

UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
October 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

65-0231984
(I.R.S. Employer
Identification No.)

1110 W. Commercial Blvd., Fort Lauderdale, Florida 33309

(Address of principal executive offices)

(954) 958-1200

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definitions of "large accelerated filer" and "accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,600,279 shares of common stock, par value \$0.01 per share, outstanding on October 23, 2015.

UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Universal Insurance Holdings, Inc. and Subsidiaries

Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the "Company") as of September 30, 2015 and the related condensed consolidated statements of income and comprehensive income for the three and nine-month periods ended September 30, 2015 and 2014 and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2015 and 2014. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of December 31, 2014 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 25, 2015. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Plante & Moran, PLLC

Chicago, Illinois

October 29, 2015

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

	As of September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$201,774	\$ 115,397
Restricted cash and cash equivalents	2,635	2,635
Fixed maturities, at fair value	417,769	353,949
Equity securities, at fair value	46,627	19,642
Short-term investments, at fair value	75,023	49,990
Investment real estate, net	5,820	—
Prepaid reinsurance premiums	113,240	190,505
Reinsurance recoverable	36,135	55,187
Reinsurance receivable, net	166	7,468
Premiums receivable, net	56,617	50,987
Other receivables	5,195	2,763
Property and equipment, net	26,302	17,254
Deferred policy acquisition costs, net	63,003	25,660
Income taxes recoverable	10,964	5,675
Deferred income tax asset, net	12,196	11,850
Other assets	4,900	2,812
Total assets	\$1,078,366	\$911,774
LIABILITIES, CONTINGENTLY REDEEMABLE COMMON STOCK AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	\$101,059	\$ 134,353
Unearned premiums	463,651	395,748
Advance premium	26,029	17,919
Accounts payable	1,582	4,121
Book overdraft	3,728	5,924
Payable for securities purchased	7,937	—
Reinsurance payable, net	125,427	66,066
Income taxes payable	—	1,799
Dividends payable to shareholders	4,287	—
Other liabilities and accrued expenses	37,388	36,318
Long-term debt	24,324	30,610
Total liabilities	795,412	692,858

Commitments and Contingencies (Note 12)

Contingently redeemable common stock	—	19,000
Issued shares - 0 and 1,000		
Outstanding shares - 0 and 1,000		

STOCKHOLDERS' EQUITY:

Cumulative convertible preferred stock, \$.01 par value	—	—
Authorized shares - 1,000		
Issued shares - 10 and 12		
Outstanding shares - 10 and 12		
Minimum liquidation preference, \$9.99 and \$8.49 per share		
Common stock, \$.01 par value	456	448
Authorized shares - 55,000		
Issued shares - 45,595 and 43,769		
Outstanding shares - 35,628 and 34,102		
Treasury shares, at cost - 9,967 and 9,667	(69,818)	(62,153)
Additional paid-in capital	67,845	40,987
Accumulated other comprehensive income (loss), net of taxes	(2,515)	(1,835)
Retained earnings	286,986	222,469
Total stockholders' equity	282,954	199,916
Total liabilities, contingently redeemable common stock and stockholders' equity	\$1,078,366	\$911,774

