by U.S. insurance companies. Although the NAIC has no legislative authority and insurance companies are at all times subject to the laws of their respective domiciliary states and, to a lesser extent, other states in which they conduct business, the NAIC is influential in determining the form in which such laws are enacted. Model Insurance Laws, Regulations and Guidelines, or the Model Laws, have been promulgated by the NAIC as a minimum standard by which state regulatory systems and regulations are measured. Adoption of state laws that provide for substantially similar regulations to those described in the Model Laws is a requirement for accreditation of state insurance regulatory agencies by the NAIC.

Insurance operations are also subject to various leverage tests, which are evaluated by regulators and private rating agencies. Our premium leverage ratios, also known as our premium-to-surplus ratios, as of December 31, 2005, on a statutory combined basis, were less than 1-to-1 on a premiums written basis as compared to 1.13:1 for the workers' compensation industry as a whole.

Risk-Based Capital Requirements

The NAIC has adopted a risk-based capital, or RBC, formula to be applied to all insurance companies. RBC is a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. RBC standards are used by state insurance regulators to determine appropriate regulatory actions relating to insurers that show signs of weak or deteriorating conditions. Nevada and

California have adopted laws substantially similar to the NAIC's RBC laws.

The RBC Model Act provides for four different levels of regulatory attention depending on the ratio of the company's total adjusted capital, defined as the total of its statutory capital and surplus to its risk-based capital.

- The ''Company Action Level'' is triggered if a company's total adjusted capital is less than 200% but greater than or equal to 150% of its risk-based capital. At the ''Company Action Level,'' a company must submit a comprehensive plan to the state insurance regulator that discusses proposed corrective actions to improve its capital position. A company whose total adjusted capital is between 250% and 200% of its risk-based capital is subject to a trend test. A trend test calculates the greater of any decrease in the margin (i.e., the amount in dollars by which a company's adjusted capital exceeds its risk-based capital) between the current year and the prior year and between the current year and the average of the past three years, and assumes that the decrease could occur again in the coming year.

- The ''Regulatory Action Level'' is triggered if a company's total adjusted capital is less than 150% but greater than or equal to 100% of its risk-based capital. At the ''Regulatory Action Level,'' the state insurance regulator will perform a special examination of the company and issue an order specifying corrective actions that must be followed.
- The ''Authorized Control Level'' is triggered if a company's total adjusted capital is less than 100% but greater than or equal to 70% of its risk-based capital, at which level the state insurance regulator may take any action it deems necessary, including placing the company under regulatory control.
- The ''Mandatory Control Level'' is triggered if a company's total adjusted capital is less than 70% of its risk-based capital, at which level the state insurance regulator is mandated to place the company under its control.

At December 31, 2005, both EICN and ECIC had total adjusted capital in excess of amounts requiring company or regulatory action at any prescribed RBC action level.

IRIS Ratio

IRIS is a system established by NAIC. It was designed to provide state regulators with an integrated approach to monitor the financial condition of insurers for the purposes of detecting financial distress and preventing insolvency. IRIS consists of a statistical phase and an analytical phase whereby financial examiners review insurers' annual statements and financial ratios. The statistical phase consists of 13 key financial ratios based on year-end data that are generated from the NAIC database annually; each ratio has a ''usual range'' of results. These ratios assist state insurance departments in executing their statutory mandate to oversee the financial condition of insurance companies. Ratios of an insurance company that fall outside the usual range are generally regarded by insurance regulators as part of an early warning system.

As of December 31, 2005, EICN had two ratios outside the usual range, and ECIC had one ratio outside the usual range, as set forth in the following table:

Employers Insurance Company of Nevada

Ratio	Usual Range	Actual Results	Reason for Unusual Results
Investment yield	6.5% to 3.0%	2.9%	EICN's investment yield was outside of the range because statutory accounting policies do not recognize increases in the value of ECIC as investment income of EICN and because of a higher than industry average investment portfolio allocation to equity securities.
Liabilities to liquid assets	105% to 0%	134.0%	Total liabilities include funds withheld by ECIC pursuant to an inter-company pooling agreement.

142

Table of Contents

Employers Compensation Insurance Company

Ratio	Usual Range	Actual Results	Reason for Unusual Results
Liabilities to liquid assets	105% to 0%	171.0%	Total liabilities include funds withheld by EICN pursuant to an inter-company pooling agreement.

Insurance regulators will generally begin to investigate, monitor or make inquiries of an insurance company if four or more of the company's ratios fall outside the usual ranges. Although these inquiries can take many forms, regulators may require the insurance company to provide additional written explanation as to the causes of the particular ratios being outside of the usual range, the actions being taken by management to produce results that will be within the usual range in future years and what, if any, actions have been taken by the insurance regulator of the insurers' state of domicile. Regulators are not required to take action if an IRIS ratio is outside of the usual range, but depending upon the nature and scope of the particular insurance company's exception (for example, if a particular ratio indicates an insurance company has insufficient capital) regulators may act to reduce the amount of insurance the company can write or revoke the insurers' certificate of authority and may even place the company under supervision.

Neither EICN nor ECIC is currently subject to any action by any state insurance department or the NAIC with respect to the IRIS Ratios described above.

Privacy Regulations

In 1999, the United States Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information. Subsequently, a majority of states have implemented additional regulations to address privacy issues. These laws and regulations apply to all financial institutions, including insurance and finance companies, and require us to maintain appropriate procedures for managing and protecting certain personal information of our customers and to fully disclose our privacy practices to our customers. We may also be exposed to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. A recent NAIC initiative that impacted the insurance industry in 2001 was the adoption in 2000 of the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Many states, including California and Nevada, have now adopted similar provisions regarding the safeguarding of customer information. Our insurance subsidiaries have established procedures to comply with the Gramm-Leach-Bliley-related privacy requirements, and we require third parties we do business with to comply with all applicable federal and state privacy laws and regulations.

Federal and State Legislative Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which proposals have been enacted) to conform portions of their insurance laws and regulations to various Model Laws adopted by the NAIC. Proposed legislation was introduced in Congress during 2006 that would allow for an optional federal chartering of U.S. insurance companies, similar to banks. We are unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition or competition among U.S. insurers.

In response to the tightening of supply in certain insurance and reinsurance markets resulting from, among other things, the September 11, 2001 terrorist attacks, the Terrorism Risk Insurance Act of 2002,

Table of Contents

or the 2002 Act, was enacted on November 26, 2002. The principal purpose of the 2002 Act was to create a role for the Federal government in the provision of insurance for losses sustained in connection with terrorism. Prior to the Act, insurance (except for workers' compensation insurance) and reinsurance for losses arising out of acts of terrorism were largely unavailable from private insurance and reinsurance companies.

The program initiated by the 2002 Act applies to losses arising out of acts of terrorism that are certified as such by the U.S. Secretary of the Treasury. In order to be certified as an act of terrorism under the 2002 Act, losses incurred as a result of the act are required to exceed a threshold, and the act may not be an act of domestic terrorism. The threshold is $100 million in 2007. Insurers must still provide terrorism insurance for events causing losses up to these threshold amounts, even though Federal reinsurance is only available for events causing losses exceeding these amounts. In addition, such losses must arise out of an act of terrorism committed in the course of a war declared by the United States Congress, except with respect to workers' compensation coverage, which is specifically required to provide insurance to policyholders for losses resulting from acts of foreign terrorism, without regard to whether they were committed in the course of a war declared by the United States Congress, as well as coverage for war-related injuries and fatalities. Under the 2002 Act, Federal reimbursement is subject to an annual aggregate limit of $100 billion. Each insurer is responsible for a deductible based on a percentage of its direct premiums earned in the previous calendar year. Our 2006 deductible was equal to approximately $80 million. Under the 2002 Act, for losses in excess of the deductible, the Federal government will reimburse 90% of the insurer's loss, up to the insurer's proportionate share of the $100 billion. Insurers will not be liable for payments for any portion of losses in excess of the $100 billion annual limit.

In December 2005, President Bush signed into law the Terrorism Risk Insurance Extension Act of 2005, or the 2005 Act, which extends the 2002 Act for an additional two years to December 31, 2007. While the underlying structure of the 2002 Act was left intact, the 2005 Act makes some adjustments, including increasing the current insurer deductible for 2005 from 15% of direct premiums earned to 17.5% for 2006, and 20% of such premiums in 2007. For losses in excess of the deductible, the federal government still reimburses 90% of the insurer's loss in 2006, but the amount of federal reimbursement decreases to 85% of the insurer's loss in 2007. In addition, the industry retention under the 2002 Act has been increased from $13 billion for 2005 to $25 billion for 2006 and $27.5 billion for 2007.

Under the 2005 Act, insurers must offer coverage for losses due to terrorist acts in all of their property and casualty insurance policies. The 2005 Act's definition of property and casualty insurance includes workers' compensation insurance. Moreover, the workers' compensation laws of the various states generally do not permit the exclusion of coverage for losses arising from terrorist acts as well as nuclear, biological and chemical attacks. In addition, we are not able to limit our losses arising from any one catastrophe or any one claimant. Our reinsurance policies exclude coverage for losses arising out of terrorism and nuclear, biological, chemical or radiological attacks. Therefore, acts of terrorism could adversely affect our business and financial condition.

We do not believe that the risk of loss to our insurance subsidiaries from acts of terrorism is currently significant. Small businesses constitute a large portion of our policies, and we do not intend to saturate any particular market, whether it is a high profile location or not. However, the impact of any future terrorist acts is unpredictable, and the ultimate impact on our insurance subsidiaries, if any, of losses from any future terrorist acts will depend upon their nature, extent, location and timing. Potential future changes to the 2005 Act, including a decision by Congress not to extend it past December 31, 2007, could also adversely affect us by causing our reinsurers to increase prices or withdraw from certain markets where terrorism coverage is required.

Our workers' compensation operations are subject to legislative and regulatory actions. In California, where we have our largest concentration of business, significant workers' compensation legislation was enacted twice in recent years. Effective January 1, 2003, legislation became effective which provides for increases in indemnity benefits to injured workers. Benefits were increased by an average of approximately 6% in 2003, approximately 7% in 2004 and approximately 2% in 2005. In September 2003 and April 2004, workers' compensation legislation was enacted in California with the principal objective of reducing costs. The legislation contains provisions which primarily seek to reduce medical costs and does not directly

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Table of Contents

impact indemnity payments to injured workers. The principal changes in the legislation that impact medical costs are as follows: (1) a reduction in the reimbursable amount for certain physician fees, outpatient surgeries, pharmaceutical products and certain durable medical equipment; (2) a limitation on the number of chiropractor or physical therapy office visits; (3) the introduction of medical utilization guidelines; (4) a requirement for second opinions on certain spinal surgeries; and (5) a repeal of the presumption of correctness afforded to the treating physician, except where the employee has pre-designated a treating physician.

Guaranty Fund Assessments

In Nevada, California and in most of the states where our insurance company subsidiaries are licensed to transact business, there is a requirement that property and casualty insurers doing business within each such state participate as member insurers in a guaranty association, which is organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premium written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets.

In California, unpaid workers' compensation liabilities from insolvent insurers are the responsibility of the California Insurance Guarantee Association, or CIGA. We pass on our CIGA assessment to our policyholders via a surcharge based upon the estimated annual premium at the policy's inception. We have received, and expect to continue to receive, these guarantee fund assessments, which are paid to CIGA based on the premiums we have already earned at December 31, 2005. We also write workers' compensation insurance in other states with similar obligations as those in California. In these states, we are directly responsible for payment of the assessment. We recorded an estimate of $2.2 million and $6.0 million for our 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.

Property and casualty insurance company insolvencies or failures may result in additional guaranty fund assessments to our insurance company subsidiaries at some future date. At this time we are unable to determine the impact, if any, such assessments may have on our financial position or results of operations. We have established liabilities for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

Employers Occupational Health, Inc.

The medical managed care services provided by our subsidiary, EOH, are subject to licensing requirements and regulation under the laws of each of the jurisdictions in which it operates. EOH is authorized in Nevada to act as a third-party administrator and a utilization review organization and is governed by those laws and regulations as well as those relating to managed care organizations and workers' compensation claims administration. The nature and extent of such regulation generally include methods for approving and denying medical services, quality assurance, medical bill review and payment, network provider management, and financial and other reporting requirements. EOH's business is dependent upon the validity of, and continued good standing under, the licenses and approvals pursuant to which it operates, as well as compliance with pertinent regulations. In October 2006, EOH was awarded a Workers Compensation Utilization Management Accreditation from URAC, a Washington D.C.-based health care accrediting organization that establishes quality standards for the health care industry.

Table of Contents

MANAGEMENT

Executive Officers and Directors

The following table provides information regarding our directors and executive officers:

Name	Age[1]	Position
Robert J. Kolesar	63	Chairman of the Board
Douglas D. Dirks	48	Director, President and Chief Executive Officer of EIG
Richard W. Blakey	57	Director
Valerie R. Glenn	52	Director
Rose E. McKinney-James	54	Director
Ronald F. Mosher	63	Director
Katherine W. Ong	48	Director
Michael D. Rumbolz	52	Director
John P. Sande, III	57	Director
Martin J. Welch	51	Director, President and Chief Operating Officer, EICN and ECIC
Lenard T. Ormsby	54	Executive Vice President, Chief Legal Officer, General Counsel and Corporate Secretary of EIG
William E. Yocke	56	Executive Vice President and Chief Financial Officer of EIG
Ann W. Nelson	45	Executive Vice President, Corporate and Public Affairs, of EIG

(1)At December 31, 2006.

Non-Executive Directors

The following is biographical information for our non-executive directors:

Robert J. Kolesar has served as a Director of EICN since January 2000; a Director of EIG and our intermediate holding company, Employers Insurance Group, Inc. (to be renamed Employers Group, Inc. in connection with the conversion), or EIG Inc., since April 2005; and, a Director of ECIC since August 2002. He has been the Chairman of the Board of EIG since 2005 and Chairman of the Board of EICN and ECIC since 2003. Mr. Kolesar has been a founding/managing partner of the Las Vegas law firm of Kolesar & Leatham, Chtd. since 1986. Mr. Kolesar practices in the fields of real estate, corporation, banking, finance, and fiduciary/trust law. Prior to entering into private practice in 1986, Mr. Kolesar held General Counsel and/or Senior Legal Staff positions in Nevada at Valley Bank of Nevada (now Bank of America), and in Cleveland, Ohio at Cardinal Federal Savings and Loan Association, The Ameritrust Company (now KeyBank) and Forest City Enterprises, Inc. He has served as a Board member of HELP of Southern Nevada, the Las Vegas Symphony, and the National Conference for Community and Justice. Mr. Kolesar has multiple group memberships, including the National Association of Industrial and Office Parks and the International Council of Shopping Centers, and is currently on the Board of Trustees of the Nevada Development Authority and the Board of Advisors of the Las Vegas Chamber of Commerce. He is a member of the American Bar Association and the Nevada and Clark County Bar Associations. Mr. Kolesar received a B.A. from John Carroll University and a J.D. from Case Western Reserve University.

Richard W. Blakey has served as a Director of EIG and EIG Inc. since April 2005 and a Director of EICN since January 2000. He was also a Director of ECIC and its predecessor from August 2002 until May 2004. Dr. Blakey is a Director and former Chairman of the Board of the Reno Orthopaedic Clinic. He is a member of the American Academy of Orthopaedic Surgeons, Nevada State Medical Association, and Washoe County Medical Society. Dr. Blakey actively participates and is affiliated with Saint Mary's Regional Medical Center, Northern Nevada Medical Center, and Washoe Medical Center. He has served

Table of Contents

as Chairman of the Board of the Reno Spine Center, is a member of the Board of Accessible, Reliable Care MedCenters LLC and a Director and former Chairman of the Board of the Reno Orthopaedic Clinic. Dr. Blakey is a Board certified orthopaedic surgeon. He received a B.S. degree from the California Institute of Technology and his medical degree from the University of Southern California, School of Medicine.

Valerie R. Glenn has served as the independent policyholder Director of EIG since April, 2006, when she was appointed pursuant to our 2005 plan of reorganization. Ms. Glenn became a partner in Rose-Glenn, Inc. (now known as the Rose/Glenn Group) on January 1, 1989 and has served as Chairman, President and Chief Executive Officer since January 15, 2003. Ms. Glenn has been co-owner and publisher of Visitor Publications, Inc., which publishes the Reno/Tahoe Visitor, since January 1998. She was a founding partner in the advertising sales firm of Kelley-Rose Advertising, Inc. and was a partner from 1981 to 1994. Ms. Glenn began her advertising career in San Francisco in 1976 with international advertising agency Dancer Fitzgerald Sample. Ms. Glenn graduated from the University of Nevada, Reno with a B.A. degree.

Rose E. McKinney-James has served as a Director of EICN since March 2001 and a Director of EIG and EIG Inc. since April 2005. She was also a Director of ECIC and its predecessor from August 2002 to May 2004. Ms. McKinney-James has been the owner of Energy Works Consulting, LLC since 2003 and McKinney-James & Associates since 2005, both located in Las Vegas. Both firms focus on public affairs in the areas of energy, education, and environmental policy. Prior to creating Energy Works Consulting in 2003, Ms. McKinney-James was President and Chief Executive Officer of the Corporation for Solar Technologies and Renewable Resources from 1995 to 2000, and the President of public affairs and advertising for Brown & Partners Advertising from 2000 to 2001. She held the position of President of Government Affairs for the firm of Faiss Foley Merica in 2000 and 2001. Ms. McKinney-James is a former Commissioner with the Nevada Public Service Commission and also served as the Director of the Nevada Department of Business and Industry. She is a Director of The Energy Foundation, Toyota Financial Savings Bank and MGM Mirage, a public company. Ms. McKinney-James received a B.A. degree from Olivet College and her J.D. degree from Antioch School of Law in Washington, D.C.

Ronald F. Mosher has served as a Director of EICN since December 2003 and a Director of EIG and EIG Inc. since April 2005. He was also a Director of ECIC from December 2003 to May 2004. Mr. Mosher has extensive experience in the insurance industry and served as a senior executive with AEGON N.V. from 1983 until his retirement in 2003. He also works as a consultant in the insurance industry. Mr. Mosher currently is a Director of Transamerica Financial Life Insurance Company, Transamerica Life (Bermuda) Ltd. and WFG Reinsurance Limited, and has previously served on several other insurance company boards. Mr. Mosher is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants, and National Association of Corporate Directors. Mr. Mosher earned a B.S. degree from the University of Denver and an M.B.A. degree from Cornell University.

Katherine W. Ong has served as a Director of EICN since January 2000 and a Director of EIG and EIG Inc. since April 2005. She was also a Director of ECIC and its predecessor from August 2002 to May 2004. Since January 1996, she has been the co-founder and Director of Hobbs, Ong & Associates, Inc., a financial consulting group specializing in advisory services for municipal bond financings, problem solving and support. Prior to 1996, she was the Budget Manager for Clark County, Nevada. Ms. Ong also serves on the Boards of KNPR (Southern Nevada public radio), and the Las Vegas Music Festival and is a member of the Government Finance Officer's Association. Ms. Ong received a B.S. degree from the University of Nevada.

Michael D. Rumbolz has served as a Director of EICN since January 2000 and a Director of EIG and EIG Inc. since April 2005. He was also a Director of ECIC and its predecessor from August 2002 to May 2004. Mr. Rumbolz has over 20 years of experience in the gaming industry. He has been Chief Executive Officer and Chairman of the Board of Cash Systems, Inc., a public company, since January 2005. He has been Managing Director of Acme Gaming LLC, a gaming consultancy service, since July 2001. He was Vice Chairman and a board member of Casino Data Systems from March 2000 to July 2001 when it was acquired by Aristocrat. He was President and Chief Executive Officer of Anchor Gaming from 1995 to 2000 and Director of Corporate Development for Circus Circus Enterprises Inc.

