UNITED INSURANCE HOLDINGS CORP.
Form 10-K
March 02, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
Commission File Number 001-35761
United Insurance Holdings Corp.

Delaware	75-3241967
(State of Incorporation)	(IRS Employer Identification Number)

800 2nd Avenue S
St. Petersburg, Florida 33701
727-895-7737
Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, $0.0001 PAR VALUE PER SHARE	NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
PREFERRED SHARE PURCHASE RIGHTS

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes £ No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No R

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 shorter 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 R 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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

Large accelerated filer	£	Accelerated filer	þ
Non-accelerated filer	£	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 R

Non-affiliates held common stock issued by the registrant with an aggregate market value of $263,296,194 as of June 30, 2015, calculated using the closing sales price reported for such date on the NASDAQ Stock Market. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of

common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.
As of March 1, 2016, 21,518,385 shares of common stock, par value $0.0001 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2015.

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Throughout this Annual Report on Form 10-K (Annual Report), we present amounts in all tables in thousands, except for share amounts, per share amounts, policy counts or where more specific language or context indicates a different presentation. In the narrative sections of this Annual Report, we show full values rounded to the nearest thousand.

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-K for the year ended December 31, 2015 or in documents incorporated by reference that are not historical fact are “forward-looking statements” within the meaning of the Private Securities Reform Litigation Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity, and our ability to meet our investment objectives and to manage and mitigate market risk with respect to our investments. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management’s beliefs and assumptions. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue” or the negative variat or comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the regulatory, economic and weather conditions present in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost and viability of reinsurance;
- assessments charged by various governmental agencies;
- pricing competition and other initiatives by competitors;
- our ability to attract and retain the services of senior management;
- the outcome of litigation pending against us, including the terms of any settlements;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- our exposure to catastrophic events and severe weather conditions;
- downgrades in our financial strength ratings; and
- other risks and uncertainties described under "Risk Factors" below.

We caution you to not place reliance on these forward-looking statements, which are valid only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of unanticipated events or otherwise. In addition, we prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP), which prescribes when we may reserve for particular risks, including litigation exposures. Accordingly, our results for a given reporting period could be significantly affected if and when we establish a reserve for a major contingency. Therefore, the results we report in certain accounting periods may appear to be volatile.

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us described in our filings with the Securities and Exchange Commission (SEC). The forward-looking events that we discuss in this Form 10-K are valid only as of the date of our Form 10-K and may not occur in light of the risks, uncertainties and assumptions that we describe from time to time in our filings with the SEC. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our forward-looking statements is included in the section entitled “RISK FACTORS” in Part I, Item 1A of this Form 10-K. Except as required by applicable law, we undertake no obligation and disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

INTRODUCTION

Company Overview

United Insurance Holdings Corp. serves as the holding company for United Property & Casualty Insurance Company and its affiliated companies (referred to in this document as we, our, us, the Company or UPC Insurance). We conduct our business principally through the six wholly-owned operating subsidiaries shown below. Collectively, including United Insurance Holdings Corp., we refer to these entities as “UPC Insurance,” which is the preferred brand identification we are establishing for our Company.

UPC Insurance is primarily engaged in the homeowners property and casualty insurance business in the United States. We currently write in Connecticut, Florida, Georgia, Hawaii, Louisiana, Massachusetts, New Jersey, North Carolina, Rhode Island, South Carolina, and Texas, and we are licensed to write in Alabama, Delaware, Maryland, Mississippi, New Hampshire, New York and Virginia. Our target market currently consists of areas where the perceived threat of natural catastrophe has caused large national insurance carriers to reduce their concentration of policies. In such areas we believe an opportunity exists for UPC Insurance to write profitable business. We manage our risk of catastrophic loss primarily through sophisticated pricing algorithms, avoidance of policy concentration, and the use of a comprehensive catastrophe reinsurance program. UPC Insurance has been operating continuously in Florida since 1999, and has successfully managed its business through various hurricanes, tropical storms, and other weather related events. We believe our record of successful risk management and experience in writing business in catastrophe-exposed areas provides us a competitive advantage as we grow our business in other states facing similar perceived threats.