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	\$222,572	\$195,435	\$684,147	\$607,361
Ceded premiums written	(71,150)	(103,492)	(185,578)	(301,624)
Net premiums written	151,422	91,943	498,569	305,737
Change in net unearned premiums	(5,269)	2,345	(145,168)	(74,280)
Premiums earned, net	146,153	94,288	353,401	231,457
Net investment income (expense)	1,307	644	3,376	1,574
Net realized gains (losses) on investments	11	501	292	5,353
Commission revenue	4,115	3,123	10,757	10,882
Policy fees	3,820	3,416	12,003	10,827
Other revenue	1,637	1,528	4,614	4,701
Total premiums earned and other revenues	157,043	103,500	384,443	264,794
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	53,854	34,181	127,148	88,685
General and administrative expenses	55,289	32,167	130,152	85,431
Total operating costs and expenses	109,143	66,348	257,300	174,116
INCOME BEFORE INCOME TAXES	47,900	37,152	127,143	90,678
Income tax expense	17,602	15,811	49,811	38,662
NET INCOME	\$30,298	\$21,341	\$77,332	\$52,016
Basic earnings per common share	\$0.87	\$0.64	\$2.22	\$1.55
Weighted average common shares outstanding - Basic	34,911	33,432	34,837	33,607
Fully diluted earnings per common share	\$0.84	\$0.61	\$2.15	\$1.48
Weighted average common shares outstanding - Diluted	35,999	34,812	35,918	35,097
Cash dividend declared per common share	\$0.12	\$0.10	\$0.36	\$0.30

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$30,298	\$21,341	\$77,332	\$52,016
Other comprehensive income (loss), net of taxes	(794)	(924)	(680)	(1,171)

Comprehensive income (loss)	\$29,504	\$20,417	\$76,652	\$50,845
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The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net Income	\$77,332	\$52,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	497	262
Depreciation and amortization	1,251	845
Amortization of share-based compensation	12,566	8,766
Amortization of original issue discount on debt	427	659
Accretion of deferred credit	(427)	(659)
Book overdraft increase (decrease)	(2,196)	(9,086)
Net realized (gains) losses on investments	(292)	(5,353)
Amortization of premium/accretion of discount, net	1,340	1,540
Deferred income taxes	(347)	829
Excess tax (benefits) shortfall from share-based compensation	(5,241)	(6,465)
Other	24	25
Net change in assets and liabilities relating to operating activities:		
Restricted cash and cash equivalents	—	(3,997)
Prepaid reinsurance premiums	77,265	45,892
Reinsurance recoverable	19,052	51,606
Reinsurance receivable, net	7,302	(12,332)
Premiums receivable, net	(5,915)	(8,444)
Accrued investment income	(374)	(158)
Other receivables	(2,269)	(450)
Income taxes recoverable	(5,289)	5,238
Deferred policy acquisition costs, net	(37,343)	(11,933)
Other assets	(1,088)	(768)
Unpaid losses and loss adjustment expenses	(33,294)	(22,307)
Unearned premiums	67,903	28,387
Accounts payable	(2,539)	1,016
Reinsurance payable, net	59,361	16,019
Income taxes payable	3,869	3,899
Other liabilities and accrued expenses	1,497	514
Advance premium	8,110	(1,657)
Net cash provided by (used in) operating activities	241,182	133,904
Cash flows from investing activities:		
Proceeds from sale of property and equipment	55	30
Purchases of property and equipment	(10,310)	(1,578)
Payments to acquire a business	(1,000)	—
Purchases of equity securities	(46,668)	(74,407)
Purchases of fixed maturities	(145,118)	(61,760)

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Purchases of short-term investments	(87,538)	(37,500)
Purchases of investment real estate, net	(5,888)	—
Proceeds from sales of equity securities	17,412	121,580
Proceeds from sales of fixed maturities	26,154	5,168
Proceeds from sales of short-term investments	12,500	—
Maturities of fixed maturities	63,201	17,395
Maturities of short-term investments	50,000	—
Net cash provided by (used in) investing activities	(127,200)	(31,072)
Cash flows from financing activities:		
Preferred stock dividend	(7)	(10)
Common stock dividend	(8,520)	(6,967)
Issuance of common stock	511	—
Purchase of treasury stock	(7,665)	(29,736)
Purchase of preferred stock	(257)	—
Payments related to tax withholding for share-based compensation	(10,195)	(12,404)
Excess tax benefits (shortfall) from share-based compensation	5,241	6,465
Borrowings under promissory note	1,390	—
Repayment of debt	(8,103)	(7,103)
Net cash provided by (used in) financing activities	(27,605)	(49,755)
Net increase (decrease) in cash and cash equivalents	86,377	53,077
Cash and cash equivalents at beginning of period	115,397	117,275
Cash and cash equivalents at end of period	\$201,774	\$170,352
Supplemental cash and non-cash flow disclosures:		
Interest paid	\$767	\$1,158
Income taxes paid	\$51,554	\$28,684