147

Table of Contents

from late 1992 to June 1995, including serving as the first president of and managing director of Windsor Casino Limited, a consortium company owned by Hilton Hotel Corp., Circus Circus Enterprises Inc. and Caesars World. Mr. Rumbolz also held various executive positions with Trump Hotels & Casino Resorts. In addition to his corporate experience, Mr. Rumbolz was also the former Chief Deputy Attorney General and the former Chairman of the Nevada Gaming Control Board. He received a B.A. degree with distinction from the University of Nevada, Las Vegas and a J.D. degree from the University of Southern California, Gould School of Law.

John P. Sande, III has served as a Director of EICN since March 2001 and a Director of EIG and EIG Inc. since April 2005. He was also a Director of ECIC from August 2002 through May 2004. Mr. Sande has been a partner of the Nevada law firm of Jones Vargas and its predecessor firm, Vargas and Bartlett since 1974, primarily practicing in the areas of administrative law and trusts and estates. Mr. Sande actively participates in the Northern Nevada community. He has served as Chairman of the Reno-Tahoe Open Foundation, Director of the Reno Air Racing Association, Director of The First TEE, founding member of the Montreux Golf & Country Club Board of Governors, Co-Chair of the KNPB Channel 5 Capital Campaign, and as a Trustee of the William F. Harrah Automobile Foundation. He also served four terms on the Stanford University Athletic Board. Mr. Sande is a Trustee for the William F. Harrah Trusts, Chairman of the Board for First Independent Bank of Nevada, and previously served on the Board of Directors for Bank of America Nevada (Valley Bank of Nevada). Mr. Sande holds a B.A. degree, with great distinction, from Stanford University and a J.D. degree, cum laude, from Harvard University.

Executive Officers Who Also Serve as Directors

Douglas D. Dirks has served as President and Chief Executive Officer of EIG and EIG, Inc. since their creation on April 1, 2005. He has served as Chief Executive Officer of EICN and ECIC since January 2006. He served as President and Chief Executive Officer of EICN from January 1, 2000 until January 2006, and served as President and Chief Executive Officer of ECIC and its predecessor from May 2002 until January 2006. Mr. Dirks has served as President and Chief Executive Officer of EOH and EIS since 2002. He has been a director of EIG and EIG Inc. since April 2005; a director of EICN since December 1999, EOH since 2000 and EIS since August 1999 and a director of ECIC and its predecessor since May 2002. Mr. Dirks was the Chief Executive Officer of the Fund from 1995 to 1999 and its Chief Financial Officer from 1993 to 1995. Prior to joining the Fund, he served in senior insurance regulatory positions and as an advisor to the Nevada governor’s office. Mr. Dirks also has worked in the public accounting and investment banking industries and is a licensed Certified Public Accountant in the state of Texas. He presently serves on the Board of Directors of the Nevada Insurance Guaranty Association and the Nevada Insurance Education Foundation. Mr. Dirks holds B.A. and M.B.A. degrees from the University of Texas and a J.D. degree from the University of South Dakota.

Martin J. Welch has served as President and Chief Operating Officer of EICN and ECIC since January 2006 and was Senior Vice President and Chief Underwriting Officer of EICN and ECIC from September 2004 to January 2006. Mr. Welch has also been a Director of EIG, EIG Inc., EICN and ECIC since March 2006. Mr. Welch has more than 25 years of experience in workers' compensation and commercial property/casualty insurance. Prior to joining us, he served as Senior Vice President, National Broker Division, for Wausau Insurance Companies from January 2003 to February 2004, and prior to that time was Senior Vice President of Broker Operations for Wausau. He holds a B.S. degree in Finance from the University of Illinois and is a Chartered Property and Casualty Underwriter.

Executive Officers Who Do Not Serve as Directors

Lenard T. Ormsby was appointed as Chief Legal Officer of EIG in November 2006 and currently serves in that capacity, in addition to serving as its General Counsel and Corporate Secretary and as an Executive Vice President. He previously served as Executive Vice President and General Counsel of EICN and ECIC from June 2002 to November 2006. He has served as Secretary or Assistant Secretary of EICN, ECIC, EOH and EIS since 2002, and of EIG and EIG, Inc., since April 2005. Mr. Ormsby has been a Director of ECIC since June 2004. He was Chief Operating Officer of the Fund and EICN from 1999 to June 2002 and General Counsel of the Fund from 1995 to 1999. Before joining the Fund,

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Table of Contents

Mr. Ormsby was a partner in the Nevada law firm of McDonald, Carano, Wilson, McCune, Bergin, Frankovich & Hicks. He has been a practicing attorney for over 20 years. Mr. Ormsby holds a B.A. degree from the University of Nebraska-Omaha, an M.S. degree from North Dakota State University and a J.D. degree from the University of Nebraska.

William E. Yocke has served as Executive Vice President and Chief Financial Officer of EIG since January 2007. He has served as Executive Vice President and Chief Financial Officer for EICN and ECIC since June 2005. He has also been Treasurer of EIG, EIG Inc., EICN, ECIC, EOH and EIS since 2005. Mr. Yocke has been a Director of ECIC since November 2005. Prior to joining us, Mr. Yocke was Senior Vice President for the Willis Group, a London-based risk management and insurance intermediary, from 2004 to 2005. Previously, he served as Chief Financial Officer for AVRA Insurance Company from 2002 to 2004, Director of Deloitte & Touche West Region Actuarial and Risk Management Consulting from 1996 to 2002, and Director of West Region Risk Management Consulting for Ernst & Young LLP from 1987 to 1996. Mr. Yocke is a licensed Certified Public Accountant in the state of California. Mr. Yocke holds a B.S. degree from St. Mary's College of California.

Ann W. Nelson has served as Executive Vice President, Corporate and Public Affairs, of EIG since January 2007. She has served as Executive Vice President, Corporate and Public Affairs, of EICN and ECIC since January 2006. Ms. Nelson served us as Associate General Counsel from January through December 1999, as General Counsel from December 1999 through July 2002, Executive Vice President of Government Affairs from July 2002 through July 2004, and Executive Vice President of Strategy and Corporate Affairs from July 2004 through December 2005. Ms. Nelson's governmental experience includes service as Legal Counsel to former Nevada Governor Bob Miller from 1994 to 1999, and as a Deputy District Attorney in the Civil Division of the Washoe County District Attorney's Office in Reno, Nevada from 1993 through 1994. Ms. Nelson holds a B.A. from the University of Nevada, Reno, and a J.D., cum laude, from the University of San Francisco School of Law. She is a member of the Washoe County Bar Association and the State Bar of Nevada.

Other Significant Employees of Our Subsidiaries

The following information is provided regarding our other significant employees:

T. Hale Johnston has been President of the Pacific Region and Senior Vice President of ECIC since April 2006. He is responsible for management, profit and growth of traditional market business in California. Prior to joining us, Mr. Johnston was a Vice President of Meadowbrook Insurance Group from December 2002 to November 2005 and President and Chief Operating Officer of Dodson Group from March 2001 to December 2002. He has held executive and senior executive positions for over 15 years within the specialized field of workers' compensation insurance. Mr. Johnston holds B.A. degrees from William Jewell College.

David M. Quezada has been President of the Strategic Markets Region and Senior Vice President of ECIC since January 2006. He is responsible for management and oversight of the marketing and underwriting of business produced through non-traditional, strategic partnerships, and the identification of new, strategic partnership opportunities. Mr. Quezada has served in various executive management positions with us, most recently as Vice President, Loss Control Services, from May 2004 to January 2006. Prior to that time, Mr. Quezada served as Assistant Vice-President, Loss Control, with ECIC and in the same capacity with Fremont. Mr. Quezada holds a B.A. degree from California State Polytechnic University, Pomona.

George Tway has been President of the Western Region and Senior Vice President of EICN since August 2004. Prior to that position, he was Division Manager for the Western States for Fremont Indemnity from 2001 to 2004 and Underwriting and Marketing Manager for Industrial Indemnity from 1993 to 2000. He has also held senior positions in Idaho State Government, including Director of the Department of Commerce and Director of Labor and Industrial Services. Mr. Tway has been in the workers' compensation insurance industry for 18 years. Mr. Tway holds a B.A. degree from Mt. Angel College in Oregon and attended graduate school at St. Thomas of Rome in Italy.

Paul I. Ayoub has been Senior Vice President and Chief Information Officer of EICN and ECIC since September 2004. Prior to joining us, Mr. Ayoub was Senior Vice President and Chief Information

Officer for PMA Capital Insurance Company from September 2000 to September 2004. Previously, he spent 16 years in various technical and IT management positions at CIGNA Corporation. Mr. Ayoub holds a B.S. degree from Grove City College.

Stephen V. Festa has been Senior Vice President and Chief Claims Officer of EICN and ECIC since 2004. He has over 20 years of multi-line claims experience within the insurance industry. Prior to joining us, he held several claims, technical and management positions. In his most recent prior leadership position, Mr. Festa served as Executive Vice President of Crawford and Company from 1998 through 2003 and led the company's Third Party Administrator (TPA) division. He has also served as a Director of Arbitration Forums, Inc. Mr. Festa attended the University of Southern California and also completed the Advanced Executive Education Program sponsored by American Institute for Chartered Property Casualty Underwriters and the Wharton School of the University of Pennsylvania.

Jeff J. Gans has been Senior Vice President and Chief Underwriting Officer of EICN and ECIC since April 2006. Prior to joining us, he was Senior Vice President, Underwriting Operations, with AON Underwriting Managers in Chicago, Illinois, from 2004 to 2005. Mr. Gans also has held various executive management positions such as Senior Vice President at CNA from 2001 to 2003, Vice President, Commercial Insurance at Fireman's Fund from 1998 to 2001 and Vice President, Commercial Insurance Group at USF&G from 1993 to 1998. Mr. Gans received a B.S. degree from the Wharton School at the University of Pennsylvania and has earned his Chartered Property Casualty Underwriter and Associate in Risk Management professional designations.

Cynthia Morrison has been Vice President and Corporate Controller of EICN and ECIC since July 2002. Prior to joining us, she was Vice President and Controller for Fremont from 1987 to 2002 and was Controller of Borg Warner Insurance Services and Classified Financial from 1982 to 1987. Prior to joining us, Ms. Morrison was with KPMG as an audit manager. Ms. Morrison is a Certified Public Accountant and a Fellow of the Life Management Institute. She is a member of the American Institute of Certified Public Accountants and a member of the Insurance Accounting and Systems Association (IASA). She is a past President of the Los Angeles Chapter of IASA. Ms. Morrison received a B.S. degree from Arizona State University.

John P. Nelson has been Senior Vice President and Chief Administrative Officer of EIG since January 2007. He has been Senior Vice President and Chief Administrative Officer of EICN and ECIC since July 2004. Prior to joining us, he was Vice President, Human Resources & Administration for Fielding Graduate University in Santa Barbara, California, from October 1993 to June 2004. Mr. Nelson has 20 years of experience in the field of Human Resources working for educational, manufacturing, technology and retail institutions. Mr. Nelson received a B.A. from the University of California and an M.A. from Antioch University. He is also certified as a Senior Professional in Human Resources by the Society for Human Resource Management.

Teresa Shappellhas been Senior Vice President and Chief Strategy Officer of EIG since January 2007. She has been Senior Vice President and Chief Strategy Officer of EICN and ECIC since July 2006. Prior to joining us, she served as Chairman of Shappell, Inc., a consulting firm providing executive coaching and business strategy support. She also served as Vice President of Marketing and Product Management for Intuit in 2004, as Vice President, U.S. Sales and Commercial Operations for Bausch & Lomb from 2001 to 2003 and as General Manager of the Healthcare Division at Dell Computer Corporation from 1999 to 2001. Ms. Shappell has a B.S. degree from Virginia Tech and an M.B.A. from Harvard Business School.

Upon completion of this offering, we will have ten directors. This number includes eight outside directors and two directors who are also members of management. We have also established the following standing committees of the board of directors:

Term of Directors and Composition of Board of Directors

Upon the closing of this offering, our board of directors will consist of ten directors—Messes. Glenn, McKinney-James, and Ong and Messrs. Kolesar, Dirks, Blakey, Mosher, Rumbolz, Sande and Welch. In accordance with the terms of our amended and restated articles of incorporation, our board of directors

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will be divided into three staggered classes of directors of the same or nearly the same number. At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring. As a result, a portion of our board of directors will be elected each year. The division of the three classes and their respective election dates are as follows:

- the Class I directors' term will expire at the annual meeting of stockholders to be held in 2007 (our Class I directors are Ms. McKinney-James and Messrs. Sande and Welch);
- the Class II directors' term will expire at the annual meeting of stockholders to be held in 2008 (our Class II directors are Messrs. Blakey, Dirks and Kolesar); and

• the Class III directors' term will expire at the annual meeting of stockholders to be held in 2009 (our Class III director are Messes. Glenn and Ong and Messrs. Mosher and Rumbolz).

Our amended and restated articles of incorporation authorize a board of directors consisting of a number of directors to be fixed from time to time by a resolution of a majority of our board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control.

Board Committees

Audit Committee. This committee currently consists of Mr. Mosher, Ms. McKinney-James and Ms. Ong. Our audit committee currently satifies, and will upon the completion of this offering continue to satisfy, the independence and other requirements of the New York Stock Exchange, without regard to any transition period provided for therein, and those of the SEC. Each member of the audit committee is or will be financially literate by the date on which this offering is consummated. In addition, our board of directors has determined that Mr. Mosher is an audit committee financial expert within the meaning of Item 401(h) of Regulation S-K of the Securities Act. The audit committee assists our board in monitoring the integrity of our financial statements, our independent auditors' qualifications and independence, the performance of our audit function and independent auditors, and our compliance with legal requirements. The audit committee also prepares the audit committee report that the SEC rules require be included in our annual proxy statement or annual report on Form 10-K. Upon completion of this offering, the audit committee will have direct responsibility for the appointment, compensation, retention (including termination) and oversight of our independent auditors, and our independent auditors will report directly to the audit committee.

Finance Committee. This committee currently consists of Messrs. Rumbolz, Blakey, Dirks and Sande and Ms. Glenn. The finance committee reviews and makes recommendations to the board of directors with respect to certain of our financial affairs and policies, including investments and investment policies and guidelines, financial planning, capital structure and management, dividend policy and dividends, stock repurchases, and strategic plans and transactions.

Compensation Committee. This committee currently consists of Messrs. Blakey and Rumbolz and Ms. Ong. Our compensation committee currently satisfies, and will upon the completion of this offering continue to satisfy, the independence and other requirements of the New York Stock Exchange, without regard to any transition period provided for therein, and those of the SEC and of Section 162(m) of the Internal Revenue Code. This committee administers our equity and incentive bonus and benefits plans, determines the details of the compensation package for the Chief Executive Officer, establishes the total compensation philosophy and strategy and approves the salary and bonuses for executives annually. The compensation committee also produces a report on executive officer compensation as required by the SEC to be included in our annual proxy statement or annual report on Form 10-K. The compensation committee reviews and evaluates, at least annually, the performance of the compensation committee and its members, including compliance of the compensation committee with its charter.

Board Governance and Nominating Committee. This committee currently consists of Messrs. Sande and Kolesar and Ms. McKinney-James. Our board governance and nominating committee currently

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Table of Contents

satisfies, and will upon the completion of this offering continue to satisfy, the independence and other requirements of the New York Stock Exchange, without regard to any transition period provided for therein, and those of the SEC. The governance committee will identify qualified individuals to become members of the board of directors, determine the composition of the board of directors and its committees and develop and recommend to the board of directors sound corporate governance policies and procedures.

Executive Committee. Our board of directors currently has an executive committee consisting of Messrs. Kolesar, Blakey, Rumbolz, Sande, Mosher and Dirks. The executive committee functions on behalf of the board of directors, acting in respect of ordinary course matters, during intervals between meetings of the board of directors, as necessary.

152

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

The primary objectives of the Compensation Committee of our board of directors with respect to executive compensation are to attract and retain the best possible executive talent, to tie annual and long-term cash and stock incentives to achievement of measurable corporate, business unit and individual performance objectives, and to align executives' incentives with stockholder value creation. To achieve these objectives, the Compensation Committee expects to implement and maintain compensation plans that tie a substantial portion of executives' overall compensation to our financial performance (including our combined ratio and adjusted return on equity) and common stock price. Overall, the total compensation opportunity is intended to create an executive compensation program that is set at the median competitive levels of comparable public insurance companies and, in particular, companies with workers' compensation and other property and casualty lines of business, when our performance is at a commensurate median competitive level.

In connection with the conversion and the initial public offering, the Compensation Committee retained the compensation consulting firm of Frederic W. Cook & Co. to evaluate our compensation practices and to assist in developing and implementing the executive compensation program and philosophy. The Cook firm developed a competitive peer group and performed analyses of competitive performance and compensation levels. It also met individually with the members of the Compensation Committee and senior management to learn about our business operations and strategy as a public company, key performance metrics and target goals, and the labor and capital markets in which we will compete. It developed recommendations that were reviewed and approved by the Compensation Committee and the board of directors in connection with developing and approving the plan of conversion.

Compensation Components

Compensation is broken out into the following components:

Base Salary. Base salaries for our executives are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions. Generally, we believe that executive base salaries should be targeted near the median of the range of salaries for executives in similar positions and with similar responsibilities at comparable companies in line with our compensation philosophy. Base salaries are reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. For 2007, it is currently our intention that base salary increases for executives will be limited to five percent per individual.

Annual Bonus. In 2006, we terminated our 2003 Executive Bonus Plan, which provided for short- and long-term cash bonuses for officers, and replaced it with an annual incentive bonus plan for all of our officers (beginning in 2008, it is our intention to extend the bonus plan to cover all of our employees). The annual incentive bonuses (which are authorized under our new Equity and Incentive Plan) are intended to compensate officers for achieving our annual financial goals at corporate and business unit levels and for achieving measurable individual annual performance objectives. For 2007, the corporate financial goal will be based on achieving the targeted combined ratio contained in our business plan for 2007.

Our annual incentive bonus plan provides for a cash bonus, dependent upon the level of achievement of the stated corporate goals and personal performance goals, calculated as a percentage of the officer's base salary, with higher ranked executive officers being compensated at a higher percentage of base salary. The Compensation Committee approves the annual incentive award for the Chief Executive Officer and for each officer below the Chief Executive Officer level, based on the Chief Executive Officer's recommendations. For 2007, the target bonus awards (as a percentage of base salary) will be as follows: Chief Executive Officer, 90%; Chief Operating Officer, 50%; Executive Vice President, 40%; Senior Vice President, 35%; and Vice President, 25%. These target percentages are reduced from 2006 target percentages, which included both short-and long-term incentive award opportunity, so that our officers' annual bonus opportunities would be set near the median competitive levels of comparable companies. Depending on the achievement of the predetermined targets, the annual bonus may be less than or

greater than the target bonus. Maximum payout for officers is 150% of the target bonus. Further information regarding the 2007 bonus opportunities to our named executives is set forth under ''*Grant of Plan Based Awards''.

Long-Term Incentive Program. We believe that long-term performance is achieved through an ownership culture that encourages long-term performance by our executive officers through the use of stock-based awards. In connection with the conversion and this offering, our board of directors will adopt the Employers Holdings, Inc. Equity and Incentive Plan, which we refer to as the Equity and Incentive Plan, which permits the grant of stock options, stock appreciation rights, restricted shares, restricted stock units, performance shares, and other stock-based awards.

In 2007, we intend to provide long-term awards through a combination of stock options, which will vest based on continued employment, and performance shares, which will vest based on achievement of three-year combined ratio and adjusted return on equity goals.

Founders' Grants. In recognition of becoming a public company, on the date of the closing of the initial public offering, we intend to make a ''founders' grant'' in the form of a nonqualified stock option to purchase 300 shares of our common stock to each full-time employee, excluding our senior officers, at the initial public offering stock price and pursuant to the terms of the Equity and Incentive Plan. Part-time employees will receive a grant to purchase 150 of our shares, for an aggregate of approximately 187,500 shares underlying the ''founders' grants''. We believe the ''founders' grants'' will immediately align employee interests with those of policyholders and other public stockholders and reinforce the cultural change from a mutual to a public stock company. The ''founders' grants'' will vest pro rata on each of the first three anniversaries of the initial public offering date, subject to the continued employment of the employee, and have a maximum term of seven years.