We conduct our operations under one business segment.

Vision and Goals

The Company's vision is: "to be the premier provider of property insurance in catastrophe exposed areas."

Our mission is to build a sustainable franchise that delivers quality insurance products in select markets in order to produce superior risk-adjusted returns for investors. Our strategy is to grow in our target markets by building a team of insurance professionals that can (i) provide agents and policyholders quality insurance products with world-class service and systems; (ii) raise and manage capital to support business growth; and (iii) build and maintain relationships with external partners. We believe the team of professionals we have assembled has proven its ability to do each of these things, thereby providing us a source of sustainable competitive advantage as we continue to grow our footprint.

Our emphasis on growing in areas with an ongoing threat of natural catastrophes exposes our company to risk and volatility. We manage the inherent volatility associated with our risk profile in three primary ways: 1) strategically, through geographic and product diversification; 2) financially, through the use of robust reinsurance programs, low financial and operating leverage, and a conservative investment approach; and 3) operationally, by insourcing key insurance functions and establishing strong external distribution partnerships.

To achieve our goals in 2016, UPC Insurance seeks to:

- Grow premium base in existing states;
- Obtain regulatory approval to complete the pending acquisition of Interboro Insurance Company;
- Begin writing policies in several new states in support of our growth and diversification strategy;
- Expand our product offerings in states outside Florida;
- Grow commercial residential property writings;
- Utilize and add strategic partnerships to expand distribution and service capabilities in all states;
- Improve the efficiency of our catastrophe reinsurance programs; and
- Leverage investments in technology and analytics to manage exposure growth and improve profitability.

Corporate Information

In 1999, we formed our original holding company, United Insurance Holdings, L.C., a Florida limited liability company, our original insurance affiliate - United Property & Casualty Insurance Company, and our original management affiliate - United Insurance Management, L.C., and conducted operations under that structure until 2004. In 2004, we added our claims adjusting affiliate - Skyway Claims Services, LLC, and continued operations under the new structure until we completed a reverse merger in September 2008 and became a publicly traded corporation. In April 2011, we founded our reinsurance affiliate - UPC Re. In December 2012, in connection with an underwritten public offering of 5,000,000 shares of our common stock, we applied to list our common stock on The NASDAQ Capital Market (NASDAQ). Our application was approved, and our common stock began trading on NASDAQ on December 11, 2012.

On February 3, 2015, we successfully completed the acquisition of Family Security Holdings, LLC and its two wholly-owned subsidiaries in an all-stock transaction which resulted in the issuance of 503,857 shares of our common stock.

Our principal executive offices are located at 800 2nd Avenue S, St. Petersburg, FL 33701 and our telephone number at that location is (727) 895-7737.

Recent Events

On February 17, 2016, our Board of Directors declared a $0.05 per share quarterly cash dividend payable on March 18, 2016, to stockholders of record on March 4, 2016.

During the fourth quarter of 2015, we assumed more than 18,300 homeowners and dwelling fire policies from Citizens Property Insurance Company (Citizens), representing approximately $29,400,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

On November 17, 2015, we assumed more than 60 commercial residential policies from Citizens, representing approximately $1,478,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

On September 26, 2015, we entered into a Stock Purchase Agreement with Interboro, LLC to acquire Interboro Insurance Company (Interboro), a New York domiciled property and casualty insurer licensed in New York, South Carolina, Alabama, Louisiana, and Washington, D.C. Under the terms of the agreement, we will acquire all of the outstanding common stock of Interboro for $57,000,000. We will pay $48,500,000 in cash at closing and issue an $8,500,000 promissory note to Interboro, LLC, which will mature in 18 months and bear interest at an annual rate of 6%. The purchase price is subject to adjustment if Interboro's GAAP net book value is less than or greater than $40,700,000 as of the closing of the purchase transaction. Upon consummation of this transaction, we will acquire approximately $55,000,000 of homeowners' insurance gross written premiums in New York and South Carolina. All personal automobile and other non-homeowners insurance lines of business will remain with the Seller and its retained insurance subsidiaries. Certain other long-term liabilities such as Interboro's pension and leasehold obligations have also been carved out and will be assumed by the Seller. The transaction is subject to customary conditions, including receipt of required regulatory approval from the New York Department of Financial Services without the imposition of burdensome conditions that would materially reduce the expected benefits of the transaction. We currently expect the transaction will close on or about April 1, 2016. Either party may terminate the Stock Purchase Agreement if the closing shall not have occurred on or before June 26, 2016.