The accompanying notes to condensed consolidated financial statements are an integral part of these statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc., (“UIH”) is a Delaware corporation originally incorporated as Universal Heights, Inc., in November 1990. UIH with its wholly-owned subsidiaries (the “Company”), is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned subsidiaries, Universal Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC”), together referred to as the “Insurance Entities,” the Company is principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company’s primary product is homeowners insurance offered in ten states as of September 30, 2015, including Florida, which comprises the vast majority of the Company’s in-force policies. See “—Note 5 (Insurance Operations)” for more information regarding the Company’s insurance operations.

The Company generates revenues primarily from the collection of premiums and invests funds in excess of those retained for claims-paying obligations and insurance operations. Other significant sources of revenue include brokerage commissions collected from reinsurers, policy fees collected from policyholders by our wholly-owned managing general agency subsidiary and payment plan fees charged to policyholders who choose to pay their premiums in installments.

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements (“Financial Statements”) in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, the Financial Statements do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (“GAAP”) for complete financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on February 25, 2015. The condensed consolidated balance sheet at December 31, 2014, was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

To conform to the current period presentation, certain amounts in the prior periods’ consolidated financial statements and notes have been reclassified. Such reclassifications were of an immaterial amount and had no effect on net income or stockholders’ equity.

The Financial Statements include the accounts of UIH and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Management must make estimates and assumptions that affect amounts reported in the Company's Financial Statements and in disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2014. Below are revised disclosures required to be reported on a quarterly basis.

Goodwill. Goodwill arising from the acquisition of a business is initially measured at cost and not subject to amortization. We assess goodwill for potential impairments at the end of each fiscal year, or during the year if an event or other circumstance indicates that we may not be able to recover the carrying amount of the asset. Goodwill is included under Other Assets in the Condensed Consolidated Balance Sheets.

Investment Real Estate. Investment real estate is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. Investment real estate is evaluated for impairment when events or circumstances indicate the carrying value may not be recoverable.

3. Investments

Securities Available for Sale

The following table provides the cost or amortized cost and fair value of securities available for sale as of the dates presented (in thousands):

	September 30, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities:				
U.S. government obligations and agencies	\$ 135,774	\$ 517	\$ (201)	\$ 136,090
Corporate bonds	128,357	412	(649)	128,120
Mortgage-backed and asset-backed securities	138,482	527	(324)	138,685
Redeemable preferred stock	9,734	201	(65)	9,870
Other	5,000	4	—	5,004
Equity Securities:				
Common stock	16,545	472	(1,274)	15,743
Mutual funds	34,599	—	(3,715)	30,884
Short-term investments	75,022	3	(2)	75,023
Total	\$543,513	\$ 2,136	\$ (6,230)	\$539,419

	December 31, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities:				
U.S. government obligations and agencies	\$ 120,627	\$ 38	\$ (627)	\$ 120,038
Corporate bonds	120,025	171	(364)	119,832
Mortgage-backed and asset-backed securities	107,589	136	(502)	107,223
Redeemable preferred stock	6,700	165	(9)	6,856
Equity Securities:				
Common stock	331	4	(65)	270
Mutual funds	21,296	—	(1,924)	19,372
Short-term investments	50,000	—	(10)	49,990
Total	\$426,568	\$ 514	\$ (3,501)	\$423,581

The following table provides the credit quality of investment securities with contractual maturities or the issuer of such securities as of the dates presented (in thousands):

September 30, 2015

Comparable Ratings	Fair Value	% of Total Fair Value
AAA	\$87,860	17.8 %
AA	193,220	39.2 %
A	140,092	28.4 %
BBB	47,219	9.6 %
BB+ and Below	3,768	0.8 %
No Rating Available	20,633	4.2 %
Total	\$492,792	100.0 %