Annual Equity Awards. Six months following the initial public offering, we intend to begin an annual practice of making equity awards to officers, including our executive officers. We intend that the annual aggregate value of these awards will be set near competitive median levels for comparable companies. One-half of the aggregate value of these awards will be granted in the form of nonqualified stock options and one-half will be granted in the form of performance shares. This two-part program is intended to achieve a balance between market-based incentives such as options, which we believe provide a strong link to stockholder value creation, and financial-based incentives such as performance awards, which we believe have stronger retention impact and provide a direct link to long-term corporate performance. The Compensation Committee has approved the value of initial equity grants to our executive officers. Information regarding the value of the initial equity grants to be made to our named executives is set forth under ‘‘—Grant of Plan Based Awards’’.

Options. The initial option grant will vest as to 25% of the shares underlying the grant six months following the grant and as to an additional 25% on each of the first three anniversaries of the grant date. After the initial option grant, it is intended that annual option grants will vest pro rata on each of the first four anniversaries of the date of grant. Annual option grants will have a maximum term of seven years.

Performance Shares. Grant of performance shares will be earned based on the achievement of pre-established corporate performance goals over a three-year performance period. For the initial performance period which commenced January 1, 2007, the performance goals will be based on the three-year average combined ratio and adjusted return on average equity, each weighted equally. The maximum number of performance shares that may be earned based on actual performance during the performance period will be 150% of the targeted number of performance shares.

Broad-Based Employee Grants. Beginning in 2008, we will reserve a pool of approximately 20,000 shares for grants of stock options or restricted stock to high-performing non-officer employees in recognition of their individual achievements and contributions to corporate or business unit performance or in circumstances where there is a critical retention need.

Other Compensation. Our senior officers who were parties to employment agreements prior to this offering will continue, following this offering, to be parties to such employment agreements in their current form until such time as the Compensation Committee determines in its discretion that revisions to such employment agreements are advisable. In addition, consistent with our pay-for-performance

compensation philosophy, we intend to continue to maintain modest executive benefits and perquisites for officers; however, the Compensation Committee in its discretion may revise, amend or add to the officer’s executive benefits and perquisites if it deems it advisable. We believe these benefits and perquisites are currently below median competitive levels for comparable companies. We have no current plans to make changes to either the employment agreements (except as required by law or as required to clarify the benefits to which our executive officers are entitled as set forth herein) or levels of benefits and perquisites provided thereunder. Our directors and executive officers and the directors and executive officers of our subsidiaries will not receive any stock or cash compensation at the time of the conversion, although some of them may receive consideration indirectly through an affiliation with an eligible member that receives consideration in the conversion.

Stock Ownership Guidelines. In connection with the initial public offering, we have adopted stock ownership guidelines for our officers, as follows:

Stock Ownership Guidelines

Position	(As a multiple of base salary)
Chief Executive Officer	4x
Chief Operating Officer/Executive Vice President	3x
Senior Vice President	2x
Vice President	1x

The guidelines require that officers eligible for regular annual equity grants retain a portion of ‘‘net gain shares’’ acquired upon exercise of stock options (i.e., shares acquired after the payment of the option exercise price and all employment and income taxes) and payment of earned performance shares. Until the salary multiple specified above is achieved (which will occur over the course of time) officers must retain 50% of their net gain shares from option exercises and earned performance shares. Once the specified salary multiple is achieved, the officers must continue to retain 25% of all net gain shares for the duration of their employment with us. These guidelines assure that officers are continuously adding to their holdings in our shares to the extent that the equity incentives granted under our executive compensation program deliver realized value to officers. No equity or equity based awards may be made to any executive officers prior to the date that is six months after this offering.

Table of Contents

Summary Compensation Table

The following table sets forth information regarding compensation earned by our Chief Executive Officer, our Chief Financial Officer and three other most highly compensated executive officers during 2005 and 2006:

Name and Principal Position	Year	Salary[1] ($)	Bonus[2] ($)	Stock Awards ($)	Option Awards ($)	Non-Stock Incentive Plan Compen-sation[3][4] ($)	All Other Compen-sation[5] ($)	Change in Pension Value and Non-Qualified Deferred Compen-sation Earnings ($)	Total ($)
Douglas D. Dirks	2006	543,769	—	—	—	953,750	57,358	—	1,554,877
President and Chief Executive Officer, EIG	2005	462,654	—	—	—	300,300	98,968	—	861,922

William E. Yocke(6)	2006	267,846	680	—	—	190,400	35,672	—	494,598
Executive Vice President and Chief Financial Officer, EIG	2005	137,000	680	—	—	100,094	79,240	—	317,014
Lenard T. Ormsby	2006	341,521	100,680	—	—	210,000	45,895	—	698,096
Executive Vice President and Chief Legal Officer, EIG	2005	250,000	680	—	—	165,000	96,319	—	511,999
Martin J. Welch	2006	307,115	680	—	—	217,000	192,740	—	717,535
President and Chief Operating Officer, EICN and ECIC	2005	231,539	680	—	—	148,500	57,242	—	437,961
Ann W. Nelson	2006	218,963	680	—	—	133,700	35,364	—	388,707
Executive Vice President, Corporate and Public Affairs, EIG	2005	182,846	680	—	—	120,780	28,566	—	332,872

(1)Salary includes base salary and payment in respect of accrued vacation, holidays, and sick days.

(2)Mr. Ormsby received a $100,000 bonus for signing an amended and restated employment agreement which expires on December 31, 2008. In addition, each officer other than Mr. Dirks received a holiday bonus of $680.

(3)For the year 2005, the Non-Stock Incentive Plan Compensation listed on this table reflects the performance of the Chief Executive Officer and each of the named executive officers in the year shown for the 2003 Executive Bonus Plan. However, the short-term bonuses are actually paid in the following calendar year and the long-term bonuses in 2007.

(4)For the year 2006, the Non-Stock Incentive Plan Compensation listed on this table reflects the target performance of the Chief Executive Officer and each of the named executive officers in the year shown for the 2006 Incentive Bonus Plan. However, bonuses are actually paid in the following calendar year.

(5)Includes the following payments we paid on behalf of the executives:

Name	Year	Car Allowance ($)	Club Memberships ($)	Health Care Contribution ($)	Moving Allowance ($)	Life Insurance Premiums ($)	401(k) Matching Contributions ($)	Total ($)
Douglas D.	2006	15,600	20,422	14,182	—	554	6,600	57,358
Dirks	2005	12,900	65,370	13,911	—	503	6,284	98,968
William E.	2006	14,400	4,060	10,323	—	289	6,600	35,672
Yocke	2005	7,000	1,395	4,694	61,907	164	4,080	79,240
Lenard T.	2006	14,400	10,389	14,182	—	324	6,600	45,895
Ormsby	2005	12,000	64,890	12,859	—	270	6,300	96,319
Martin J. Welch	2006	14,400	4,432	14,349	152,624	335	6,600	192,740
	2005	12,000	3,467	13,087	22,138	250	6,300	57,242
Ann W. Nelson								

2006	14,400	1,025	14,285	—	204	5,450	35,364
2005	12,000	175	12,962	—	198	3,231	28,566

(6)Mr. Yocke commenced his employment with us on June 16, 2005.

Table of Contents

We are a party to an amended and restated employment agreement with Mr. Dirks, the stated term of which expires on January 31, 2009 unless terminated earlier by either party in accordance with such agreement. Under the agreement, in addition to his base salary of $550,000 (which is subject to increase in our discretion), Mr. Dirks is eligible to receive incentive compensation and bonuses, with a target of not less than 175% of base salary, as our board of directors may, in its discretion, determine to award him, and to which he may be entitled under the terms of any of our plans, programs or agreements in effect during the term of the agreement. Mr. Dirks is also entitled to participate in all incentive compensation, retirement, supplemental retirement and deferred compensation plans, policies and arrangements that are provided generally to our other senior officers as may be determined in our board of directors' discretion.

We are a party to an amended and restated employment agreement with Mr. Welch, the stated term of which expires on December 31, 2008 unless terminated earlier by either party in accordance with such agreement. Under the agreement, in addition to his base salary of $310,000 (which is subject to increase in our discretion), Mr. Welch is eligible to receive incentive compensation and bonuses, with a target of not less than 60% of base salary, as our board of directors may, in its discretion, determine to award him, and to which he may be entitled under the terms of any of our plans, programs or agreements in effect during the term of the agreement (for 2006, Mr. Welch's target bonus is 70% of base salary). Mr. Welch is also entitled to participate in all incentive compensation, retirement, supplemental retirement and deferred compensation plans, policies and arrangements that are provided generally to our other senior officers as may be determined in our board of directors' discretion.

We are a party to an amended and restated employment agreement with Mr. Ormsby, the stated term of which expires on December 31, 2008 unless terminated earlier by either party in accordance with such agreement. Under the agreement, in addition to his base salary of $300,000 (which is subject to increase in our discretion), Mr. Ormsby is eligible to receive incentive compensation and bonuses, with a target of not less than 60% of base salary, as our board of directors may, in its discretion, determine to award him, and to which he may be entitled under the terms of any of our plans, programs or agreements in effect during the term of the agreement (for 2006, Mr. Ormsby's target bonus is 70% of base salary). Mr. Ormsby is also entitled to participate in all incentive compensation, retirement, supplemental retirement and deferred compensation plans, policies and arrangements that are provided generally to our other senior officers as may be determined in our board of directors' discretion.

We are a party to an amended and restated employment agreement with Mr. Yocke, the stated term of which expires on December 31, 2008 unless terminated earlier by either party in accordance with such agreement. Under the agreement, in addition to his base salary of $260,000 (which is subject to increase in our discretion and which has been increased since the date of the agreements to $272,000), Mr. Yocke is eligible to receive incentive compensation and bonuses, with a target of not less than 60% of base salary, as our board of directors may, in its discretion, determine to award him, and to which he may be entitled under the terms of any of our plans, programs or agreements in effect during the term of the agreement (for 2006, Mr. Yocke's target bonus is 70% of base salary). Mr. Yocke is also entitled to participate in all incentive compensation, retirement, supplemental retirement and deferred compensation plans, policies and arrangements that are provided generally to our other senior officers as may be determined in our board of directors' discretion.

We are a party to an amended and restated employment agreement with Ms. Nelson, the stated term of which expires on December 31, 2008 unless terminated earlier by either party in accordance with such agreement. Under the agreement, in addition to her base salary of $183,000 (which is subject to increase in our discretion and which has been increased since the date of the agreements to $191,000), Ms. Nelson is eligible to receive incentive compensation and bonuses, with a target of not less than 60% of base salary, as our board of directors may, in its discretion, determine to award her, and to which she may be entitled under the terms of any of our plans, programs or agreements in effect during the term of the agreement (for 2006, Ms. Nelson's target bonus is 70% of base salary). Ms. Nelson is also entitled to participate in all incentive compensation, retirement, supplemental retirement and deferred compensation plans, policies and arrangements that are provided generally to our other senior officers as may be determined in our board of directors' discretion.

157

Table of Contents

The Compensation Committee, which will be comprised solely of ''outside directors'' as defined for purposes of Section 162(m) of the Internal Revenue Code, may elect to adopt plans or programs providing for additional benefits if the Compensation Committee determines that doing so is in our best interests.

For a complete description and quantification of benefits payable to our named officers on and following termination of employment under plans and programs currently in effect, see ''—Potential Payments Upon Termination Or Change In Control''.

Grants of Plan Based Awards

2006 Incentive Bonus Plan. Effective December 31, 2005, we terminated our 2003 Executive Bonus Plan, which provided for short- and long-term bonuses to certain officers based on corporate performance and modifier based upon individual performance and replaced it in 2006 with an annual Incentive Bonus Plan for all of our officers. The 2006 plan provides for a cash bonus, dependent upon the level of achievement of the stated corporate goals and personal performance goals, calculated as a percentage of the officers' base salary, with higher ranked officers being compensated at a higher percentage of base salary. The potential cash bonuses for fiscal year 2006 to be paid in 2007 at target and maximum performance levels are set forth below:

2006 Incentive Bonus Plan

		Estimated Future Payouts under Non-Equity Incentive Plan Awards	
Name	Grant Date	Target	Maximum
Douglas D. Dirks	03/06/06	$ 953,750	$ 1,239,875
William E. Yocke	03/06/06	190,400	247,520
Lenard T. Ormsby	03/06/06	210,000	273,000
Martin J. Welch	03/06/06	217,000	282,100
Ann W. Nelson	03/06/06	133,700	171,386

2003 Executive Bonus Plan. The terminated 2003 Executive Bonus Plan awarded short- and long-term bonuses in equal amounts each year based on annual corporate performance with a modifier for individual performance. The short-term bonus was paid in the year following the fiscal year end, and the long-term bonus became payable three years after the fiscal year end with 50% of the award paid each year thereafter. Because the terminated plan was effective January 2003, the first long-term incentive payment was to have been paid in 2006. Because the 2003 Executive Bonus Plan was terminated effective December 31, 2005, the first long-term incentive payment was made in 2006 to those named executives who had a vested entitlement, which were those named executives who had been participants since 2003. Amounts earned under the 2003 Executive Bonus Plan by our named executives in 2005 are included in the Summary Compensation Table above in the ‘‘Non-Stock Incentive Plan Compensation’’ column. In 2007, we intend to complete the liquidation of the terminated 2003 Executive Bonus Plan and anticipate paying the named executives the balance of their long-term bonuses on or before March 15, 2007. To the extent the performance conditions applicable to such awards were satisfied prior to 2005, such amounts are not set forth in the Summary Compensation Table. The amount each named executive is estimated to receive in final distribution of the terminated plan is set forth below:

2003 Executive Bonus Plan

	Estimated Future Payouts under Non-Equity Incentive Plan Awards		
Name	2006	2007	Total
Douglas D. Dirks	$ 351,820	$ 201,670	$ 553,490
William E. Yocke[(1)]	50,047	50,047	100,094
Lenard T. Ormsby	197,200	114,700	311,900
Martin J. Welch	74,250	99,000	173,250
Ann W. Nelson	144,510	84,120	228,630

(1)Mr. Yocke commenced his employment with us on June 16, 2005.

158

Table of Contents

Equity and Incentive Plan Awards

2007 Annual Incentive Plan. As noted in the ‘‘Compensation Discussion and Analysis,’’ the Compensation Committee has approved target and maximum bonus opportunities (expressed as a percentage of salary) for our named executives for 2007, based upon achievement of corporate financial goals and achieving measurable individual annual performance objectives. Set forth below is the dollar amount of the 2007 bonus opportunities for each of our named executives, based upon their approved 2007 salaries:

2007 Annual Incentive Bonus Plan

Name	Threshold	Target Bonus	Maximum Bonus

Douglas D. Dirks	$ 0	$ 517,500	$ 776,250
William E. Yocke	0	114,000	171,000
Lenard T. Ormsby	0	120,000	180,000
Martin J. Welch	0	162,500	243,750
Ann W. Nelson	0	80,000	120,000

Annual Equity Awards. Also as noted in this ‘‘Compensation Discussion and Analysis,’’ the Compensation Committee has approved the aggregate value of initial equity grants to be made to our named executives six months following this offering. These values are as follows:

Annual Equity Grants

		Fair Value of Performance Shares		
Name	Fair Value of Options	Threshold	Target	Maximum
Douglas D. Dirks	$ 230,625	$ 0	$ 230,625	$ 345,938
William E. Yocke	61,500	0	61,500	92,250
Lenard T. Ormsby	61,500	0	61,500	92,250
Martin J. Welch	107,625	0	107,625	161,438
Ann W. Nelson	61,500	0	61,500	92,250

Pursuant to its authority under the Equity and Incentive Plan, our Compensation Committee retains the discretion to make adjustments with respect to the 2007 annual bonuses and the equity grants described above, including adjustments to (1) the annual bonus opportunities, (2) the fair value of the equity grants and (3) the performance criteria applicable to the annual bonuses and the performance shares.

Compensation Comparison

The Compensation Committee has approved certain amounts relating to the compensation of our named executive officers, including base salary amounts, targeted and maximum annual cash incentive awards, and targeted and maximum long-term equity incentive awards (in the case of incentive awards, payable only if certain performance goals are achieved). Such approved target amounts and maximum amounts are set forth below. To provide further information on how such 2007 target amounts compare to prior levels of compensation, actual base salaries and target and maximum annual and long term bonus amounts for 2005 and 2006 are also set forth below.

The chart set forth below is provided for comparison purposes only and does not contain complete information with respect to total compensation paid to our named executive officers in 2005 or expected to be paid to our named executive officers in 2006, nor does it contain all possible components of compensation that our named executive officers may receive in 2007.

Table of Contents

2005-2007 Compensation Comparison Chart[1]

	Year	Salary[2] ($)	Annual Cash Bonus Opportunity ($) Target[5]	Maximum[5]	Value of Long Term Cash or Equity Award Opportunity Awarded In Indicated Year[3] ($) Target[5]	Maximum[5]	Total[4] ($) Target[4]	Maximum[4]
Douglas D. Dirks	2007	575,000	517,500	776,250	461,250	576,563	1,553,750	1,927,813
	2006	543,769	953,750	1,239,875	0	0	1,497,519	1,783,644
	2005	462,654	40,950	150,150	40,950	150,150	544,554	762,954
William E. Yocke	2007	285,000	114,000	171,000	123,000	153,750	522,000	609,750
	2006	267,846	190,400	247,520	0	0	458,246	515,366
	2005	137,000	12,178	50,047	12,178	50,047	161,356	237,094
Lenard T. Ormsby	2007	300,000	120,000	180,000	123,000	153,750	543,000	633,750
	2006	341,521	210,000	273,000	0	0	551,521	614,521
	2005	250,000	22,500	82,500	22,500	82,500	295,000	415,000
Martin J. Welch	2007	325,000	162,500	243,750	215,250	269,063	702,750	837,813
	2006	307,115	217,000	282,100	0	0	524,115	589,215
	2005	231,539	20,250	74,250	20,250	74,250	272,039	380,039
Ann W. Nelson	2007	200,000	80,000	120,000	123,000	153,750	403,000	473,750
	2006	218,963	133,700	171,386	0	0	352,663	390,349
	2005	182,846	16,470	60,390	16,470	60,390	215,786	303,626

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(1) The Compensation Committee, which following the completion of the conversion and this offering will be comprised solely of ''outside directors'' as defined for purposes of Section 162(m) of the Internal Revenue Code, may elect to adopt plans or programs providing for additional compensation and benefits at the Compensation Committee's discretion.

(2) Data for fiscal years 2005 and 2006 are as set forth in the Summary Compensation Table above. Data for fiscal year 2007 reflects base salary approved by the Compensation Committee for fiscal year 2007. For fiscal years 2005 and 2006, salary includes base salary and payment in respect of accrued vacation, holidays and sick days.

(3) The values set forth in the Value of Long Term Cash or Equity Award Opportunity Awarded column for fiscal year 2007 relating to stock option awards are calculated using a ''fair value'' stock option pricing model as is required by the FASB. The amounts are not indicative of the actual cash value of the awards at the time of grant or the market value of the stock underlying the award; rather they are estimates based on certain assumptions. Depending upon the performance of the common stock underlying the stock awards and the amounts that actually vest, the actual cash equivalent value to the recipient could be more or less than the amounts set forth. Equity awards expected to be granted in fiscal year 2007 will be converted into long-term cash-based awards if the conversion and this offering and are not completed by June 30, 2007.

(4) The Total column represents the sum of base salary, target/maximum annual cash incentive award opportunities and target/maximum long term cash and equity incentive award opportunities as approved by the Compensation Committee with respect to the applicable fiscal year. Amounts in the Total column do not include other compensation that the executives received in fiscal years 2005 and 2006, or any similar compensation anticipated for fiscal year 2007. Other compensation includes the values of perquisites and benefits provided to the named executive officers, such as auto allowances, club memberships, health care contributions, moving allowances, life insurance premiums and 401(k) matching contributions. The value of such other compensation is not determinable at this time. A summary of the other compensation amounts for fiscal years 2005 and 2006 is set forth below, and a

detailed breakdown of the other compensation amounts for fiscal years 2005 and 2006 is included in footnote 5 to the Summary Compensation Table above.