PRODUCTS AND DISTRIBUTION

Homeowners policies and related coverage account for the vast majority of the business that we write, but we are diversifying by product as well as geography. We offer the following insurance products:

At-Risk Offerings:
•Homeowners
•Dwelling Fire
•Renters
•Condo Owners
•Commercial Residential

Not At-Risk Offerings:
•Federal Flood
•Equipment Breakdown
•Identity Theft

In 2015, personal property policies (by which we mean both standard homeowners, dwelling fire, renters and condo owners policies) produced written premium of $543,420,000 and accounted for 95% of our total written premium. In addition to these policies, we write flood policies, which accounted for 3%, and commercial residential policies, which accounted for the remaining 2% of our 2015 written premium. In 2014, personal property, flood and commercial policies accounted for 96%, 3% and 1%, respectively of our written premiums. In 2013, personal property and flood policies accounted for 96% and 4%, respectively of our total written premium.

On our flood, equipment breakdown and identity theft policies, we earn a commission while retaining no risk of loss, since all such risk is ceded to other private companies and the federal government via the National Flood Insurance Program. Policies we issue under our homeowners programs in the various states where we conduct business provide structure, content and liability coverage. We offer standardized policies for a broad range of exposures, and our

policies include coverage options for standard single-family homeowners, renters, and condominium unit owners.

We have developed a unique and proprietary homeowners product we refer to as "UPC 1.0". This new product uses a granular approach to pricing for catastrophe perils. Our objective is to create specific geographic areas such that within each territory or "catastrophe band" the expected losses are within a specified range of error or approximation from a central estimate. These areas may have millions of data points that help us create distance-to-coast factors that provide a sophisticated market segmentation that is highly correlated to our risk exposure and reinsurance costs. UPC 1.0 has been filed and approved for use in Connecticut, Georgia, Louisiana, New Jersey, South Carolina and Texas and we plan to file it for use in all our states.

We currently market and distribute our policies to consumers through over 7,000 independent agencies. United Property & Casualty Insurance Company has been focused on the independent agency distribution channel since its inception, and we believe we have built significant credibility and loyalty with the independent agent community in the states in which we operate. We recruit, train and appoint the full-service insurance agencies that distribute our products. Typically, a full service agency is small to medium in size and represents several insurance companies for both personal and commercial product lines. We depend heavily upon our independent agents to produce new business for us. We compensate our independent agents primarily with fixed-rate commissions that are consistent with market practices. In addition to our relationships with individual agencies, we have important relationships with aggregators of underlying agency demand. The two most significant of these relationships are with Allstate in Florida, which, through its Ivantage program, refers homeowners to United Property & Casualty Insurance Company and other partner companies, and with the Florida Association of Insurance Agents (FAIA), which serves as a conduit between United Property & Casualty Insurance Company and many smaller agencies in Florida with whom we do not have direct appointments.

Our sales representatives monitor and support our agents and also have the principal responsibility for recruiting and training our new agents. We manage our independent agents through periodic business reviews using established benchmarks and goals for premium volume and profitability.