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December 31, 2014 (1)			
Comparable Ratings	Fair	% of	
	Value	Fair	Total
	Value	Value	
AAA	\$39,657	9.8	%
AA	220,693	54.8	%
A	83,734	20.7	%
BBB	47,003	11.6	%
BB+ and Below	3,401	0.8	%
No Rating Available	9,451	2.3	%
Total	\$403,939	100.0	%

(1)The credit ratings in the table above have been reclassified from the prior periods' consolidated financial statements to conform to the current periods' presentation. For investment securities where no credit rating was previously available, the credit rating of the issuer of such security is disclosed in the table above, where applicable. The tables above include comparable credit quality ratings by Standard and Poor's Rating Services, Inc., Moody's Investors Service, Inc. and Fitch Ratings, Inc.

The following table summarizes the cost or amortized cost and fair value of mortgage-backed and asset-backed securities as of the dates presented (in thousands):

	September 30, 2015		December 31, 2014	
	Cost or Amortized		Cost or Amortized	
	Cost	Fair Value	Cost	Fair Value
Mortgage-backed securities:				
Agency	\$76,428	\$76,610	\$64,905	\$64,619
Non-agency	10,454	10,389	8,053	7,987
Asset-backed securities:				
Auto loan receivables	18,423	18,488	16,551	16,556
Credit card receivables	28,578	28,588	13,481	13,457
Other receivables	4,599	4,610	4,599	4,604
Total	\$138,482	\$138,685	\$107,589	\$107,223

The following table summarizes the fair value and gross unrealized losses on securities available for sale, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position as of the dates presented (in thousands):

September 30, 2015

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	Less Than 12 Months			12 Months or Longer		
	Number	Fair	Unrealized	Number	Fair	Unrealized
	of	Value	Losses	of	Value	Losses
	Issues			Issues		
Fixed maturities:						
U.S. government obligations and agencies	—	\$—	\$ —	2	\$3,470	\$ (201)
Corporate bonds	58	52,340	(608)	4	3,952	(41)
Mortgage-backed and asset-backed securities	14	30,805	(117)	6	15,504	(207)
Redeemable preferred stock	30	3,789	(65)	—	—	—
Equity securities:						
Common stock	3	8,161	(1,168)	2	83	(106)
Mutual funds	4	22,971	(725)	1	7,912	(2,990)
Short-term investments	76	52,514	(2)	—	—	—
Total	185	\$170,580	\$ (2,685)	15	\$30,921	\$ (3,545)

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	December 31, 2014		12 Months or Longer	
	Less Than 12 Months		Number	Unrealized
	Number	Fair	of	Losses
	of	Value	of	Losses
	Issues		Issues	
	Value		Value	
Fixed maturities:				
U.S. government obligations and agencies	3	\$27,341	4	\$ (572)
Corporate bonds	67	58,271	12	(126)
Mortgage-backed and asset-backed securities	20	48,335	5	(229)
Redeemable preferred stock	12	1,153	—	—
Equity securities:				
Common stock	2	87	2	(45)
Mutual funds	2	10,514	1	(1,827)
Short-term investments	2	37,490	—	—
Total	108	\$183,191	24	\$ (2,799)

At September 30, 2015, we held fixed maturity, equity securities and short-term investments that were in an unrealized loss position as presented in the table above. For fixed maturity securities with significant declines in value, we perform quarterly fundamental credit analysis on a security-by-security basis, which includes consideration of credit quality and credit ratings, review of relevant industry analyst reports and other available market data. For fixed maturity, equity securities and short-term investments, the Company considers whether it has the intent and ability to hold the securities for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the security's decline in fair value is considered other than temporary and is recorded in earnings. Based upon management's intent and ability to hold the securities until recovery and its credit analysis of the individual issuers of the securities, management has no reason to believe the unrealized losses for securities available for sale at September 30, 2015 are other than temporary.