	Douglas D. Dirks	William E. Yocke	Lenard T. Ormsby	Martin J. Welch	Ann W. Nelson
2006	$57,358	$35,672	$45,895	$192,740	$35,364
2005	$98,968	$79,240	$96,319	$ 57,242	$28,566

(5) Data reflects target and maximum annual cash incentive bonuses and target and maximum long term cash and equity incentive award opportunities reflect target amounts approved for grant by the Compensation Committee with respect to the applicable fiscal year. Actual amounts earned in fiscal years 2005 and 2006 with respect to annual bonuses and actual amounts granted in fiscal years 2005 and 2006 with respect to long term awards are set forth in the Summary Compensation Table above.

Outstanding Equity Awards At Fiscal Year-End; Option Exercises and Stock Vested

None of our named executive officers have ever held options to purchase interests in us or other awards with values based on the value of our interests.

Pension Benefits

None of our named executives participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us. The Compensation Committee, which will be comprised solely of

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Table of Contents

‘‘outside directors’’ as defined for purposes of Section 162(m) of the Internal Revenue Code, may elect to adopt qualified or non-qualified defined benefit plans if the Compensation Committee determines that doing so is in our best interests.

Nonqualified Deferred Compensation

None of our named executives participate in or have account balances in non-qualified defined contribution plans or other deferred compensation plans maintained by us. The Compensation Committee, which will be comprised solely of ‘‘outside directors’’ as defined for purposes of Section 162(m) of the Internal Revenue Code, may elect to provide our officers and other employees with non-qualified defined contribution or deferred compensation benefits if the Compensation Committee determines that doing so is in our best interests.

Director Compensation

The following table sets forth a summary of the compensation we paid to our non-employee directors in 2005 and 2006:

Name	Year	Fees earned or	Stock Awards	Option Awards	Non-Stock Incentive Plan Compensation	Change in Pension Value and	All Other Compensation	Total

		paid in cash				Non-qualified Deferred Compensation Earnings		
Robert J. Kolesar	2006	$78,000	—	—	—	—	—	$78,000
	2005	61,000	—	—	—	—	—	61,000
Richard W. Blakey	2006	62,000	—	—	—	—	—	62,000
	2005	52,000	—	—	—	—	—	52,000
Valerie R. Glenn	2006	33,500	—	—	—	—	—	33,500
	2005	—	—	—	—	—	—	—
Rose E. McKinney-James	2006	68,500	—	—	—	—	—	68,500
	2005	58,500	—	—	—	—	—	58,500
Ronald F. Mosher	2006	60,500	—	—	—	—	—	60,500
	2005	55,500	—	—	—	—	—	55,500
Katherine W. Ong	2006	64,500	—	—	—	—	—	64,500
	2005	54,750	—	—	—	—	—	54,750
Michael D. Rumbolz	2006	57,000	—	—	—	—	—	57,000
	2005	57,500	—	—	—	—	—	57,500
John P. Sande, III	2006	65,500	—	—	—	—	—	65,500
	2005	58,500	—	—	—	—	—	58,500

Outside directors receive an annual retainer of $25,000. Non-employee directors are also paid cash fees of $1,000 for each board meeting above four meetings in a calendar year, $1,500 for each audit committee meeting attended and $1,000 for each other committee meeting attended. The chairman of the board is paid an additional cash fee of $20,000 annually. Committee chairpersons are paid an additional cash fee of $10,000 annually. The independent policyholder director receives an annual retainer of $45,000 and is paid cash fees of $1,000 for each meeting attended.

The cash compensation program for non-employee directors described above will continue following the initial public offering. In addition to the cash compensation, six months following the initial public offering, each non-employee director will be granted an award of deferred stock units (''DSUs'') with a value of $50,000. Subject to accelerated vesting as set forth below, the DSUs will vest in full at the 2008 stockholders meeting and will be paid in shares six months following termination of board service. Vested DSUs will be credited with dividend equivalents which will be reinvested in additional DSUs. Beginning in 2008, at each annual stockholders meeting, each director will be granted additional DSUs which, subject to accelerated vesting as set forth below, will vest quarterly and will be paid in shares six months following termination of board service. DSUs will vest and be paid out if the director terminates service as a result of his or her death or disability or following a change in control (as defined in the Equity and Incentive Plan).

Table of Contents

Potential Payments Upon Termination or Change in Control

The following summaries set forth potential payments payable to our executive officers upon termination of employment or a change in control of us under their current employment agreements and our other compensation programs. The Compensation Committee may in its discretion revise, amend or add to the benefits if it deems advisable.

Douglas D. Dirks

We may at any time terminate our employment agreement with Mr. Dirks if Mr. Dirks materially breaches the agreement, fails to obtain or maintain any required licenses or certificates, willfully violates any law, rule or regulation that may adversely affect his ability to perform his duties or may subject us to liability, or is convicted of a felony or crime including moral turpitude, or if we elect to discontinue our business (‘‘Cause’’). In addition, we may at any time terminate the agreement if Mr. Dirks is unable to perform the essential functions of his job for a period of more than 100 business days in a 120 consecutive business day period (‘‘Disabled’’) or if Mr. Dirks dies. Mr. Dirks may terminate his employment agreement for ‘‘Good Cause’’ if we materially breach it or we willfully violate any law, rule, or regulation that may adversely affect the ability of Mr. Dirks to perform his duties or may subject Mr. Dirks to liability. Mr. Dirks may be entitled to certain additional benefits under the Equity Incentive Plan relating to the accelerated vesting of equity awards if his employment is terminated by us without Cause or by Mr. Dirks for Good Cause following a change in control of us (as defined in the Equity and Incentive Plan). Further information regarding Mr. Dirk’s opportunities under the Equity and Incentive Plan is set forth under ‘‘—Equity and Incentive Plan Awards’’.

Termination by Us (other than for Cause, Death or Disability) or Termination by Mr. Dirks for Good Cause prior to a Change in Control. If Mr. Dirks is terminated for any reason other than death, disability or Cause, or if Mr. Dirks terminates his employment for Good Cause, in each case prior to a change in control, Mr. Dirks is entitled to receive (less applicable withholding taxes):

- an amount equal to Mr. Dirks’ base salary through the term of the agreement or two years base salary, whichever is greater, within 30 days of the effective date of the termination.
- amounts due under any bonus plan in which Mr. Dirks has been a participant, pro-rated for the period of the calendar year in which Mr. Dirks was employed, within 30 days of the effective date of the termination or, at our election, on the date provided by the termination provisions of the applicable plan.
- continuation of insurance coverage provided to Mr. Dirks as of the date of his termination for 18 months with us paying the employer portion of the premium.
- unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Dirks at the time he is granted a particular equity award, upon termination of his employment, Mr. Dirks will forfeit any outstanding awards except that he will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us (other than for Cause, Death or Disability) or Termination by Mr. Dirks for Good Cause following a Change in Control. If Mr. Dirks is terminated for any reason other than death, disability or Cause, or if Mr. Dirks terminates his employment for Good Cause, in each case following a change in control of us, in addition to the severance benefits set forth above that Mr. Dirks is entitled to receive upon such terminations prior to a change in control, all restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) upon termination of Mr. Dirks’ employment by us without Cause or by Mr. Dirks for Good Cause during the 24-month period following the change in control. Notwithstanding the above, if outstanding equity awards are not assumed or substituted in connection with the change in control, the restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) immediately upon the change in control.

Termination for Death or Disability. If Mr. Dirks’ employment is terminated as a result of his disability, Mr. Dirks is entitled to benefits in accordance with our policies generally applicable to all

Table of Contents

employees, which provide for a benefit equal to $15,000 per month until Mr. Dirks reaches age 65. If Mr. Dirks' employment is terminated as a result of his death, pursuant to the terms of Mr. Dirks' employment agreement, he is entitled to life insurance benefits under our group life insurance program equal to three times his base salary (employees generally are entitled to benefits equal to two times base salary). Unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Dirks at the time he is granted a particular equity award, upon termination of his employment as a result of death or disability, Mr. Dirks will forfeit any outstanding awards except that he (or his estate) will have one year following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us for Cause or By Mr. Dirks other than for Good Cause. Upon termination for any other reason, Mr. Dirks is not entitled to any payment or benefit other than the payment of unpaid salary and accrued and unused vacation pay. Unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Dirks at the time he is granted a particular equity award, upon termination of his employment, Mr. Dirks will forfeit any outstanding awards except that he will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Assuming Mr. Dirks' employment was terminated under each of these circumstances on December 31, 2006, such payments and benefits have an estimated value of:

	Cash Severance	Bonus	Medical Continuation	Death Benefits	Disability Benefits	Value of Accelerated Equity and Performance Awards
Without Cause or For Good Cause Prior to a Change in Control	$ 1,145,833	$ 1,155,420	$ 29,968	—	—	—
Without Cause or For Good Cause Following a Change in Control	$ 1,145,833	$ 1,155,420	$ 29,968	—	—	—
Death	—	—	—	$ 1,650,000	—	—
Disability	—	—	—	—	$ 3,000,000	—
Other	—	—	—	—	—	—

Martin J. Welch

We may at any time terminate our employment agreement with Mr. Welch for Cause. In addition, we may at any time terminate the agreement if Mr. Welch dies or becomes Disabled. Mr. Welch may terminate his employment agreement for Good Cause. Mr. Welch may be entitled to certain additional benefits under the Equity Incentive Plan relating to the accelerated vesting of equity awards if his employment is terminated by us without Cause or by Mr. Welch for Good Cause following a change in control of us. Further information regarding Mr. Welch's opportunities under the Equity and Incentive Plan is set forth under ''—Equity and Incentive Plan Awards''.

Termination by Us (other than for Cause, Death or Disability) or Termination by Mr. Welch for Good Cause prior to a Change in Control. If Mr. Welch is terminated for any reason other than death, disability or Cause, or if Mr. Welch terminates his employment for Cause, in each case prior to a change in control of us, Mr. Welch is entitled to receive (less applicable withholding taxes):

- an amount equal to Mr. Welch's base salary through the term of the agreement or one month of base salary for each completed year of service with us, whichever is greater but in no case less than 12 months of base salary, within 30 days of the effective date of the termination.
- short and long-term amounts due under the 2003 Executive Bonus Plan (or our bonus plan in effect at termination; short-term amounts will be pro-rated for the period of the calendar year in which Mr. Welch was employed), within 30 days of the effective date of the termination or, at the election, on the date provided by the termination provisions of the applicable plan.
- continuation of insurance coverage provided to Mr. Welch as of the date of his termination for 18 months with us paying the employer portion of the premium.

- unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Welch at the time he is granted a particular equity award, upon termination of his employment, Mr. Welch will forfeit any outstanding awards except that he will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us (other than for Cause, Death or Disability) or Termination by Mr. Welch for Good Cause following a Change in Control. If Mr. Welch is terminated for any reason other than death, disability or Cause, or if Mr. Welch terminates his employment for Good Cause, in each case following a change in control of us, in addition to the severance benefits set forth above that Mr. Welch is entitled to receive upon such terminations prior to a change in control, all restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) upon termination of Mr. Welch's employment by us without Cause or by Mr. Welch for Good Cause during the 24-month period following the change in control. Notwithstanding the above, if outstanding equity awards are not assumed or substituted in connection with the change in control, the restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) immediately upon the change in control.

Termination for Death or Disability. If Mr. Welch's employment is terminated as a result of his disability, Mr. Welch is entitled to benefits in accordance with our policies generally applicable to all employees, which provide for a benefit equal to $15,000 per month until Mr. Welch reaches age 65. If Mr. Welch's employment is terminated as a result of his death, pursuant to the terms of Mr. Welch's employment agreement, he is entitled to life insurance benefits under our group life insurance program equal to three times his base salary (employees generally are entitled to benefits equal to two times base salary). Unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Welch at the time he is granted a particular equity award, upon termination of his employment as a result of death or disability, Mr. Welch will forfeit any outstanding awards except that he (or his estate) will have one year following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us for Cause or By Mr. Welch other than for Good Cause. Upon termination for any other reason, Mr. Welch is not entitled to any payment or benefit other than the payment of unpaid salary and accrued and unused vacation pay. Unless otherwise provided by our plan administrator in the award agreement entered into with Mr.

Welch at the time he is granted a particular equity award, upon termination of his employment, Mr. Welch will forfeit any outstanding awards except that he will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Assuming Mr. Welch's employment was terminated under each of these circumstances on December 31, 2006, such payments and benefits have an estimated value of:

	Cash Severance	Bonus	Medical Continuation	Death Benefits	Disability Benefits	Value of Accelerated Equity and Performance Awards
Without Cause or For Good Cause Prior to a Change in Control	$ 620,000	$ 316,000	$ 29,968	—	—	—
Without Cause or For Good Cause Following a Change in Control	$ 620,000	$ 316,000	$ 29,968	—	—	—
Death	—	—	—	$ 930,000	—	—
Disability	—	—	—	—	$ 2,520,000	—
Other	—	—	—	—	—	—

Lenard T. Ormsby

We may at any time terminate our employment agreement with Mr. Ormsby for Cause. In addition, we may at any time terminate the agreement if Mr. Ormsby dies or becomes Disabled. Mr. Ormsby may terminate his employment agreement for Good Cause. Mr. Ormsby may be entitled to certain additional benefits under the Equity Incentive Plan relating to the accelerated vesting of equity awards if his employment is terminated by us without Cause or by Mr. Ormsby for Good Cause following a change in control of us. Further information regarding Mr. Ormsby's opportunities under the Equity and Incentive Plan is set forth under ''—Equity and Incentive Plan Awards''.

Termination by Us (other than for Cause, Death or Disability) or Termination by Mr. Ormsby for Good Cause prior to a Change in Control. If Mr. Ormsby is terminated for any reason other than death, disability or Cause, or if Mr. Ormsby terminates his employment for Cause, in each case prior to a change in control of us, Mr. Ormsby is entitled to receive (less applicable withholding taxes):

- an amount equal to Mr. Ormsby 's base salary through the term of the agreement or one month of base salary for each completed year of service with us, whichever is greater but in no case less than 18 months of base salary, within 30 days of the effective date of the termination.
- short and long-term amounts due under the Executive Bonus Plan (or our bonus plan in effect at termination; short-term amounts will be pro-rated for the period of the calendar year in which Mr. Ormsby was employed), within 30 days of the effective date of the termination or,

at our election, on the date provided by the termination provisions of the applicable plan.

- continuation of insurance coverage provided to Mr. Ormsby as of the date of his termination for 18 months with us paying the employer portion of the premium.
- unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Ormsby at the time he is granted a particular equity award, upon termination of his employment, Mr. Ormsby will forfeit any outstanding awards except that he will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us (other than for Cause, Death or Disability) or Termination by Mr. Ormsby for Good Cause following a Change in Control. If Mr. Ormsby is terminated for any reason other than death, disability or Cause, or if Mr. Ormsby terminates his employment for Good Cause, in each case following a change in control of us, in addition to the severance benefits set forth above that Mr. Ormsby is entitled to receive upon such terminations prior to a change in control, all restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) upon termination of Mr. Ormsby's employment by us without Cause or by Mr. Ormsby for Good Cause during the 24-month period following the change in control. Notwithstanding the above, if outstanding equity awards are not assumed or substituted in connection with the change in control, the restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) immediately upon the change in control.

Termination for Death or Disability. If Mr. Ormsby's employment is terminated as a result of his disability, Mr. Ormsby is entitled to benefits in accordance with our policies generally applicable to all employees, which provide for a benefit equal to $15,000 per month until Mr. Ormsby reaches age 65. If Mr. Ormsby's employment is terminated as a result of his death, pursuant to the terms of Mr. Ormsby's employment agreement, he is entitled to life insurance benefits under our group life insurance program equal to three times his base salary (employees generally are entitled to benefits equal to two times base salary). Unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Ormsby at the time he is granted a particular equity award, upon termination of his employment as a result of death or disability, Mr. Ormsby will forfeit any outstanding awards except that he (or his estate) will have one year following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us for Cause or By Mr. Ormsby other than for Good Cause. Upon termination for any other reason, Mr. Ormsby is not entitled to any payment or benefit other than the payment of unpaid

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salary and accrued and unused vacation pay. Unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Ormsby at the time he is granted a particular equity award, upon termination of his employment, Mr. Ormsby will forfeit any outstanding awards except that he will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Assuming Mr. Ormsby's employment was terminated under each of these circumstances on December 31, 2006, such payments and benefits have an estimated value of:

	Cash Severance	Bonus	Medical Continuation	Death Benefits	Disability Benefits	Value of Accelerated Equity and Performance Awards
Without Cause or For Good Cause Prior to a Change in Control	$ 600,000	$ 324,700	$ 29,968	—	—	—
Without Cause or For Good Cause Following a Change in Control	$ 600,000	$ 324,700	$ 29,968	—	—	—
Death	—	—	—	$ 900,000	—	—
Disability	—	—	—	—	$ 1,920,000	—
Other	—	—	—	—	—	—

William E. Yocke

We may at any time terminate our employment agreement with Mr. Yocke for Cause. In addition, we may at any time terminate the agreement if Mr. Yocke dies or becomes Disabled. Mr. Yocke may terminate his employment agreement for Good Cause. Mr. Yocke may be entitled to certain additional benefits under the Equity Incentive Plan relating to the accelerated vesting of equity awards if his employment is terminated by us without Cause or by Mr. Yocke for Good Cause following a change in control of us. Further information regarding Mr. Yocke's opportunities under the Equity and Incentive Plan is set forth under ''—Equity and Incentive Plan Awards''.

Termination by Us (other than for Cause, Death or Disability) or Termination by Mr. Yocke for Good Cause prior to a Change in Control. If Mr. Yocke is terminated for any reason other than death, disability or Cause, or if Mr. Yocke terminates his employment for Cause, in each case prior to a change in control of us, Mr. Yocke is entitled to receive (less applicable withholding taxes):

- an amount equal to Mr. Yocke 's base salary through the term of the agreement or one month of base salary for each completed year of service with us, whichever is greater but in no case less than 12 months of base salary, within 30 days of the effective date of the termination.
- short and long-term amounts due under the 2003 Executive Bonus Plan (or our bonus plan in effect at termination; short-term amounts will be pro-rated for the period of the calendar year in which Mr. Yocke was employed), within 30 days of the effective date of the termination or, at our election, on the date provided by the termination provisions of the applicable plan.
- continuation of insurance coverage provided to Mr. Yocke as of the date of his termination for 18 months with us paying the employer portion of the premium.
- unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Yocke at the time he is granted a particular equity award, upon termination of his employment, Mr. Yocke will forfeit any outstanding awards except that he will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us (other than for Cause, Death or Disability) or Termination by Mr. Yocke for Good Cause following a Change in Control. If Mr. Yocke is terminated for any reason other than death, disability or Cause, or if Mr. Yocke terminates his employment for Good Cause, in each case following a change in control of us, in addition to the severance benefits set forth above that Mr. Yocke is entitled to receive upon such terminations prior to a change in control, all restrictions, limitations and conditions

Table of Contents

applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) upon termination of Mr. Yocke's employment by us without Cause or by Mr. Yocke for Good Cause during the 24-month period following the change in control. Notwithstanding the above, if outstanding equity awards are not assumed or substituted in connection with the change in control, the restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) immediately upon the change in control.