COMPETITION

Our target market for homeowners insurance, our primary product offering, includes the 18 states in which we are currently licensed plus the State of Maine where we plan to obtain a license at some point in the future. The following table summarizes the homeowners insurance market in this 19 states region we are targeting for the year ending December 31, 2014:

UPC Insurance's Target Property Insurance Market - 2014 Homeowners DWP *

2014 Rank	Company Name	Direct Written Premium	Market Share	
1	State Farm Mutual Automobile Insurance	$7,505,865	17.2	%
2	Allstate Corp.	4,002,858	9.1	%
3	Liberty Mutual	2,799,671	6.4	%
4	USAA Insurance Group	2,753,387	6.3	%
5	Travelers Companies Inc.	2,013,880	4.6	%
6	Nationwide Mutual Group	1,565,168	3.6	%
7	Farmers Insurance Group	1,458,462	3.3	%
8	Chubb Corp.	1,435,804	3.3	%
9	Citizens Property Insurance Corp.	794,976	1.8	%
10	Universal Insurance Holdings	733,321	1.7	%
11	Tower Hill Group	679,227	1.6	%
12	American International Group	618,035	1.4	%
13	MetLife, Inc.	591,332	1.4	%
14	Amica Mutual Insurance	510,989	1.2	%
15	Hartford Financial Services	477,664	1.1	%
16	Erie Insurance Group	439,463	1.0	%
17	United Property & Casualty Insurance Company	404,851	0.9	%
18	Federated National Insurance Co.	349,993	0.8	%
19	American Family Mutual	345,316	0.8	%
20	HCI Group, Inc.	313,667	0.7	%
	Total - Top 20 Insurers	29,793,929	68.2	%
	Total - All Insurers	$43,747,517	100.0	%

* The information displayed in the table above is compiled and published by SNL, Inc. as of December 31, 2014 based on information filings submitted annually by all licensed insurance companies. The information above is presented on a consolidated or aggregated basis for each insurance company group. The amounts shown in the table above are also on a statutory basis and exclude non-Homeowners lines of business that are included in the Company's total direct written premium for 2014.

We compete primarily on the basis of product features, the strength of our distribution network, high-quality service to our agents and policyholders, and our reputation for long-term financial stability and commitment. Our long and successful track record writing homeowners insurance in catastrophe-exposed areas has enabled us to develop sophisticated pricing techniques that endeavor to accurately reflect the risk of loss while allowing us to be competitive in our target markets. This pricing segmentation approach allows us to offer products in areas that have a high demand for property insurance yet are under served by the national carriers.

We price our product at levels that we project will generate an acceptable underwriting profit. We try to be extremely granular in our approach, so that our price can accurately reflect the risk and profitability of each potential customer.

In our pricing algorithm, we consider credit scores (where allowable) and historical attritional loss costs for the rating territory in which the customer resides, as well as projected reinsurance costs based on the specific geographic and structural characteristics of the home. In addition to the specific characteristics of the policy being priced, we also evaluate the reinsurance cost of each incremental policy on our portfolio as a whole. In this regard, we seek to optimize our portfolio by diversifying our geographic exposure in order to limit our probable maximum loss, total insured value and average annual loss. We use the output from third-party modeling software to analyze our risk exposures, including wind exposures, by zip code or street address as part of the optimization process.

We establish underwriting guidelines to provide a uniform approach to our risk selection and to achieve underwriting profitability. Our underwriters review the property inspection report during their risk evaluation and if the policy does not meet our underwriting criteria, we have the right to cancel the policy within 90 days in Florida and within 60 days in other states.

We strive to provide excellent service to our independent agents and our policyholders. We continue to enhance our web-based systems which allow our agents to prepare and process new policies and policy changes online and deliver policy declarations quickly. We work with a select group of third party vendors to develop, manage and maintain our information technology systems. This allows us to obtain up-to-date technology at a reasonable cost and to achieve economies of scale without incurring significant fixed-overhead expenses. As agent and consumer behaviors evolve we continue to enhance our technology platforms to offer solutions that meet their needs.