The following table presents the amortized cost and fair value of investments with contractual maturities as of the date presented (in thousands):

	September 30, 2015	
	Cost or	Fair
	Amortized	Value
Due in one year or less	\$119,008	\$119,037
Due after one year through five years	222,690	222,847
Due after five years through ten years	1,465	1,427
Due after ten years	4,121	4,172
Mortgage-backed and asset-backed securities	138,482	138,685
Perpetual maturity securities	6,603	6,624
Total	\$492,369	\$492,792

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay with or without penalty.

The following table provides certain information related to securities available for sale during the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Sales proceeds (fair value)	\$12,014	\$53,961	\$56,066	\$126,748
Gross realized gains	\$12	\$742	\$308	\$5,930
Gross realized losses	\$(1)	\$(241)	\$(16)	\$(577)

The following table presents the components of net investment income, comprised primarily of interest and dividends, for the periods presented (in thousands):

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Fixed maturities	\$1,479	\$884	\$4,001	\$2,394
Equity securities	277	182	540	636
Short-term investments	89	11	194	11
Other (1)	102	26	247	47
Total investment income	1,947	1,103	4,982	3,088
Less: Investment expenses (2)	(640)	(459)	(1,606)	(1,514)
Net investment (expense) income	\$1,307	\$644	\$3,376	\$1,574

(1) Includes interest earned on cash and cash equivalents and restricted cash and cash equivalents. Also includes investment income earned on real estate investments.

(2) Includes bank fees, investment accounting and advisory fees, and expenses associated with real estate investments.

Investment Real Estate

Investment real estate consisted of the following as of the dates presented (in thousands):

	September 30, 2015	December 31, 2014
Investment real estate	\$ 5,888	\$ —
Less: Accumulated depreciation	(68)	—
Investment real estate, net	\$ 5,820	\$ —

4. Reinsurance

The Company seeks to reduce its risk of loss by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers, generally as of the beginning of the hurricane season on June 1st of each year. The Company's current reinsurance program consists of excess of loss and catastrophe reinsurance, subject to the terms and conditions of the applicable agreements. The Company is responsible for insured losses related to catastrophes and other events in excess of coverage provided by its reinsurance program. The Company remains responsible for the settlement of insured losses irrespective of the failure of any of its reinsurers to make payments otherwise due to the Company.

The Company eliminated the quota share ceded by UPCIC to its reinsurers beginning with the reinsurance program effective June 1, 2015. Under the quota share contracts that were effective June 1, 2014 through May 31, 2015, the quota share ceded by UPCIC to its reinsurers was 30%. By eliminating the quota share, the Company expects to increase its profitability by retaining all premiums. The elimination of the quota share also decreases the amount of losses and loss adjustment expenses ("LAE") that may be ceded by UPCIC and effectively increases the amount of risk retained by UPCIC and the Company. The elimination of the quota share also eliminates ceding commissions earned from the Company's quota share reinsurer during the contract term and eliminates deferred ceding commissions, netted against deferred policy acquisition costs.

Amounts recoverable from reinsurers are estimated in a manner consistent with the terms of the reinsurance contracts. Reinsurance 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 reinsurance contracts. Ceding commissions received in connection with quota share reinsurance are deferred and netted against deferred policy acquisition costs and amortized over the effective period of the related insurance policies.

In order to reduce credit risk for amounts due from reinsurers, the Insurance Entities seek to do business with financially sound reinsurance companies and regularly evaluate the financial strength of all reinsurers used.