Termination for Death or Disability. If Mr. Yocke's employment is terminated as a result of his disability, Mr. Yocke is entitled to benefits in accordance with our policies generally applicable to all employees, which provide for a benefit equal to $15,000 per month until Mr. Yocke reaches age 65. If Mr. Yocke's employment is terminated as a result of his death, pursuant to the terms of Mr. Yocke' employment agreement, he is entitled to life insurance benefits under our group life insurance program equal to three times his base salary (employees generally are entitled to benefits equal to two times base salary). Unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Yocke at the time he is granted a particular equity award, upon termination of his employment as a result of death or disability, Mr. Yocke will forfeit any outstanding awards except that he (or his estate) will have one year following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us for Cause or By Mr. Yocke other than for Good Cause. Upon termination for any other reason, Mr. Yocke is not entitled to any payment or benefit other than the payment of unpaid salary and accrued and unused vacation pay. Unless otherwise provided by our plan administrator in the award agreement entered into with Mr. Yocke at the time he is granted a particular equity award, upon termination of his employment, Mr. Yocke will forfeit any outstanding awards except that he will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Assuming Mr. Yocke's employment was terminated under each of these circumstances on December 31, 2006, such payments and benefits have an estimated value of:

	Cash Severance	Bonus	Medical Continuation	Death Benefits	Disability Benefits	Value of Accelerated Equity and Performance Awards
Without Cause or For Good Cause Prior to a Change in Control	$ 544,000	$ 240,447	$ 21,018	—	—	—
Without Cause or For Good Cause Following a Change in Control	$ 544,000	$ 240,447	$ 21,018	—	—	—
Death	—	—	—	$ 816,000	—	—
Disability	—	—	—	—	$ 1,515,000	—
Other	—	—	—	—	—	—

Ann W. Nelson

We may at any time terminate our employment agreement with Ms. Nelson for Cause. In addition, we may at any time terminate the agreement if Ms. Nelson dies or becomes Disabled. Ms. Nelson may terminate her employment agreement for Good Cause. Ms. Nelson may be entitled to certain additional benefits under the Equity Incentive Plan relating to the accelerated vesting of equity awards if her employment is terminated by us without Cause or by Ms. Nelson for Good Cause following a change in control of us. Further information regarding Ms. Nelson's opportunities under the Equity and Incentive Plan is set forth under ''—Equity and Incentive Plan Awards''.

Termination by Us (other than for Cause, Death or Disability) or Termination by Ms. Nelson for Good Cause prior to a Change in Control. If Ms. Nelson is terminated for any reason other than death, disability or Cause, or if Ms. Nelson terminates her employment for Cause, in each case prior to a change in control of us, Ms. Nelson is entitled to receive (less applicable withholding taxes):

Table of Contents

- an amount equal to Ms. Nelson's base salary through the term of the agreement or one month of base salary for each completed year of service with us, whichever is greater but in no case less than 12 months of base salary, within 30 days of the effective date of the termination.
- short and long-term amounts due under the 2003 Executive Bonus Plan (or our bonus plan in effect at termination; short-term amounts will be pro-rated for the period of the calendar year in which Ms. Nelson was employed), within 30 days of the effective date of the termination or, at our election, on the date provided by the termination provisions of the applicable plan.
- continuation of insurance coverage provided to Ms. Nelson as of the date of her termination for 18 months with us paying the employer portion of the premium.
- unless otherwise provided by our plan administrator in the award agreement entered into with Ms. Nelson at the time she is granted a particular equity award, upon termination of her employment, Ms. Nelson will forfeit any outstanding awards except that she will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us (other than for Cause, Death or Disability) or Termination by Ms. Nelson for Good Cause following a Change in Control. If Ms. Nelson is terminated for any reason other than death, disability or Cause, or if Ms. Nelson terminates her employment for Good Cause, in each case following a change in control of us, in addition to the severance benefits set forth above that Ms. Nelson is entitled to receive upon such terminations prior to a change in control, all restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) upon termination of Ms. Nelson's employment by us without Cause or by Ms. Nelson for Good Cause during the 24-month period following the change in control. Notwithstanding the above, if outstanding equity awards are not assumed or substituted in connection with the change in control, the restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) immediately upon the change in control.

Termination for Death or Disability. If Ms. Nelson's employment is terminated as a result of her disability, Ms. Nelson is entitled to benefits in accordance with our policies generally applicable to all employees, which provide for a benefit equal to 66 2/3% of Ms. Nelson's monthly salary (up to a maximum of $15,000 per month) until Ms. Nelson reaches age 65. If Ms. Nelson's employment is terminated as a result of her death, pursuant to the terms of Ms. Nelson's employment agreement, she is entitled to life insurance benefits under our group life insurance program equal to three times her base salary (employees generally are entitled to benefits equal to two times base salary). Unless otherwise provided by our plan administrator in the award agreement entered into with Ms. Nelson at the time she is granted a particular equity award, upon termination of her employment as a result of death or disability, Ms. Nelson will forfeit any outstanding awards except that she (or her estate) will have one year following termination of employment to exercise any vested options or stock appreciation rights.

Termination by Us for Cause or By Ms. Nelson other than for Good Cause. Upon termination for any other reason, Ms. Nelson is not entitled to any payment or benefit other than the payment of unpaid salary and accrued and unused vacation pay. Unless otherwise provided by our plan administrator in the award agreement entered into with Ms. Nelson at the time she is granted a particular equity award, upon termination of her employment, Ms. Nelson will forfeit any outstanding awards except that she will have 90 days following termination of employment to exercise any vested options or stock appreciation rights.

168

Table of Contents

Assuming Ms. Nelson's employment was terminated under each of these circumstances on December 31, 2006, such payments and benefits have an estimated value of:

	Cash Severance	Bonus	Medical Continuation	Death Benefits	Disability Benefits	Value of Accelerated Equity and Performance Awards
Without Cause or For Good Cause Prior to a Change in Control	$ 382,000	$ 217,820	$ 29,968	—	—	—
Without Cause or For Good Cause Following a Change in Control	$ 382,000	$ 217,820	$ 29,968	—	—	—
Death	—	—	—	$ 573,000	—	—
Disability	—	—	—	—	$ 2,452,393	—
Other	—	—	—	—	—	—

Equity and Incentive Plan

Our board of directors will adopt the Employers Holdings, Inc. Equity and Incentive Plan, which we refer to as the ''plan,'' upon the consummation of this offering. The purpose of the plan is to afford an incentive to our employees, officers, and non-employee directors to increase their efforts and to promote our business.

The plan authorizes our Compensation Committee to grant the following awards:

- stock options (including options intended to be ''incentive stock options'' within the meaning of Section 422 of the Internal Revenue Code);
- stock appreciation rights, which give the holder the right to receive the difference between the fair market value per share on the date of exercise over the grant price;

- restricted stock, which is subject to restrictions on transferability and subject to forfeiture on terms set by the Compensation Committee;
- restricted stock units, which give the holder the right to receive shares or cash at the end of a specified deferral period, which right may be conditioned on the satisfaction of specified performance or other criteria;
- performance awards, which are payable in cash or stock upon the attainment of specified performance goals over periods of at least one year; and
- other stock-based awards in the discretion of the Compensation Committee.

Plan Administration

The plan is to be administered by the Compensation Committee of the board of directors (the ‘‘plan administrator’’). The plan administrator has the authority to, among other things enumerated in the plan, administer the plan and any awards granted under the plan, determine to whom awards will be granted and the terms and conditions of such awards, including whether the vesting or payment of an award will be subject in whole or in part to the attainment of performance goals.

Share Reserve

A number of shares of our common stock equal to three percent of our fully-diluted shares outstanding as of the initial public offering will be reserved and available for issuance under the plan. No more than one-third (1/3rd) of the reserved shares will be available for issuance under the plan for any awards other than stock options and stock appreciation rights. If any outstanding award expires for any reason, any unissued shares subject to the award will again be available for issuance under the plan. If a participant pays the exercise price of an option by delivering to us previously owned shares, only the number of shares we issue in excess of the surrendered shares will count against the plan’s share limit. Also, if the full number of shares subject to an option is not issued upon exercise for any reason, only the net number of shares actually issued upon exercise will count against the plan’s share limit. We intend to

file a Registration Statement on Form S-8 with the Securities and Exchange Commission registering the sale of the shares of common stock reserved for issuance under the plan.

Individual Award Limits

The plan provides that no more than 300,000 shares underlying stock options, or SARs, may be granted to a participant in any consecutive 36-month period and that no more than 300,000 shares underlying any other award may be granted to a participant in any 36-month period. The maximum value of the aggregate payment that any grantee may receive with respect to any cash-based awards under the plan is $2,000,000 in respect of any annual performance period.

Performance Goals

Under the plan, the plan administrator may determine that vesting or payment of an award under the plan will be subject to the attainment of one or more performance goals with respect to a performance period. Performance periods are determined by our plan administrator but are not shorter than 12 months. The performance goals may include any or a combination of, or a specified increase in, the following:

- revenue growth;
- premium growth;
- policy growth;
- earnings;
- operating income;
- pre- or after-tax income;
- cash flow;
- earnings per share;
- return on equity;
- return on capital;
- cash flow return on investment;
- return on assets;
- economic value added;
- combined ratio;
- loss ratio;
- expense ratio;
- market share or penetration;
- business expansion;
- stock price performance;
- total stockholder return;
- improvement in or attainment of expense levels or expense ratios;
- employee and/or agent satisfaction;
- customer satisfaction;
- customer retention;
- rating agency ratings; and
- any combination of, or a specified increase in, any of the foregoing.

Table of Contents

Termination of Employment

Unless otherwise provided by our plan administrator in the award agreement, upon termination of a participant's employment or service, the participant will forfeit any outstanding awards except that a participant will have 90 days following termination of employment or service to exercise any vested options or stock appreciation rights (one year if termination of employment or service is a result of the participant's disability or death).

Change in Control

Upon a change in control (as defined in the plan) the restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) unless such award is assumed or substituted in connection with the change in control, in which case the restrictions, limitations and conditions applicable to outstanding awards will lapse, performance goals will be deemed to be fully achieved and the awards will become fully vested (and in the case of options, exercisable) upon termination of a participant's employment without cause during the 24-month period following the change in control.

Transferability of Awards

Unless otherwise provided by the plan administrator, awards granted under the plan generally may not be transferred by a grantee other than by will or the laws of descent and distribution and may be exercised during the grantee's lifetime only by the grantee or his or her guardian or legal representative.

Term of the Plan, Amendment or Termination of the Plan

No award may be granted under the plan after the tenth anniversary of the effective date of the plan. Our board of directors may amend, alter, suspend, discontinue or terminate the plan at any time, provided that, unless otherwise determined by the Board, no such amendment, alteration, suspension, discontinuance or termination will be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement. No amendment to or termination of the plan may adversely affect any awards granted under the plan without the participant's permission.

Plan Benefits

In connection with the initial public offering, we are issuing non-qualified stock options to each of our employees, excluding our senior officers, in the amounts set forth below which will have an exercise price equal to the closing price of this common stock on the date of this offering (''founders' options''). As also disclosed above under ''—Equity and Incentive Plan Awards,'' six months after this offering, we intend to grant non-qualified stock options and three year performance shares to our officers and deferred stock units to our directors in the amounts set forth below. Employees, including officers, are also eligible for annual cash bonus awards upon the achievement of pre-determined corporate, business unit, and individual performance goals. Future grants under the plan will be made at the discretion of the plan administrator and, accordingly, are not yet determinable. In addition, benefits under the plan will depend on a number of factors, including the fair market value of the common stock on future dates and the exercise decisions made by plan participants. Consequently, it is not possible to determine the benefits that might be received by participants receiving discretionary grants under the plan.

171

Table of Contents

Name	Shares underlying Founders' Options	Fair Value of Officer Options	Fair Value of Target Performance Awards	Fair Value of Deferred Stock Units	Dollar Value of Targeted Annual Bonus Awards
Douglas D. Dirks	0	$ 230,625	$ 230,625	$ 0	$ 517,500
William E. Yocke	0	61,500	61,500	0	114,000
Lenard T. Ormsby	0	61,500	61,500	0	120,000
Martin J. Welch	0	107,625	107,625	0	162,500
Ann W. Nelson	0	61,500	61,500	0	80,000
Executive Group	0	522,750	522,750	0	994,000
Non-Executive Director Group	0	0	0	400,000	0
	187,500	0	0	0	N/A

Non-Executive Officer Employee
Group (623 full-time and 4
part-time employees)

162(m)

Under Section 162(m) of the Internal Revenue Code, a public company generally may not deduct compensation in excess of $1 million paid to its chief executive officer and the four next most highly compensated executive officers. Until the annual meeting of our stockholders in 2011, or until the plan is materially amended, if earlier, awards granted under the plan will be exempt from the deduction limits of Section 162(m).

Tax Consequences

The following summary is intended as a general guide to the United States federal income tax consequences relating to the issuance and exercise of stock options granted under the Plan. This summary does not attempt to describe all possible federal or other tax consequences of such grants or tax consequences based on particular circumstances.

Incentive Stock Options. An optionee recognizes no taxable income for regular income tax purposes as the result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Internal Revenue Code (unless the optionee is subject to the alternative minimum tax). Optionees who neither dispose of their shares acquired upon the exercise of an incentive stock option (‘‘ISO shares’’) within two years after the stock option grant date nor within one year after the exercise date normally will recognize a long-term capital gain or loss equal to the difference, if any, between the sale price and the amount paid for the ISO shares. If an optionee disposes of the ISO shares within two years after the stock option grant date or within one year after the exercise date (each a ‘‘disqualifying disposition’’), the optionee will realize ordinary income at the time of the disposition in an amount equal to the excess, if any, of the fair market value of the ISO shares at the time of exercise (or, if less, the amount realized on such disqualifying disposition) over the exercise price of the ISO shares being purchased. Any additional gain will be capital gain, taxed at a rate that depends upon the amount of time the ISO shares were held by the optionee. A capital gain will be long-term if the optionee’s holding period is more than 12 months. We will be entitled to a deduction in connection with the disposition of the ISO shares only to the extent that the optionee recognizes ordinary income on a disqualifying disposition of the ISO shares.

Nonstatutory Stock Options. An optionee generally recognizes no taxable income as the result of the grant of a nonstatutory stock option. Upon the exercise of a nonstatutory stock option, the optionee normally recognizes ordinary income equal to the difference between the stock option exercise price and the fair market value of the shares on the exercise date. If the optionee is an employee of ours, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any subsequent gain or loss, generally based on the difference between the sale price and the fair market value on the exercise date, will be taxed as capital gain or loss. A capital gain or loss will be long-term if the optionee’s holding period is more than 12 months. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the optionee as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Internal Revenue Code.

Table of Contents

Indemnification of Officers and Directors

Our articles of incorporation require us to indemnify our officers and directors to the fullest extent permitted by law. The articles of incorporation go on to provide, however, that no such obligation to indemnify exists as to proceedings initiated by an officer or director unless (a) it is a proceeding (or part thereof) initiated to enforce a right to indemnification; or (b) was authorized or consented to by our board of directors. We are authorized to provide indemnification of our employees or agents, through by-laws, agreements with agents, vote of stockholders or disinterested directors, or otherwise, to the fullest extent permissible under Nevada law. Our by-laws define agent as any person who is or was a director or officer of us or who is or was serving at our request as a director, officer, employee or agent of another foreign or domestic company, partnership, joint venture, trust or other enterprise, or was a director or officer of a foreign or domestic company which was a predecessor company of us or of another enterprise at the request of the predecessor company. Indemnification is not provided where the person (a) is liable pursuant to NRS 78.138, or (b) did not act in good faith and in a manner which that person reasonably believed to be in or not opposed to our best interests, or, in the case of a criminal proceeding, had reasonable cause to believe the conduct of the person was unlawful.

We have entered into employment agreements, discussed above, which provide that we shall indemnify the employee to the fullest extent permitted by Nevada law and the articles of incorporation and by-laws of the employing company. Additionally, each employee is generally entitled to have us pay all expenses, including fees of an attorney selected and retained by us 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. The agreements also provide that we will use our reasonable efforts to obtain coverage for the employee under any insurance policy in force at the time, and further that we will pay all expenses, including attorneys' fees of an attorney retained by us to represent the employee in connection with the action from which the indemnification arose.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been informed 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.

Table of Contents

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Kolesar, our Chairman, is the managing partner of Kolesar & Leatham, Chtd. a Las Vegas law firm. Kolesar & Leatham, Chtd. holds a policy issued by EICN which, based on the election made by it, will entitle it to receive consideration consisting of an estimated 1,125 shares and $142,897 in the conversion.

Dr. Blakey, a Director, is a Director of the Reno Orthopaedic Clinic. Dr. Blakey, a Director, was formerly the Chairman of the Board of the Reno Orthopaedic Clinic, to which we paid, in 2003, 2004 and 2005, approximately $442,603, $320,431 and $202,000, respectively, for medical services it provided for us. Dr. Blakey is also a member of the Board of Directors of ARC Med Centers, to which we paid, in 2003, 2004 and 2005, approximately $276,689, $260,218 and $245,738, respectively, for medical services it provided for us. Dr. Blakey is currently the Chairman of the Board of the Reno Spine Center, to which we paid, in 2003, 2004 and 2005, approximately $52,510, $41,130 and $24,022, respectively, for medical services it provided for us. From January 1, 2006 through December 31, 2006, we have paid Reno Orthopedic Clinic $262,421, ARC Med Centers $223,134 and Reno Spine Center $528 for medical services each provided to us.

Ms. Glenn, a Director, is the Chairman, President and Chief Executive Officer of the Rose/Glenn Group. In 2003, 2004 and 2005 we paid Rose/Glenn Group approximately $23,000, $26,000 and $60,000, respectively, for advertising services they provided to us. From January 1, 2006 through December 31, 2006, we have paid Rose/Glenn approximately $447,300 for services they provided to us. In addition, the Rose/Glenn Group holds a policy issued by EICN which will entitle it to receive consideration consisting of an estimated 8,469 shares in the conversion.

Ms. Ong, a Director, is a Director of Hobbs, Ong & Associates, Inc. Hobbs, Ong & Associates, Inc. holds a policy issued by EICN which, based on the election made by it, will entitle it to receive consideration consisting of an estimated 791 shares and $100,439 in the conversion.

Mr. Sande, a Director, is a partner of Jones Vargas, a Nevada law firm. Jones Vargas has in the past performed, and may in the future again perform, legal services for us and our affiliates. In 2003, we paid Jones Vargas approximately $67,473 for legal services; Jones Vargas has not performed such services for us during our latest two full fiscal years). Jones Vargas holds a policy issued by EICN which, based on the election made by it, will entitle it to receive consideration consisting of an estimated 2,072 shares and $263,267 in the conversion. In addition, Mr. Sande is a director of an organization that holds an annual event of which we were a sponsor in 2006.

See ''Pro Forma Consolidated Financial Information'' for a description of the assumptions, including that the underwriters do not exercise their over-allotment option, made in determining the estimates set forth above.

None of the directors, executive officers, or other significant officers have loans or other debt with EIG.

In connection with this offering, our board of directors adopted certain policies for the review, approval and ratification of related party transactions. Among other things, this policy provides that any transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) in which we (including any of our subsidiaries) was, is or will be a participant and the amount involved exceeds $25,000, and in which any the related person had, has or will have a direct or indirect material interest, must be reported to us no less than annually. The audit committee of our board of directors reviews these related party transactions at least annually and considers all of the relevant facts and circumstances available to the committee, including (if applicable) but not limited to: the benefits to us; the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally. The audit committee may approve only those related party transactions that are in, or are not inconsistent with, the best interests of us and of our stockholders, as the audit committee determines in good faith. Our related party transaction policy will be available on our website upon consummation of this offering.

Table of Contents

OWNERSHIP OF COMMON STOCK

The following table presents selected information regarding the beneficial ownership of our common stock as of the effective date of the conversion by:

(1) each of our directors and named executive officers; and

(2) all of our directors and executive officers as a group.

The number of shares of our common stock to be beneficially owned by each director and executive officer and all directors and executive officers as a group as of the effective date of the conversion is based upon the number of shares that we estimate entities affiliated with certain directors will receive in the conversion. Except as otherwise indicated below, each of the persons named in the table will have sole voting and investment power with respect to the shares beneficially owned by such person as indicated opposite such person's name.

Name	Number of Shares to Be Beneficially Owned(1)
Robert J. Kolesar(2)	*
Douglas D. Dirks	—
Richard W. Blakey	—
Valerie R. Glenn(3)	*
Rose E. McKinney-James	—
Ronald F. Mosher	—
Katherine W. Ong(4)	*
Michael D. Rumbolz	—
John P. Sande, III(5)	*
Martin J. Welch	—
Lenard T. Ormsby	—
William E. Yocke	—
Ann W. Nelson	—
All directors and executive officers as a group (13 persons)	*

*Less than 1% of the number of shares of our common stock expected to be outstanding on the effective date of the conversion.

(1) Based on an estimated allocation of shares based upon policy ownership records as of August 17, 2006.

(2) Mr. Kolesar is the managing partner of Kolesar & Leatham, Chtd., a Las Vegas law firm, which holds a policy issued by EICN which, based on the election made by it, will entitle it to receive consideration consisting of an estimated 1,125 shares and $142,897 in the conversion. Mr. Kolesar disclaims beneficial ownership of such shares of common stock.

(3) Ms. Glenn is the Chairman, President and Chief Executive Officer of the Rose/Glenn Group which holds a policy issued by EICN which will entitle it to receive consideration consisting of an estimated 8,469 shares in the conversion. Ms. Glenn disclaims beneficial ownership of such shares of common stock.

(4) Ms. Ong is a Director of Hobbs, Ong & Associates, Inc. which holds a policy issued by EICN which, based on the election made by it, will entitle it to receive consideration consisting of an estimated 791 shares and $100,439 in the conversion. Ms. Ong disclaims beneficial ownership of such shares of common stock.

(5) Mr. Sande is a partner of Jones Vargas, a Nevada law firm, which holds a policy issued by EICN which will, based on the election made by it, entitle it to receive consideration consisting of an estimated 2,072 shares and $263,267 in the conversion. Mr. Sande disclaims beneficial ownership of such shares of common stock.

See ''Pro Forma Financial Information'' for a description of the assumptions, including that the underwriters do not exercise their over-allotment option, made in determining the estimates set forth above.

We believe no person will beneficially own more than 5% of our outstanding shares of common stock as of the effective date of the conversion.

DESCRIPTION OF CAPITAL STOCK

General

Upon the consummation of the conversion and the closing of this offering, our authorized capital stock will consist of 175,000,000 shares of capital stock, consisting of (i) 150,000,000 shares of common stock, $0.01 par value per share, and (ii) 25,000,000 shares of preferred stock, $0.01 par value per share. The following summary of certain provisions of our common stock is not complete. A full understanding requires a review of the provisions of applicable law and our amended and restated articles of incorporation and our amended and restated by-laws, which will be effective upon the closing of the offering and forms of which are included as exhibits to the registration statement of which this prospectus forms a part.

Common Stock

The holders of our common stock elect all directors and are entitled to one vote per share on all other matters coming before a stockholders' meeting. Our common stock has no cumulative voting rights. Accordingly, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they so choose. Holders of our common stock are entitled to participate equally in dividends when and as declared by our board of directors and in net assets on liquidation. The shares of common stock have no preemptive rights to participate in future stock offerings.

Certain Provisions of Our Amended and Restated Articles of Incorporation and By-Laws and Nevada Law

Our amended and restated articles of incorporation and by-laws, both of which will become effective upon the closing of this offering, include provisions that are intended to enhance the likelihood of continuity and stability in our board of directors and in its policies. These provisions might have the effect of delaying or preventing a change in control of EIG and may make more difficult the removal of incumbent management even if such transactions could be beneficial to the interests of stockholders. These provisions include:

Limitation of Director Liability

Nevada Revised Statute (NRS) 78.138 provides that, with certain exceptions, a director or officer is not individually liable to the corporation or its stockholders for any damages as a result of any act or failure to act in his capacity as a director or officer unless it is proven that (a) his act or failure to act constituted a breach of his fiduciary duties as a director or officer; and (b) his breach of those duties involved intentional misconduct, fraud or a knowing violation of law.

As permitted by Nevada law, our amended and restated articles of incorporation, which will be effective upon the closing of this offering, include provisions that limit the liability of our directors for monetary damages to the fullest extent permissible under Nevada law. Our amended and restated articles of incorporation also provide that we may provide indemnification for directors and officers to the fullest extent permissible under Nevada law.

Such limitation of liability may not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission. In addition and in accordance with Nevada general corporate law, our by-laws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in such capacity, regardless of whether or not by us would be permitted. We currently have and intend to maintain liability insurance for our directors and officers.

Indemnification

Our amended and restated articles of incorporation provide that we may provide indemnification for directors and officers to the fullest extent permissible under Nevada law. Our amended and restated by-laws also provide such indemnification for our ‘‘agents’’ upon a determination that such indemnification

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is proper under the circumstances. That determination is to be made by a majority of a quorum of disinterested directors, the court in which the proceeding is or was pending (upon application made by EIG, the party seeking indemnification or the attorney or other person rendering services in connection with the application), the stockholders, independent legal counsel in a written opinion if a quorum of disinterested directors so requests, or independent legal counsel in a written opinion if a quorum of disinterested directors cannot be obtained. Our amended and restated by-laws define ‘‘agent’’ as any person who is or was a director or officer of EIG or who is or was serving at the request of EIG as a director, officer, employee or agent of another foreign or domestic company, partnership, joint venture, trust or other enterprise, or was a director, or officer of a foreign or domestic company which was a predecessor company of the company or of another enterprise at the request of the predecessor company. Our amended and restated by-laws provide that our board of directors may provide similar indemnification to employees and agents of EIG.

Indemnification is not provided where:

- the person is liable pursuant to NRS 78.138;
- the person did not act in good faith and in a manner which that person reasonably believed to be in or not opposed to our best interests; or
- in the case of a criminal proceeding, the person had reasonable cause to believe the conduct of the person was unlawful.

At present, there is no pending litigation or proceeding involving any of our directors, executive officers, other employees or agents for which indemnification is sought, and we are not aware of any threatened litigation or proceeding that may result in a claim for such indemnification.

Anti-takeover Effects of Nevada Law, Our Amended and Restated Articles of Incorporation and Our Amended and Restated By-Laws

Under Nevada insurance law and our amended and restated articles of incorporation, for a period of five years following the effective date of the plan of conversion, no person may acquire or offer to acquire beneficial ownership of 5% or more of any class of our voting securities without the prior approval by the Nevada Commissioner of Insurance of an application for acquisition. In addition, Nevada insurance law prohibits any person from acquiring control of us and, thus, indirect control of our insurance subsidiaries, without the prior approval of the Nevada

Commissioner of Insurance. Under Nevada insurance law, the Nevada Commissioner of Insurance may not approve an application for such acquisition unless the Commissioner finds that (1) the acquisition will not frustrate the plan of conversion as approved by our members and the Commissioner, (2) the board of directors of EICN has approved the acquisition or extraordinary circumstances not contemplated in the plan of conversion have arisen which would warrant approval of the acquisition, and (3) the acquisition is consistent with the purpose of relevant Nevada insurance statutes to permit conversions on terms and conditions that are fair and equitable to the policyholders. Accordingly, as a practical matter, any person seeking to acquire us within five years after the effective date of the plan of conversion may only do so with the approval of the board of directors of EICN.

In addition, the insurance laws of Nevada and California generally require that any person seeking to acquire control of a domestic insurance company must obtain the prior approval of the insurance commissioner. In addition, insurance laws in many other states contain provisions that require prenotification to the insurance commissioners of those states of a change in control of a non-domestic insurance company licensed in those states. Because we have an insurance subsidiary domiciled in Nevada and another insurance subsidiary domiciled in California and licensed in numerous other states, any future transaction that would constitute a change in control of us would generally require the party seeking to acquire control to obtain the prior approval of the Nevada Commissioner of Insurance and the California Commissioner of Insurance and may require pre-acquisition notification in those licensed states that have adopted pre-acquisition notification provisions. ‘‘Control’’ is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or of any entity that controls a domestic insurance company.

Table of Contents

The insurance laws of Nevada and California generally require that any person seeking to acquire control of a domestic insurance company must obtain the prior approval of the insurance commissioner. In addition, many other state insurance laws require prior notification to the state insurance department of those states of a change of control of a non-domiciliary insurance company licensed to transact insurance in that state. While these pre-notification statutes do not authorize the state insurance departments to disapprove the change of control, they authorize regulatory action (including a possible revocation of our authority to do business) in the affected state if particular conditions exist, such as undue market concentration. Any future transactions that would constitute a change of control of us may require prior notification in the states that have pre-acquisition notification laws.

Our amended and restated articles of incorporation and by-laws will include provisions:

- maintaining our board of directors in three classes; as a result, a portion of our board of directors will be elected each year; the division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control; also, between stockholder meetings, directors may be removed by a two-thirds votes of our stockholders and the board of directors may appoint new directors to fill vacancies or newly created directorships; these provisions may deter a stockholder from removing incumbent directors and from simultaneously gaining control of the board of directors by filling the resulting vacancies with its own nominees;
- eliminating the ability of our stockholders to call special meetings of stockholders;
- permitting our board of directors to issue up to 25,000,000 shares of preferred stock in one or more series without vote or action by our stockholders and to fix the number of shares of any

series and to determine its voting powers, designations, preferences or other rights and restrictions;

• imposing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at the stockholder meetings;
• prohibiting stockholder action by written consent, thereby limiting stockholder action to that taken at a meeting of our stockholders; and
• providing our board of directors with exclusive authority to adopt or amend our by-laws.

Transfer Agent and Registrar

Upon the closing of this offering, the transfer agent and registrar for our common stock will be Wells Fargo Bank, N.A.

Listing

Our common stock has been approved for listing on the New York Stock Exchange under the symbol ‘‘EIG,’’ subject to official notice of issuance.

178

Table of Contents

SHARES ELIGIBLE FOR FUTURE SALE

Substantially all of the estimated 25,965,221 shares of our common stock to be distributed to members entitled to receive compensation in the conversion will be eligible for resale in the public market without restriction. If some or all of an eligible member's consideration is in the form of common stock, then we will send the eligible member a written confirmation of share ownership. This written confirmation will be sent not later than 15 business days after the closing of this offering (or 30 business days, if either (1) the net proceeds of the offering before any exercise of the underwriters' over-allotment option are not sufficient to fund the elective cash requirements in full or (2) we distribute cash pro rata to eligible members not requesting cash as described under ‘‘The Conversion—Payment of Consideration to Eligible Members’’). Until an eligible member receives the written confirmation, the eligible member will effectively be precluded from selling shares because it will not know how many shares it will receive.

We estimate that these 25,965,221 shares will equal approximately 49% of our outstanding common stock after the offering. See ‘‘Pro Forma Consolidated Financial Information’’ for a description of the assumptions made in determining this estimate. The distribution of shares to eligible members in the conversion will be exempt from registration under the Securities Act by virtue of the exemption provided by Section 3(a)(10) of the Securities Act, and members entitled to receive compensation in the conversion who are not our ‘‘affiliates’’ within the meaning of Rule 144 under the Securities Act will be able to resell their shares immediately in the public market without registration or compliance with the time, volume, manner of sale and other limitations in Rule 144.

No prediction can be made as to the effect, if any, such future sales of shares, or the availability of shares for such future sales, will have on the market price of our common stock prevailing from time to time. The sale of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could harm prevailing market prices for our common stock. See ‘‘Risk Factors—Risks Related to the Conversion—The market price of our common stock may decline if persons receiving common stock as consideration in the conversion sell their stock in the public market.’’

Table of Contents

UNDERWRITERS

Under the terms and subject to the conditions in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated is acting as representative, have severally agreed to purchase, and we have agreed to sell to them, severally, the number of shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. Incorporated	17,922,500
Cochran Caronia Waller Securities LLC	2,675,000
Fox-Pitt, Kelton Incorporated	2,675,000
Keefe, Bruyette & Woods, Inc.	2,675,000
E*TRADE Securities LLC	200,625
Raymond James & Associates, Inc.	200,625
Stifel, Nicolaus & Company, Incorporated	200,625
Wachovia Capital Markets, LLC	200,625
	26,750,000

The underwriters and the representative are collectively referred to as the ‘‘underwriters’’ and the ‘‘representative,’’ respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters’ over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $0.66 per share under the public offering price. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representative.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 4,012,500 additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter’s name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table.

The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional 4,012,500 shares of common stock.

		Total	
	Per Share	No Exercise	Full Exercise
Public offering price	$ 17.000	$454,750,000	$522,962,500
Underwriting discounts and commissions to be paid by us	$ 1.105	$ 29,558,750	$ 33,992,563
Proceeds, before expenses, to us	$ 15.895	$425,191,250	$488,969,938

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, will be approximately $6.1 million.

180

The underwriters have informed us that they do not intend sales to discretionary accounts to exceed 5% of the total number of shares of common stock offered by them.

Our common stock has been approved for listing on the New York Stock Exchange under the trading symbol ''EIG,'' subject to official notice of issuance.

We and all of our directors and executive officers have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock;
- in our case, file any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock,

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, each such person also agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the underwriters, it will not, during the period ending 180 days after the date of this prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restrictions described in the immediately preceding paragraph do not apply to:

- the sale of shares to the underwriters;
- the distribution of shares in the conversion to or for the benefit of eligible members; or

- the issuance or sale of shares of common stock or the grant of options to purchase common stock under our stock plans described in this prospectus, or the filing of any registration statement with the Securities and Exchange Commission with respect to our stock plans described in this prospectus.

The 180-day restricted period described in the preceding paragraph will be extended if:

- during the last 17 days of the 180-day restricted period we issue an earnings release or material news or events relating to us occurs, or
- prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period,

in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Morgan Stanley & Co. Incorporated does not have any current intention to release shares of common stock or other securities subject to the lock-up agreements. Any determination to release any shares subject to the lock-up agreements would be based on a number of factors at the time of any such determination, including the market price of the common stock, the liquidity of the trading market for the common stock, general market conditions, the number of shares proposed to be sold, and the timing, purpose and terms of the proposed sale.

In accordance with the plan of conversion, for a period of six months following completion of the conversion and this offering, no acquisitions of any shares of common stock or options or rights to acquire any shares of our common stock may be made by (1) any of our directors or executive officers, (2) any spouse, parent, spouse of a parent, child or spouse of a child of, or other family member living in the same

household with, any of our directors or executive officers, or (3) any entity that is controlled by any director, executive officer or other such related person.

In order to facilitate the offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over-allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. As an additional means of facilitating this offering, the underwriters may bid for, and purchase, shares of common stock in the open market to stabilize the price of the common stock. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in the offering, if the syndicate repurchases previously distributed common stock to cover syndicate short positions or to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

From time to time, certain of the underwriters have provided, and may continue to provide, investment banking and other services to us.

Under the terms of our engagement of Morgan Stanley & Co. Incorporated as our financial advisor for the conversion, Morgan Stanley & Co. Incorporated is entitled to an advisory fee of $250,000 per quarter beginning February 1, 2006, and was paid a $1.0 million opinion fee upon delivery of its fairness opinion in connection with the conversion. Of these fees, 50% will be credited to us by Morgan Stanley & Co. Incorporated upon the successful completion of the offering, subject to a maximum credit of $1.0 million.

EIG, EICN and its immediate holding company and the underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act.

A prospectus in electronic format may be made available on websites maintained by one or more underwriters. The representative may agree to allocate a number of shares of common stock to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representative to underwriters that may make Internet distributions on the same basis as other allocations.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Member State it has not made and will not make an offer of shares to the public in that Member State, except that it may, with effect from and including such date, make an offer of shares to the public in that Member State:

(a) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
(c) at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

Table of Contents

For the purposes of the above, the expression an ''offer of shares to the public'' in relation to any shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in that

Member State.

United Kingdom

Each underwriter has represented and agreed that it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of the shares in circumstances in which Section 21(1) of such Act does not apply to us and it has complied and will comply with all applicable provisions of such Act with respect to anything done by it in relation to any shares in, from or otherwise involving the United Kingdom.

Pricing of the Offering

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations between us and the representative. Among the factors considered in determining the initial public offering price were our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, and the price-earnings ratios, price-book value ratios, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours.

Table of Contents

LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. The validity of the shares of our common stock offered hereby and certain other matters will be passed upon for us by Lionel Sawyer & Collins, Las Vegas, Nevada. Debevoise & Plimpton LLP, New York, New York, is acting as legal counsel to the underwriters.

EXPERTS

The consolidated financial statements of EIG Mutual Holding Company and subsidiaries at December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, appearing in this Prospectus and the Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

We have retained the Tillinghast business of Towers, Perrin, Forster & Crosby, Inc. to advise and assist us in developing a basis for the allocation of consideration among the eligible members upon extinguishment of their membership rights, to render an opinion as to whether all methodologies and formulas used to allocate consideration among eligible members are reasonable and whether the allocation of consideration produced by such methodologies and formulas is fair and equitable to eligible members, from an actuarial perspective. The opinion of Robert F. Conger, a consulting actuary associated with the Tillinghast business of Towers, Perrin, Forster & Crosby, Inc., dated October 26, 2006, which is subject to the limitations described within the opinion, is included as Annex A of this prospectus. We have obtained the consent of the Tillinghast business of Towers, Perrin, Forster and Crosby, Inc. in respect of (a) references to it in the registration statement of which this prospectus forms a part in relation to these actuarial services, and (b) use of the opinion described in this paragraph in such registration statement and Prospectus.

In addition, we have retained the Tillinghast business of Towers, Perrin, Forster and Crosby, Inc. to perform a comprehensive actuarial study of our loss and LAE liability semi-annually, specifically to conduct sufficient analyses to produce a range of reasonable estimates, as well as a point estimate, of the unpaid loss and LAE liability. We have obtained the consent of the Tillinghast business of Towers, Perrin, Forster and Crosby, Inc. in respect of references to it as the ‘‘Consulting Actuary’’ in the registration statement of which this prospectus forms a part in relation to these actuarial services.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1, including exhibits and schedules, under the Securities Act with respect to the shares of our common stock to be sold in the offering. This prospectus does not contain all the information contained in the registration statement. For further information with respect to us and the shares to be sold in the offering, reference is made to the registration statement and the exhibits and schedules attached to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete. When we make such statements, we refer you to the copies of the contracts or documents that are filed as exhibits to the registration statement because those statements are qualified in all respects by reference to those exhibits. As a result of this offering, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended, and will file annually, quarterly, and current reports, proxy statements, and other information with the Securities and Exchange Commission.

You may read and copy all or any portion of the registration statement or any reports, statements or other information that we file at the Securities and Exchange Commission’s public reference room at 100 F Street, NE, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the Securities and Exchange Commission. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference room. The Securities and

Exchange Commission maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Securities and Exchange Commission. Our Securities and Exchange Commission filings are also available at the Securities and Exchange Commission’s web site at www.sec.gov.

GLOSSARY

Accident year	The year the claim occurred. When referring to a group of claims, the collection of all claims that occurred in the year.
Accident year losses and LAE ratio	Losses and LAE, regardless of when such losses and LAE are incurred and net of amounts ceded to reinsurers, for insured events that occurred during a particular year divided by the premiums earned for that year.
Accumulated surplus	Accumulated surplus is the aggregation of all increases and decreases to surplus since inception of an insurance company to the valuation date.
Adoption Date	August 17, 2006 the date that our board of directors proposed, approved and adopted our plan of conversion.
Adverse development	An increase in the estimated ultimate loses and LAE from one valuation date to a subsequent valuation date for claims occurring in a given time period.
Assume	To receive from a ceding company all or a portion of a risk in consideration of receipt of a premium.
Assumed premiums written	Premiums received by our insurance subsidiaries from an authorized state-mandated pool or under previous fronting facilities.
Base direct premiums written	Direct premiums prior to any adjustments for final policy audits or retrospective ratings adjustments.
Cede	To transfer to a reinsurer all or a portion of a risk in consideration of payment of a premium.
Ceded premiums written	The portion of direct premiums written ceded to reinsurers.
Closed block	The accounting mechanism and procedure set up by us as described in ‘‘The Conversion—Closed Block.’’
Combined ratio	Expressed as a percentage, a key measurement of profitability traditionally used in the property-casualty insurance industry. The combined ratio is the sum of the losses and LAE ratio, the commission expense ratio and the underwriting and other operating expense ratio.
Commission expense ratio	The ratio (expressed as a percentage) of commission expense to net premiums earned.
Conversion	The conversion of EIG from a Nevada mutual insurance holding company to a Nevada stock corporation in accordance with our plan of conversion.