The following table presents ratings from rating agencies and the unsecured amounts due from the Company's reinsurers whose aggregate balance exceeded 3% of the Company's stockholders' equity as of the dates presented (in thousands):

Reinsurer	Ratings as of September 30, 2015			Due from as of	
	AM Best Company	Rating Services	Investors Service, Inc.	September 2015	December 30, 2014
Everest Reinsurance Company	A+	A+	A1	\$—	\$16,780
Florida Hurricane Catastrophe Fund	n/a	n/a	n/a	—	31,870
Odyssey Reinsurance Company	A	A-	A3	30,213	136,339
Total (1)				\$30,213	\$184,989

(1) Amounts represent prepaid reinsurance premiums, reinsurance receivables, and net recoverables for paid and unpaid losses, including incurred but not reported reserves, loss adjustment expenses, and offsetting reinsurance payables.

n/a No rating available, because entity is not rated.

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The Company's reinsurance arrangements had the following effect on certain items in the Condensed Consolidated Statements of Income for the periods presented (in thousands):

Three Months Ended September 30, 2015			2014			
	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
Direct	\$222,572	\$214,802	\$ 53,560	\$195,435	\$196,269	\$ 48,341
Ceded	(71,150)	(68,649)	294	(103,492)	(101,981)	(14,160)
Net	\$151,422	\$146,153	\$ 53,854	\$91,943	\$94,288	\$ 34,181

Nine Months Ended September 30, 2015			2014			
	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
Direct	\$684,147	\$616,244	\$ 152,551	\$607,361	\$578,974	\$ 146,033
Ceded	(185,578)	(262,843)	(25,403)	(301,624)	(347,517)	(57,348)
Net	\$498,569	\$353,401	\$ 127,148	\$305,737	\$231,457	\$ 88,685

The following prepaid reinsurance premiums and reinsurance recoverable and receivable are reflected in the Condensed Consolidated Balance Sheets as of the dates presented (in thousands):

	September 30, 2015	December 31, 2014
Prepaid reinsurance premiums	\$ 113,240	\$ 190,505
Reinsurance recoverable on unpaid losses and LAE	\$ 19,460	\$ 47,350
Reinsurance recoverable on paid losses	16,675	7,837
Reinsurance receivable, net	166	7,468
Reinsurance recoverable and receivable	\$ 36,301	\$ 62,655

5. Insurance Operations

Deferred Policy Acquisition Costs, net

The Company defers certain costs in connection with written policies, called Deferred Policy Acquisition Costs (“DPAC”), net of corresponding amounts of ceded reinsurance commissions, called Deferred Reinsurance Ceding Commissions (“DRCC”). Net DPAC is amortized over the effective period of the related insurance policies.

The following table presents the beginning and ending balances and the changes in DPAC, net of DRCC, for the periods presented (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
DPAC, beginning of period	\$62,181	\$58,149	\$54,603	\$54,099
Capitalized Costs	30,846	27,579	91,135	84,354
Amortization of DPAC	(30,024)	(27,769)	(82,735)	(80,494)
DPAC, end of period	\$63,003	\$57,959	\$63,003	\$57,959
DRCC, beginning of period	\$—	\$30,072	\$28,943	\$38,200
Ceding Commissions Written	—	17,236	(5,276)	49,555
Earned Ceding Commissions	—	(17,181)	(23,667)	(57,628)
DRCC, end of period	\$—	\$30,127	\$—	\$30,127
DPAC (DRCC), net, beginning of period	\$62,181	\$28,077	\$25,660	\$15,899
Capitalized Costs, net	30,846	10,343	96,411	34,799
Amortization of DPAC (DRCC), net	(30,024)	(10,588)	(59,068)	(22,866)
DPAC (DRCC), net, end of period	\$63,003	\$27,832	\$63,003	\$27,832

Liability for Unpaid Losses and Loss Adjustment Expenses

Set forth in the following table is the change in liability for unpaid losses and LAE for the periods presented (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Balance at beginning of period	\$112,117	\$144,625	\$134,353	\$159,222
Less: Reinsurance recoverable	(31,777)	(58,705)	(47,350)	(68,584)
Net balance at beginning of period	80,340	85,920	87,003	90,638
Incurred (recovered) related to:				
Current year	54,014	32,637	127,211	87,825
Prior years	(160)	1,544	(63)	860
Total incurred	53,854	34,181	127,148	88,685
Paid related to:				