Table of Contents

Development	The amount by which estimated losses, measured subsequently by reference to payments and additional estimates, differ from those originally reported for a period. Development is favorable when losses ultimately settle for less than levels at which they were reserved or

	subsequent estimates indicate a basis for reserve decreases on open claims. Development is unfavorable when losses ultimately settle for more than levels at which they were reserved or subsequent estimates indicate a basis for reserve increases on open claims.
Direct premiums written	The premiums on all policies our insurance subsidiaries have issued during the year.
Direct reserves	The estimates of future losses and LAE payments on policies written by an insurance company before the effect of ceded reinsurance.
Effective date	The date upon which the completion of the conversion occurs and the conversion becomes effective through the issuance by the Nevada Commissioner of Insurance of a new certificate of authority for EICN which will be the same date as the closing of this offering.
Elective cash requirements	The aggregate dollar amount of cash necessary for us to fund cash compensation payable to all eligible members who elect to receive cash instead of our common stock in accordance with our plan of conversion.
Eligible members	A person who is (or, collectively, the persons who are) on the adoption date the owner of one or more in force policies, and who therefore has a membership interest in us on the adoption date and is, therefore, entitled to vote at the meeting of our members called to vote on the plan of conversion and to receive consideration in the conversion.
Excess of loss reinsurance	A form of reinsurance in which the reinsurer pays all or a specified percentage of a loss caused by a particular occurrence or event in excess of a fixed amount and up to a stipulated limit.
Fronting facility	The issuance of insurance policies by an insurer as an accommodation to another insurer. Usually, the insurer providing the fronting facility cedes all or substantially all the risk, as well as a significant percentage of the premium, to the insurer being accommodated. This device often is used to enable an insurer to underwrite risks in a jurisdiction in which it is not licensed.
Gross premiums written	The sum of both direct premiums written and assumed premiums written before the effect of ceded reinsurance and the intercompany pooling agreement.

Table of Contents

Guaranteed cost	A fixed premium rate for the term of the workers' compensation insurance policy, provided that the final premium will vary based on the difference between the estimated term payroll at the time the policy is issued and the final audited payroll of the customer after the policy

	expires.
In force	An ‘‘in force’’ policy is a policy that has been issued and is in effect on a given date. This determination is made in accordance with our plan of conversion and is based on the records of us or EICN. Generally, a policy is in force if it has been issued, the required premium has been received and the policy has not been properly cancelled or terminated. Our plan of conversion also recognizes special circumstances where a policy will be considered to be in force.
Incurred but not reported or IBNR	Relating to insured events that have occurred but have not yet been reported to the insurer or reinsurer.
Loss adjustment expenses or LAE	The expenses of investigating, administering and settling claims, including legal expenses.
Losses and LAE	The sum of net incurred losses and loss adjustment expenses.
Losses and loss adjustment expenses ratio or losses and LAE ratio	The ratio (expressed as a percentage) of losses and LAE to net premiums earned.
Losses and LAE reserves	The balance sheet liability representing estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses.
Mandatory cash requirements	The aggregate dollar amount of cash necessary to fund our fees and expenses in the conversion and the offering and the cash compensation payable to all eligible members who are not eligible to receive our common stock in the conversion.
Member	As of any date, a person who is (or, collectively, the persons who are) on such date, the owner of one or more policies which is (are) in force on such date.
Net premiums earned	That portion of net premiums written equal to the expired portion of the time for which insurance protection was provided during the financial year and is recognized as revenue.
Net premiums written	The sum of direct premiums written and assumed premiums written less ceded premiums written.
Net premiums written to total statutory surplus ratio	The ratio of our insurance subsidiaries’ annual net premiums written to total statutory surplus.

G-3

Table of Contents

Persistency	Percentage of insurance policies remaining in force between specified measurement dates. Also used with respect to premiums, to measure the amount of annualized premium remaining in force on a stated collection of policies between specified measurement dates.
Policyholder dividend	

	A payment to the policyholder on a type of policy upon which a portion of the premium may be repaid to the policyholder after expiration depending upon the loss experience.
Reinsurance	A transaction in which an original insurer, or ceding company, remits a portion of the premium to a reinsurer, or assuming company, as payment for the reinsurer's assumption of a portion of the risk.
Retention	The amount of loss(es) from a single occurrence or event which is paid by the company prior to the attachment of excess of loss reinsurance.
Retrospective rating	Method of establishing rates in which the current year's premium is calculated to reflect the actual current year's loss experience. An initial premium is charged and then adjusted at the end of the policy year to reflect the actual loss experience of the business.
Risk based capital	A formula developed by the NAIC used to establish minimum surplus requirements beyond necessary reserve requirements.
Statutory accounting practices	Statutory requirements based on criteria established by the NAIC in regard to the preparation of an insurer's financial statements required to be filed with a state insurance department. Compared to GAAP, they are more regulatory by nature and give a more conservative depiction of an insurer's financial condition.
Statutory surplus	The amount remaining after all liabilities are subtracted from all admitted assets, as determined in accordance with statutory accounting practices. This amount is regarded as financial protection to policyholders in the event an insurance company suffers unexpected or catastrophic losses.
Treaty	A contract of reinsurance.
Underwriting	The process whereby an insurer reviews applications submitted for insurance coverage and determines whether to accept all or part, and at what premium, of the coverage being requested.
Underwriting and other operating expense ratio	The ratio (expressed as a percentage) of underwriting and other operating expense to net premiums earned.

Table of Contents

Underwriting and other operating expenses	Includes the costs to acquire and maintain an insurance policy, excluding commissions, which costs are included in amortization of deferred policy acquisition costs. It also includes state and local taxes based on premiums, as well as licenses, fees, assessments and contributions to workers'

compensation security funds. Other underwriting expenses consist of policyholder dividends and general administrative expenses such as salaries, rent, office supplies, depreciation and all other operating expenses not otherwise classified separately, and boards, bureaus and assessments of statistical agencies for policy service and administration items such as rating manuals, rating plans and experience data.

Table of Contents

ANNEX A

OPINION OF CONSULTING ACTUARY

October 26, 2006

Board of Directors
EIG Mutual Holding Company
Employers Insurance Group, Inc.
9790 Gateway Drive
Reno, Nevada 89521

Ladies and Gentlemen of the Board:

RE: STATEMENT OF ACTUARIAL OPINION REGARDING
ALLOCATION OF CONSIDERATION AMONG ELIGIBLE MEMBERS

BACKGROUND AND SCOPE

In connection with the proposed demutualization of EIG Mutual Holding Company (‘‘EIG Mutual Holding’’), EIG Mutual Holding proposes to distribute consideration to eligible members, in an aggregate amount equal to not less than the statutory surplus of Employers Insurance Company of Nevada (‘‘EICN’’ or ‘‘Company’’), in exchange for the extinguishment of their membership rights in EIG Mutual Holding.

The Tillinghast business of Towers, Perrin, Forster & Crosby, Inc. (‘‘Tillinghast’’) was engaged by EIG Mutual Holding to advise and assist in developing a basis for the allocation of consideration among the eligible members, and to render an opinion as to whether all methodologies and formulas used to allocate consideration among eligible members are reasonable, and whether the allocation of consideration produced by such methodologies and formulas is fair and equitable to eligible members, from an actuarial perspective. I was assigned by Tillinghast as the principal consultant responsible for the engagement and for rendering this opinion.

The scope of my opinion includes only the items listed above. The scope of my opinion does not include: the effect of the proposed demutualization on the financial security of EIG Mutual Holding or EICN, the effect of the proposed demutualization on the interests of members, the appropriateness of the total amount of consideration, or the forms of consideration (e.g., shares, cash).

This document sets forth my opinion and related matters in the following sections:

- Allocation of consideration - summary of allocation formula
- Opinion on allocation of consideration

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www.towersperrin.com

Table of Contents

- Qualifications
- Reliances and limitations.

The analysis underlying and supporting my opinion is set forth in a report entitled, Actuary's Report on Allocation Methodology, which has been delivered to EIG Mutual Holding and is reproduced as an exhibit attached to EIG Mutual Holding's Plan of Conversion (the ''Plan of Conversion'').

On August 17, 2006, I delivered to EIG Mutual Holding the Statement of Actuarial Opinion regarding the allocation of consideration among eligible members. On October 3, 2006, the Board of Directors of EIG Mutual Holding approved an amended and restated Plan of Conversion. The amended and restated Plan of Conversion did not alter the allocation methodology, allocation formula, formula components, or formula weights as set forth in the Plan of Conversion. Also since August 17, Tillinghast has been obtaining from EIG the individual policyholder information that is needed in order to perform the actual allocation calculations. We have developed the tools to perform those calculations, and we have performed preliminary calculations of each eligible member's allocation using the policyholder information provided by EIG. I am not aware of any other information or developments since August 17, 2006 that would cause me to change my opinion. My opinion with respect to EIG Mutual Holding's allocation of consideration has not changed. Therefore, I am issuing this bring-down Statement of Actuarial Opinion today. With the exception of this paragraph and the date, this document is the same as my August 17, 2006 Statement of Actuarial Opinion. References herein to the Plan of Conversion should be interpreted to apply equally to the October 3, 2006 amended and restated Plan of Conversion.

ALLOCATION OF CONSIDERATION – SUMMARY OF ALLOCATION FORMULA

Article X and Article I of the Plan of Conversion detail the manner in which the total consideration will be allocated among eligible members.

The Plan of Conversion defines two components of member consideration: fixed and variable.

The Plan of Conversion specifies that 20% of the total consideration will be allocated among eligible members on a ''fixed'' basis, i.e., this portion of the total consideration will be allocated in equal amounts to each and every eligible member.

The remaining 80% of the total consideration is the ''variable'' component. The ''variable'' component is allocated among eligible members based upon the following measures of each individual member's policyholder relationship with

EICN.

Tenure, meaning the amount of time the member has been a policyholder with EICN, as specifically defined by the Tenure Allocation Percentage in the Plan of Conversion.

A-2

Table of Contents

Board of Directors
October 26, 2006
Page 3

Premium, meaning the policyholder’s total premium amount with EICN, as specifically defined by the Premium Allocation Percentage in the Plan of Conversion.

Tenure

45% of the total consideration will be allocated based upon the tenure measure. The specific formula parameters of the tenure measure are described in the Plan of Conversion.

Premium

35% of the total consideration will be allocated based upon the premium size measure. The specific formula parameters of the premium size measure are described in the Plan of Conversion.

OPINION ON ALLOCATION OF CONSIDERATION

In my opinion, all methodologies and formulas used to allocate consideration among eligible members of EIG Mutual Holding, as defined in the Plan of Conversion, are reasonable, and the proposed allocation of consideration produced by such methodologies and formulas is fair and equitable to eligible members, from an actuarial perspective.

DISCUSSION

NRS 693A.440 of the Nevada Revised Statutes requires that the Plan of Conversion provide for the distribution of consideration to the eligible members upon the extinguishment of their membership interests in the converting mutual. Per the Amended and Restated Plan of Reorganization of EICN (adopted in 2004) and the Articles of Incorporation and By-Laws of EIG Mutual Holding, such membership interests consist of:

- The right to elect directors
- The right to vote on an amendment to the articles of incorporation
- The right to vote on a plan of conversion to a stock company
- The right to vote on such matters as may come before the members at an annual meeting or at a special meeting of members
- The right to receive distributions of the remaining surplus, if any, in the event of the ultimate dissolution or liquidation

A-3

Subject to eligibility requirements of Nevada statute, the right to receive consideration in exchange for the extinguishment of membership interests as a result of conversion to a stock company

The Plan of Conversion defines two components of member consideration: fixed and variable. The concept of fixed and variable components of consideration is consistent with most large demutualizations, both within the U.S. and abroad. This concept has been used in both life and property/casualty insurance company demutualizations.

The fixed component of the consideration serves primarily to compensate for the loss of members' voting rights. The By-Laws of EIG Mutual Holding provide that each eligible member has one vote, regardless of the number of policies owned or policy size. Consequently, the fixed component of consideration has been allocated as an equal amount per eligible member.

The fixed component was determined by EIG Mutual Holding to be 20% of the total consideration. The relative proportion of the fixed component is consistent with recent insurance company demutualizations. It also takes into consideration EIG Mutual Holding's intent that the allocation formula be fair and equitable among all eligible members, including small policyholders which constitute the large majority of the eligible members.

As indicated above, the variable component is allocated among members based upon the following measures of the individual member's policyholder relationship with EICN.

Tenure (45% of total consideration)

Premium (35% of total consideration)

The use of policyholder tenure, as measured by the number of days that the eligible member has had coverage with the Company beginning on and including January 1, 2000, when the Company began operations as EICN, and ending on and including the date at which the Board of Directors of EIG Mutual Holding adopted the Plan of Conversion (as detailed in the Plan of Conversion) is based on EIG Mutual Holding's intent that the allocation of consideration be fair and equitable among long-term and short-term eligible member policyholders and reflects, among other things, that a stable policyholder base is valuable to an insurance company for the purposes of establishing business plans, budgets, capital requirements, and sound pricing.

The use of premium size, as measured by the policyholder's premium to EICN for coverage with the Company beginning on and including January 1, 2001, and ending on and including the date at which the Board of Directors of EIG Mutual Holding adopted the Plan of Conversion (as detailed in the Plan of Conversion), as the basis for allocating a portion of the variable component reflects that the profit loading in the Company's rates is generally proportional to premium size; and thus, the contribution to surplus of a member is expected to be proportional to premium. The use of premium amount as the basis for allocating a portion of the consideration is also based on EIG Mutual Holding's intent that the allocation of consideration be fair and equitable among eligible members of all sizes, and the use of multiple years of premium reflects that the size of the policyholder relationship with the Company is better measured over time rather than from a single year's premium. For large policyholders, the use of multiple years of premium also creates a more substantive tenure-based differentiation of consideration than is created by the tenure measure by itself. The use of a multi-year measure of premium also helps ensure that the amount of consideration paid to a member is reasonable relative to the total premium that the member has paid to EICN over the years. The selection of a starting date of January 1, 2001 for the premium data used in the allocation formula reflects the Board's appropriate attention to the practical requirement that the data used in the allocation calculations must be complete, accurate and consistent, as some premium data for earlier periods was generated by different rating plans and captured and recorded in a different manner than for the more recent years.

The method used to allocate the variable component, based on the measures described above (i.e., allocation of the variable component uses relatively simple formulas based on length of coverage with EICN and premium size), is reasonably consistent with prior property/casualty insurance company demutualizations in the US, many of which have based the allocation of consideration on premiums in particular.

Virtually all large U.S. life insurance demutualizations have used a ''contribution-to-surplus'' approach to the variable component in the allocation of consideration. This approach is specifically set forth in Actuarial Standard of Practice No. 37 ''Allocation of Policyholder Consideration in Mutual Life Insurance Company Demutualizations.'' While this approach has strong theoretical support in a life insurance context, it has been criticized on a practical level even in the life insurance context as being overly complex. More importantly, it is my opinion that the contribution-to-surplus approach does not translate well to a property/casualty insurance company such as EICN, with many small policyholders, due to the random nature of property/casualty insurance claims.

The Board of Directors of EIG Mutual Holding, with guidance from Tillinghast and input from management, selected the formula structure and parameters described above (and detailed in the Plan of Conversion) after performing a comprehensive evaluation and analysis of potential allocation formulas reflecting various elements of policyholder information across all eligible members. Formulas and weights were developed and refined via an iterative process of analyzing potential rationales and results for a wide range of structures and parameters. The parameters were finalized only after it was determined by management and the Board that the selected formula structure and

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parameters produced an allocation of consideration that was fair and equitable, and reasonable, across the spectrum of eligible members and classes of eligible members.

In my opinion, the inclusion of fixed and variable components, the use of tenure and premium size as the bases for allocating the variable component, the weights assigned to each of the components, the specific manner in which each component is measured, and the results of all of these formula components constitute an allocation of consideration among EIG Mutual Holding members that is fair and equitable to eligible members, and reasonable, from an actuarial perspective.

In the course of formulating my opinion regarding the allocation of consideration, I examined the overall structure, parameters and details of the allocation formula. I also examined the results of the allocation formula for reasonableness across the full range of eligible members and for relative consistency among similar eligible members.

PRINCIPLES

NRS 693A.445 of the Nevada Revised Statutes requires that the Plan of Conversion be fair and equitable to eligible members, and that all methodologies and formulas used to allocate the consideration among eligible members are reasonable. There is no further guidance for allocation of consideration in the Nevada Revised Statutes under which EIG Mutual Holding is reorganizing.

As part of my process in reaching my determination that the allocation approach described above is fair and equitable to eligible members, and reasonable, from an actuarial perspective, I evaluated the allocation approach against the following principles, which the Board of Directors of EIG Mutual Holding established with Tillinghast's guidance and assistance:

- The allocation to eligible members must comply with the relevant statutes and with applicable By-Laws.
- The allocation approach should be fair in regard to the membership rights that are being extinguished in the demutualization
- The allocation approach should lead to an equitable allocation of value among eligible members
- The allocation approach should consider how much current members have contributed to the current value of EIG Mutual Holding, to the extent reasonable, practical, and quantifiable

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- The allocation of value should recognize the unique nature of property/ casualty business
- The allocation of value should recognize the specific characteristics of EICN and of EIG Mutual Holding
- The allocation formula should be simple, practical to implement and relatively easy to explain; and should be capable of being understood by a lay audience to be fair and equitable.

In my opinion, the proposed allocation of consideration among eligible members of EIG Mutual Holding pursuant to the Plan of Conversion satisfies these principles.

QUALIFICATIONS

I, Robert F. Conger, am a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries, and am qualified under the Academy's Qualification Standards to render the opinion set forth herein.

In all cases I, and other Tillinghast staff acting under my direction, derived the results on which my opinions rest.

RELIANCES AND LIMITATIONS

In forming the opinions set forth herein, I, and other Tillinghast staff acting under my direction, have received from EIG Mutual Holding extensive information concerning the past and present financial experience of EICN and its affiliates, and concerning the characteristics of EICN's policyholders. In all cases, I was provided with the information required. I reviewed the information provided to me by EIG Mutual Holding for general reasonableness and internal consistency. I relied on EIG Mutual Holding as to the completeness and accuracy of the information supplied to me. My opinion relies on the completeness and substantial accuracy of the information provided by EIG Mutual Holding.

The opinions set forth herein regarding the allocation of consideration are not legal opinions concerning the Plan of Conversion, but rather reflect the application of actuarial concepts to the requirements set forth in Chapter 693A of the Nevada Revised Statutes.

The opinions set forth herein do not address the overall fairness of the Plan of Conversion, but rather address specifically that all methodologies and formulas used to allocate consideration among eligible members are reasonable, and the allocation

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of consideration produced by such methodologies and formulas is fair and equitable to eligible members, from an actuarial perspective.

Sincerely,

/s/ Robert F. Conger

Robert F. Conger. FCAS, MAAA
Principal

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
EIG Mutual Holding Company and Subsidiaries

We have audited the accompanying consolidated balance sheets of EIG Mutual Holding Company and Subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of EIG Mutual Holding Company and Subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California
July 14, 2006, except as to Note 12, as to
which the date is August 17, 2006.

F-2

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

	As of December 31	
	2005	2004
Assets:		
Available for sale:		
Fixed maturity investments at fair value (amortized cost $1,330,452 in 2005 and $1,083,484 in 2004)	$ 1,334,594	$ 1,102,477
Equity securities at fair value (cost $186,352 in 2005 and $185,659 in 2004)	246,171	234,844
Short-term investments (at cost or amortized cost, which approximates fair value)	15,006	20,907
Total investments	1,595,771	1,358,228
Cash and cash equivalents	61,083	60,414
Accrued investment income	14,296	12,060
Premiums receivable, less bad debt allowance of $6,617 in 2005 and $4,451 in 2004	59,811	73,397
Reinsurance recoverable for:		
Paid losses	10,942	11,884
Unpaid losses, less allowance of $1,276 in 2005 and $0 in 2004	1,140,224	1,194,728
Funds held by or deposited with reinsureds	114,175	134,481
Deferred policy acquisition costs	12,961	12,330
Deferred income taxes, net	73,152	72,795
Property and equipment, net	10,115	3,193
Other assets	1,699	2,176
Total assets	$ 3,094,229	$ 2,935,686
Liabilities and equity:		
Claims and policy liabilities:		
Unpaid losses and loss adjustment expenses	$ 2,349,981	$ 2,284,542
Unearned premiums	80,735	82,482
Policyholders' dividends accrued	880	1,294
Total claims and policy liabilities	2,431,596	2,368,318
Commissions and premium taxes payable	11,265	16,758
Federal income taxes payable	19,869	5,476
Accounts payable and accrued expenses	13,439	10,508
Deferred reinsurance gain – LPT Agreement	462,409	506,166
Other liabilities	11,044	18,710
Total liabilities	2,949,622	2,925,936
Commitments and contingencies (Note 8)		
Equity:		

Retained earnings (deficit)	103,032	(34,566)
Accumulated other comprehensive income, net	41,575	44,316
Total equity	144,607	9,750
Total liabilities and equity	$ 3,094,229	$ 2,935,686

See accompanying notes.

F-3

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(in thousands)

	Years Ended December 31		
	2005	2004	2003
Revenues:			
Net premiums earned	$ 438,250	$ 410,302	$ 298,208
Net investment income	54,416	42,201	26,297
Realized (losses) gains on investments	(95)	1,202	5,006
Other income	3,915	2,950	1,602
Total revenues	496,486	456,655	331,113
Expenses:			
Losses and loss adjustment expenses	211,688	229,219	118,123
Commission expense	46,872	55,369	56,310
Underwriting and other operating expense	69,934	65,492	56,738
Total expenses	328,494	350,080	231,171
Net income before income taxes	167,992	106,575	99,942
Income taxes	30,394	11,008	3,720
Net income	$ 137,598	$ 95,567	$ 96,222

See accompanying notes.

F-4

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income, net	Total Equity
Balance, December 31, 2002	$ (226,355)	$ (1,594)	$ (227,949)
Comprehensive income:			
Net income	96,222	—	96,222
Change in net unrealized gains on investments, net of taxes	—	27,268	27,268
Comprehensive income			123,490
Balance, December 31, 2003	(130,133)	25,674	(104,459)
Comprehensive income:			
Net income	95,567	—	95,567
Change in net unrealized gains on investments, net of taxes	—	18,642	18,642
Comprehensive income			114,209
Balance, December 31, 2004	(34,566)	44,316	9,750
Comprehensive income:			
Net income	137,598	—	137,598
Change in net unrealized gains on investments, net of taxes	—	(2,741)	(2,741)
Comprehensive income			134,857
Balance, December 31, 2005	$ 103,032	$ 41,575	$ 144,607

See accompanying notes.

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31		
	2005	2004	2003
Operating activities			
Net income	$ 137,598	$ 95,567	$ 96,222
Adjustments to reconcile net income to net cash provided by operating activities:			

Depreciation	2,223	2,040	2,343
Amortization of premium (discount) on investments, net	6,431	5,916	9,061
Allowance for doubtful accounts – premiums receivable	2,165	1,863	(1,694)
Allowance for doubtful accounts – paid reinsurance recoverables	1,276	—	—
Deferred income tax expense (benefit)	1,118	(10,279)	(4,399)
Realized losses (gains) on investments	95	(1,202)	(5,006)
Change in operating assets and liabilities:			
Accrued investment income	(2,236)	(5,870)	441
Premiums receivable	11,420	(3,058)	(10,276)
Reinsurance recoverable on paid and unpaid losses	54,170	36,474	127,154
Funds held by or deposited with reinsureds	20,306	(10,210)	(85,479)
Unpaid losses and loss adjustment expenses	65,439	91,103	(73,929)
Unearned premiums	(1,747)	6,275	12,091
Federal income taxes payable	14,393	(5,865)	8,038
Accounts payable, accrued expenses and other liabilities	(4,735)	12,855	(13,555)
Deferred reinsurance gain – LPT Agreement	(43,756)	(22,743)	(50,124)
Other	(6,062)	20,250	(6,318)
Net cash provided by operating activities	258,098	213,116	4,570
Investing activities			
Purchase of fixed maturities	(620,099)	(1,448,926)	(1,849,691)
Purchase of equity securities	(29,287)	(63,916)	(192,566)
Proceeds from sale of fixed maturities	320,275	1,122,287	1,722,081
Proceeds from sale of equity maturities	30,901	62,689	192,566
Proceeds from maturities and redemptions of fixed maturities	49,926	9,961	7,750
Capital expenditures and other, net	(9,145)	(1,010)	(1,848)
Net cash used in investing activities	(257,429)	(318,915)	(121,708)
Net increase (decrease) in cash and cash equivalents	669	(105,799)	(117,138)
Cash and cash equivalents at the beginning of the year	60,414	166,213	283,351
Cash and cash equivalents at the end of the year	$ 61,083	$ 60,414	$ 166,213
Cash paid for income taxes	$ 14,883	$ 27,152	$ 68

See accompanying notes.

F-6

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

1. Basis of Presentation and Summary of Operations

Nature of Operations and Organization

EIG Mutual Holding Company (EMHC), a Nevada mutual holding company, was formed effective April 1, 2005, as part of a reorganization of Employers Insurance Company of Nevada (EICN), formerly Employers Insurance Company of Nevada, a Mutual Company (the reorganization plan). As part of the approved reorganization plan, EICN changed its legal structure from a Nevada mutual insurance company to a Nevada stock insurance company. The mutual members' rights were exchanged for members' rights in the newly formed EMHC. EMHC was issued 100% of the stock in the newly formed Employers Insurance Group, Inc. (EIG), a Nevada stock holding company, which in turn owns 100% of the newly issued stock of EICN. Prior to January 1, 2000, EICN was an independent public agency of the state of Nevada and a fund of the Nevada State Insurance Fund (the Fund). As of January 1, 2000, all of the assets were transferred from the Fund to EICN and EICN assumed all the liabilities related to the transferred assets (the Privatization).

Under the reorganization plan, EMHC is required to own at least a majority of the Voting Securities of EIG, and EIG is required to own all of the Voting Securities of EICN. Additionally, 50% of the net worth of EMHC, determined using U.S. generally accepted accounting principles (GAAP), must be invested in insurance companies. EICN owns 100% of Employers Compensation Insurance Company (ECIC), Elite Insurance Services, Inc. (Elite), a licensed managing general agency, and Employers Occupation Health, Inc. (EOHI), a care management company.

EMHC and subsidiaries (collectively, the Company) is engaged in the commercial property and casualty insurance industry, specializing in workers' compensation products and services. EICN provides insurance to employers against liability for workers' compensation claims in the state of Nevada. ECIC, a California domiciled company, provides workers' compensation insurance to employers in the states of California, Colorado, Idaho, Utah, and Montana. As of December 31, 2005, approximately 78% and 18% of the Company's direct premium is written in California and Nevada, respectively. EOHI provides medical management services that combine in-house medical care management, a provider network and bill review and repricing services to its affiliates. Elite provides various administrative services to its affiliates and assists in the placement of business with the insurance affiliates.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with GAAP, and include the financial statements of EICN and its subsidiaries (ECIC, Elite and EOHI) for the periods prior to the formation of EMHC. This presentation is made since the reorganization described above did not have a material financial impact on the companies, as the net assets transferred to achieve the change in legal organization were accounted for at historical carrying amounts. All intercompany transactions and balances have been eliminated in consolidation.

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.

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Basis of Presentation and Summary of Operations (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less at the date of purchase to be cash equivalents.

Investments

The Company's investments in fixed maturity investments and equity securities are classified as available-for-sale and are reported at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of equity, net of deferred taxes as a component of accumulated other comprehensive income.

Short-term investments include investments with remaining maturities of one year or less at the time of acquisition and are principally stated at cost or amortized cost, which approximates fair value.

Investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis, and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective-yield method based on estimated principal repayments.

Realized capital gains and losses on investments are determined on a specific-identification basis.

When, in the opinion of management, a decline in the fair value of an investment below its cost or amortized cost is considered to be ''other-than-temporary'' the investment's cost or amortized cost is written-down to its fair value and the amount written-down is recorded in earnings as a realized loss on investments. The determination of other-than-temporary includes, in addition to other relevant factors, a presumption that if the market value is below cost by a significant amount for a period of time, a write-down is necessary unless management has the ability and intent to hold a security to recovery. The amount of any write-downs is determined by the difference between cost or amortized cost of the investment and its fair value at the time the other-than-temporary decline was identified. During the years ended December 31, 2005, 2004 and 2003, there were no securities considered to be other-than-temporarily impaired.

Recognition of Revenue and Expense

Revenue Recognition: Premiums are billed and collected according to policy terms, predominantly in the form of installments during the policy period. Premiums are earned pro rata over the terms of the policies. Billed premiums applicable to the unexpired terms of policies in force are recorded in the accompanying consolidated balance sheets as liability for unearned premiums.

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (continued)

The Company writes a relatively small number of workers' compensation policies that are retrospectively-rated. Under this type of policy, subsequent to policy expiration, the policyholder may be entitled to a refund or may owe additional premium based on the amount of losses sustained under the policy. These retrospective premium adjustments are limited in the amount by which they increase or decrease the standard amount of premium applicable to the policy.

The Company estimates accrued retrospective premium adjustments through the review of each individual retrospectively rated risk, comparing case basis loss development with that anticipated in the policy contract to arrive at the best estimate of return or additional retrospective premium. The Company records the retrospective premium as an adjustment to earned premium.

The Company establishes an allowance for bad debts (bad debt allowance) on its premiums receivable through a charge to allowance for bad debt, included in underwriting and other operating expense in the accompanying consolidated statements of income. This bad debt allowance is determined based on estimates and assumptions to project future experience. After all collection efforts have been exhausted, the Company reduces the bad debt allowance for write-offs of premiums receivable that have been deemed uncollectible. The Company periodically reviews the adequacy of the bad debt allowance and makes adjustments as necessary. Future additions to the bad debt allowance may be necessary based on changes in the general economic conditions and the policyholders' financial conditions. The Company had a net recovery of amounts previously written off of $0.7 million, $2.2 million and $1.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Deferred Policy Acquisition Costs: Policy acquisition costs, consisting of commissions, premium taxes and certain other underwriting costs that vary with, and are primarily related to, the production of new or renewal business, are deferred and amortized as the related premiums are earned.

A premium deficiency is recognized if the sum of expected claims costs, claims adjustment expenses, expected dividends to policyholders, unamortized acquisition costs and policy maintenance costs exceed the related unearned premiums. A premium deficiency would first be recognized by charging any unamortized acquisition costs to expense to the extent required to eliminate the deficiency. If the premium deficiency was greater than unamortized acquisition costs, a liability would be accrued for the excess deficiency. There was no premium deficiency at December 31, 2005 or 2004.

Deferred policy acquisition costs were $13.0 million and $12.3 million at December 31, 2005 and 2004, respectively. Amortization for the years ended December 31, 2005, 2004 and 2003, was $62.2 million, $63.2 million and $59.6 million, respectively.

Unpaid Losses and Loss Adjustment Expense (LAE) Reserves: Losses and LAE reserves represent management's best estimate of the ultimate net cost of all reported and unreported losses incurred for the applicable periods. The estimated reserves for losses and LAE include the accumulation of estimates for losses and claims reported prior to the balance sheet date, estimates (based on projections of relevant historical data) of claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred and unadjusted claims. Amounts reported are necessarily subject to the impact of future changes in economic, regulatory and social conditions. Management believes that, subject to the inherent variability in any such estimate, the reserves are within a reasonable and acceptable range of adequacy. Estimates for losses and claims reported prior to the balance sheet date are continually monitored and reviewed, and as settlements are made or reserves adjusted, the differences are reported in current operations. Salvage and subrogation recoveries are estimated based on a review of the level of historical salvage and subrogation recoveries.

Policyholders' Dividends Accrued: EICN writes workers' compensation policies for which the policyholder may participate in favorable claims experience through a dividend. An estimated provision for workers' compensation policyholders' dividends is accrued as the related premiums are earned.

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (continued)

Dividends are calculated and paid after policy expiration, usually within nine and 12 months, respectively, after such expiration and must be approved by the Board of Directors of EICN. The liability is estimated based on the expected loss experience of the policies written with dividend provisions and policy terms. Policyholders' dividends paid for the years ended December 31, 2005, 2004 and 2003, were $1.4 million, $2.8 million and $7.9 million, respectively. Policyholder dividends are included in underwriting and other operating expense in the accompanying consolidated income statements.

Reinsurance

In the ordinary course of business and in accordance with general insurance industry practices, the Company purchases excess of loss reinsurance to protect the Company against the impact of large, catastrophic losses in its workers' compensation business. Additionally, the Company is a party to a 100% quota share retroactive reinsurance agreement, see Note 7. Such reinsurance reduces the magnitude of such losses on current operations and the equity of the Company. Reinsurance makes the assuming reinsurer liable to the ceding company to the extent of the reinsurance. It does not, however, discharge the Company from its primary liability to its policyholders in the event the reinsurer is unable to meet its obligations under its reinsurance agreement with the Company.

Net earned premium and losses and loss adjustment expenses incurred are stated in the accompanying consolidated statements of income after deduction of amounts ceded to reinsurers. Balances due from reinsurers on unpaid losses, including an estimate of such recoverables related to reserves for incurred but not reported losses, are reported as assets and are included in reinsurance recoverables even though amounts due on unpaid losses and LAE are not recoverable from the reinsurer until such losses are paid. Recoverables from reinsurers on unpaid losses and LAE amounted to $1.1 billion and $1.2 billion at December 31, 2005 and 2004, respectively.

Ceded premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the relevant reinsurance agreement.

There is also a reinsurance agreement entered into in 1999 by the Nevada State Industrial Insurance System (SIIS) and assumed by EICN, which the Company refers to as the Loss Portfolio Transfer (LPT) Agreement, see Note 7. The Company is accounting for this transaction as retroactive reinsurance, whereby the initial deferred gain resulting from the retroactive reinsurance was recorded as a liability in the accompanying consolidated balance sheets as deferred reinsurance gain—LPT Agreement 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 amortization of the deferred gain is recorded in losses and LAE incurred in the accompanying consolidated statements of income. Any adjustment to the estimated reserves ceded under the LPT agreement is recognized in earnings in the period of change. There is a corresponding change to the reinsurance recoverables on unpaid losses and deferred reinsurance gain. A cumulative amortization adjustment is also then recognized in earnings so that the deferred reinsurance gain reflects the balance that would have existed had the revised reserves been available at the inception of the LPT Agreement.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged against operations as incurred.

Electronic data processing equipment, operating software, and nonoperating software are depreciated using the straight-line method over three years. Leasehold improvements are carried at cost less accumulated amortization. The Company amortizes leasehold improvements using the straight-line method over the lesser of the useful life of the asset or the remaining original lease term, excluding

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Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Summary of Significant Accounting Policies (continued)

options or renewal periods. Leasehold improvements are generally depreciated over three to five years. Other furniture and equipment is depreciated using the straight-line method over three to seven years.

Income Taxes

Deferred tax assets, net of any applicable valuation allowance, and deferred tax liabilities are provided for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The net deferred tax asset is recorded in the accompanying consolidated balance sheets as deferred income taxes, net.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash, cash equivalents, investments, premiums receivable and reinsurance balances.

Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. government. Investments are diversified throughout many industries and geographic regions. The Company limits the amount of credit exposure with any one financial institution and believes that no significant concentration of credit risk exists with respect to cash and investments. At December 31, 2005 and 2004, the outstanding premiums receivable balance is generally diversified due to the large number of entities composing the Company's policyholder base and their dispersion across many different industries. To reduce credit risk, the Company performs ongoing evaluations of its policyholders' financial condition but does not generally require collateral. The Company also has recoverables from its reinsurers. Reinsurance contracts do not relieve the Company from its obligations to claimants or policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Fair Value of Financial Instruments

Estimated fair value amounts, defined as the quoted market price of a financial instrument, have been determined using available market information and other appropriate valuation methodologies. However, considerable judgments are required in developing the estimates of fair value where quoted market prices are not available. Accordingly, these estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions or estimating methodologies may have an effect on the estimated fair value amounts.

The following methods and assumptions were used by the Company in estimating the fair value disclosures for financial instruments in the accompanying consolidated financial statements and in these notes:

Cash, premiums receivable, and accrued expenses and other liabilities: The carrying amounts for these financial instruments as reported in the accompanying consolidated balance sheets approximate their fair values.

Investments: The estimated fair values for available-for-sale securities generally represent quoted market value prices for securities traded in the public marketplace or estimated values for securities not traded in the public marketplace. Additional data with respect to fair values of the Company's investment securities are disclosed in Note 3.

Other financial instruments qualify as insurance-related products and are specifically exempted from fair value disclosure requirements.

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. 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 is not expected to 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 12 months. FIN 48 is effective for the Company on January 1, 2007. Any differences between the amounts recognized in the statements 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.

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Investments

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
At December 31, 2005:				

U.S. government	$ 210,521	$ 3,609	$ (1,609)	$ 212,521
All other governments	6,763	—	(160)	6,603
States and political subdivisions	420,833	2,655	(2,603)	420,885
Special revenue	228,387	2,500	(868)	230,019
Public utilities	22,853	433	(176)	23,110
Industrial and miscellaneous	140,503	2,618	(1,020)	142,101
Mortgage-backed securities	300,592	1,385	(2,622)	299,355
Total fixed maturity investments	1,330,452	13,200	(9,058)	1,334,594
Short-term investments	15,006	—	—	15,006
	1,345,458	13,200	(9,058)	1,349,600
Equity securities	186,352	64,313	(4,494)	246,171
Total investments	$ 1,531,810	$ 77,513	$ (13,552)	$ 1,595,771
At December 31, 2004:				
U.S. government	$ 157,255	$ 2,632	$ (388)	$ 159,499
All other governments	12,031	—	(75)	11,956
States and political subdivisions	314,768	4,538	(423)	318,883
Special revenue	117,918	2,525	(218)	120,225
Public utilities	20,014	576	(72)	20,518
Industrial and miscellaneous	213,439	6,913	(537)	219,815
Mortgage-backed securities	248,059	3,649	(127)	251,581
Total fixed maturity investments	1,083,484	20,833	(1,840)	1,102,477
Short-term investments	20,907	—	—	20,907
	1,104,391	20,833	(1,840)	1,123,384
Equity securities	185,659	51,894	(2,709)	234,844
Total investments	$ 1,290,050	$ 72,727	$ (4,549)	$ 1,358,228

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Investments (continued)

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2005, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$ 77,966	$ 77,579
Due after one year through five years	274,861	272,519
Due after five years through ten years	321,499	323,597

Due after ten years	370,540	376,550
Mortgage-backed securities	300,592	299,355
	$ 1,345,458	$ 1,349,600

The following is a summary of investments with unrealized losses and their corresponding fair values at December 31, 2005 and 2004:

	Less 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	$ 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

Table of Contents

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

F-15

Table of Contents

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.

F-16

Table of Contents

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.

Table of Contents

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 Deferred Tax		2004 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.

Table of Contents

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.

Table of Contents

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	

Table of Contents

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.

Table of Contents

EIG MUTUAL HOLDING COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Reinsurance (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.

Table of Contents

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.

Table of Contents

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 $(1,477), $10,637 and $14,022, respectively	$ (2,741)	$ 18,642	$ 27,268

F-24

Table of Contents

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.''

F-25

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

F-30

Table of Contents

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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Table of Contents

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

Table of Contents

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.

Table of Contents