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Current year	41,818	24,365	72,438	44,432
Prior years	10,777	8,160	60,114	47,315
Total paid	52,595	32,525	132,552	91,747
Net balance at end of period	81,599	87,576	81,599	87,576
Plus: Reinsurance recoverable	19,460	49,339	19,460	49,339
Balance at end of period	\$101,059	\$136,915	\$101,059	\$136,915

Regulatory Requirements and Restrictions

The Insurance Entities are subject to regulations and standards of the Florida Office of Insurance Regulation (“OIR”). UPCIC also is subject to regulations and standards of regulatory authorities in other states where it is licensed, although as a Florida-domiciled insurer its principal regulatory authority is the OIR. These standards require the Insurance Entities to maintain specified levels of statutory capital and restrict the timing and amount of dividends and other distributions that may be paid by the Insurance Entities to the parent company. Except in the case of extraordinary dividends, these standards generally permit dividends to be paid from statutory unassigned surplus of the regulated subsidiary and are limited based on the regulated subsidiary’s level of statutory net income and statutory capital and surplus. The maximum dividend that may be paid by UPCIC and APPCIC to their immediate parent company, Universal Insurance Holding Company of Florida (“UIHCF”), without prior regulatory approval is limited by the provisions of Florida Statutes. These dividends are referred to as “ordinary dividends.” However, if the dividend, together with other dividends paid within the preceding twelve months, exceeds this statutory limit or is paid from sources other than earned surplus, the entire dividend is generally considered an “extraordinary dividend” and must receive prior regulatory approval.

In accordance with Florida Statutes, and based on the calculations performed by the Company as of December 31, 2014, UPCIC has the capacity to pay ordinary dividends of \$27.7 million during 2015. APPCIC does not have the capacity to pay ordinary dividends during 2015. For the nine months ended September 30, 2015, no dividends were paid from UPCIC or APPCIC to UIHCF. Dividends paid to the shareholders of UIH during the nine months ended September 30, 2015 were paid from the earnings of UIH and its non-insurance subsidiaries.

The Florida Insurance Code requires insurance companies to maintain capitalization equivalent to the greater of ten percent of the insurer’s total liabilities or \$5.0 million. The following table presents the amount of capital and surplus calculated in accordance with statutory accounting principles, which differ from GAAP, and an amount representing ten percent of total liabilities for both UPCIC and APPCIC as of the dates presented (in thousands):

	September 30, 2015	December 31, 2014
Ten percent of total liabilities		
UPCIC	\$ 65,181	\$ 42,659
APPCIC	\$ 606	\$ 514
Statutory capital and surplus		
UPCIC	\$ 233,634	\$ 200,173
APPCIC	\$ 14,258	\$ 14,036

As of the dates in the table above, both UPCIC and APPCIC met the Florida capitalization requirement. As of September 30, 2015 UPCIC also met the capitalization requirements of the other states in which it is licensed. UPCIC and APPCIC are also required to adhere to prescribed premium-to-capital surplus ratios and each met those requirements at such dates.

The Insurance Entities are required by various state laws and regulations to maintain certain assets in depository accounts. The following table represents assets held by insurance regulators as of the dates presented (in thousands):

	September 30, 2015	December 31, 2014
Restricted cash and cash equivalents	\$ 2,635	\$ 2,635
Investments	\$ 3,924	\$ 3,609

6. Long-Term Debt

Long-term debt consists of the following as of the dates presented (in thousands):

	September 30, 2015	December 31, 2014
Surplus note	\$ 16,176	\$ 17,280
Term loan	6,758	13,330
Promissory note	1,390	—
Total	\$ 24,324	\$ 30,610

In addition to the long-term debt listed above, UIH has an unsecured line of credit and had not drawn any amounts under that debt facility. The term loan and unsecured line of credit contain certain covenants and restrictions applicable while amounts are outstanding thereunder. Pursuant to the agreements underlying the term loan and unsecured line of credit, UIH will be prohibited from paying dividends to its shareholders should UIH default on such underlying agreements. UIH was in compliance with the covenants of the term loan as of September 30, 2015. UPCIC was in compliance with the terms of the surplus note as of September 30, 2015.

7. Stockholders' Equity

Common Stock

The following table summarizes the activity relating to shares of the Company's common stock and contingently redeemable common stock during the nine months ended September 30, 2015 (in thousands):

	Issued Shares	Treasury Shares	Outstanding Shares
Balance, as of December 31, 2014	44,769	(9,667)	35,102
Shares repurchased	—	(300)	(300)
Options exercised	745	—	745
Restricted stock grants	615	—	615
Shares acquired through cashless exercise (1)	—	(534)	(534)
Shares cancelled	(534)	534	—
Balance, as of September 30, 2015	45,595	(9,967)	35,628

(1) All shares acquired represent shares tendered to cover the strike price for options and tax withholdings on the intrinsic value of options exercised or restricted stock vested. These shares have been cancelled by the Company.

In June 2015, UIH repurchased 200,000 shares of its common stock at market price from Ananke Catastrophe Investments Limited, an affiliate of Nephila Capital Ltd., in a privately negotiated transaction for a total cost of \$5.1 million.

In September 2015, UIH announced that its Board of Directors authorized a share repurchase program under which UIH may repurchase in the open market in compliance with Exchange Act Rule 10b-18 up to \$10 million of its outstanding shares of common stock through December 31, 2016. UIH repurchased 100,000 shares, at an aggregate price of \$2.6 million, pursuant to such repurchase program through September 30, 2015.

Preferred Stock

In June 2015, UIH entered into an agreement to repurchase 2,000 shares of UIH Series M Convertible Preferred Stock owned by Bradley I. Meier, the Company's former Chairman, President and Chief Executive Officer, at a total cost of \$257 thousand. The repurchase constituted all of the outstanding shares of Series M Convertible Preferred Stock and such shares were retired and cancelled.

Dividends

On January 13, 2015, UIH declared a cash dividend of \$0.12 per share on its outstanding common stock paid on March 2, 2015, to the shareholders of record at the close of business on February 18, 2015.

On April 13, 2015, UIH declared a cash dividend of \$0.12 per share on its outstanding common stock paid on July 2, 2015, to the shareholders of record at the close of business on June 18, 2015.

On August 31, 2015, UIH declared a cash dividend of \$0.12 per share on its outstanding common stock paid on October 8, 2015, to the shareholders of record at the close of business on September 23, 2015.

Contingently Redeemable Common Stock

On December 2, 2014, UIH sold 1,000,000 registered shares of its common stock at a price of \$19.00 per share, in a privately negotiated transaction, to Ananke Catastrophe Investments Ltd. (“Ananke”), an affiliate of Nephila Capital Ltd., which is subject to certain holding period restrictions.

The shares sold to Ananke had been subject to a redemption option, conditioned on a covered loss index swap being triggered for payment.

On February 19, 2015, the Company entered into an amended agreement with Ananke to delete, in its entirety effective December 2, 2014, the provision giving rise to the redemption. This modification resulted in classification of the common shares in permanent equity on the date of the amendment. No consideration was exchanged with the amendment since both parties agreed that, given the remote possibility of the redemption to occur, the value of the redemption feature was de-minimis. The effects of the amendment

were recorded during the quarter ended March 31, 2015. The following table has been provided to illustrate pro-forma effect of the amendment had it been in place as of December 31, 2014.

	December 31, 2014		
	PRO-FORMA		
	As	Adjustment	PRO-FORMA
	Reported	Unaudited	Unaudited
Total assets	\$911,774	—	\$ 911,774
Total liabilities			