GEOGRAPHIC MARKETS

United Property & Casualty Insurance Company began operations in Florida in 1999, and has operated continuously there since that time. In 2010, we began writing business outside of Florida and we currently conduct business in eleven states. The table below shows the years in which we began to actively write in each state:

State	Year Became Active
Florida	1999
South Carolina	2010
Massachusetts	2011
Rhode Island	2012
North Carolina	2013
New Jersey	2013
Texas	2013
Louisiana	2014
Georgia	2015
Hawaii	2015
Connecticut	2016

Our insurance affiliates are also licensed to write, but have not commenced writing business in Alabama, Delaware, Maryland, Mississippi, New Hampshire, New York and Virginia. It is a fundamental part of our strategy to diversify our operations outside of Florida and to write in multiple states where the perceived threat of natural catastrophes has caused large national insurance companies to reduce their concentration.

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The table below shows the geographic distribution of our 347,015 policies in-force as of December 31, 2015, and 252,104 policies in-force as of December 31, 2014.

Policies In-Force By Region	2015 Policies	%		2014 Policies	%	
Florida	188,748	54.4	%	173,630	69.0	%
Gulf	55,555	16.0		8,937	3.5	
Texas	36,765	10.6		8,927	3.5	
Louisiana	18,790	5.4		10	—	
Northeast	52,738	15.2		38,731	15.3	
Massachusetts	25,298	7.3		20,463	8.1	
Rhode Island	18,058	5.2		14,387	5.7	
New Jersey	9,382	2.7		3,881	1.5	
Southeast	49,974	14.4		30,806	12.2	
South Carolina	25,786	7.4		19,492	7.7	
North Carolina	23,771	6.9		11,314	4.5	
Georgia	417	0.1		—	—	
Total	347,015	100	%	252,104	100	%

As of December 31, 2015, our total insured value of all polices in-force was approximately $159,605,892,000, an increase of $44,361,150,000, or 38.5%, from the same date in 2014. We have approximately 49.1% of our total insured value in Florida compared to roughly 60.9% as of December 31, 2014. The following table provides evidence of our improving geographic diversification by illustrating the breakdown of total insured value:

Total Insured Value By Region	2015 TIV	%		2014 TIV	%	
Florida	$78,539,211	49.1	%	$70,200,560	60.9	%
Northeast	34,920,238	22.0		25,905,905	22.5	
Massachusetts	18,599,286	11.7		14,830,428	12.9	
Rhode Island	10,959,416	6.9		8,920,721	7.7	
New Jersey	5,361,536	3.4		2,154,756	1.9	
Southeast	23,678,475	14.8		15,048,641	13.1	
South Carolina	12,953,536	8.1		10,096,269	8.8	
North Carolina	10,493,453	6.6		4,952,372	4.3	
Georgia	231,486	0.1		—	—	
Gulf	22,467,968	14.1		4,089,636	3.5	
Texas	15,111,264	9.5		4,085,220	3.5	
Louisiana	7,356,704	4.6		4,416	—	
Total	$159,605,892	100	%	$115,244,742	100	%

RESERVE FOR UNPAID LOSSES

We generally use the term loss(es) to collectively refer to both loss and loss adjusting expenses. We establish reserves for both reported and unreported unpaid losses that have occurred at or before the balance sheet date for amounts we estimate we will be required to pay in the future. Our policy is to establish these loss reserves after considering all information known to us at each reporting period. At any given point in time, our loss reserve represents our best estimate of the ultimate settlement and administration cost of our insured claims incurred and unpaid. Since the process of estimating loss reserves requires significant judgment due to a number of variables, such as fluctuations in inflation, judicial decisions, legislative changes and changes in claims handling procedures, our ultimate liability will likely differ from these estimates. We revise our reserve for unpaid losses as additional information becomes available, and reflect adjustments, if any, in our earnings in the periods in which we determine the adjustments are necessary.

Reserves for unpaid losses fall into two categories: case reserves and reserves for claims incurred but not reported. See our APPLICATION OF CRITICAL ACCOUNTING ESTIMATES section under Item 7 of this Annual Report for a discussion of these two categories of reserves for unpaid losses and for a discussion of the methods we use to estimate those reserves.

On an annual basis, our consulting actuary issues a statement of actuarial opinion that documents the actuary’s evaluation of the adequacy of our unpaid loss obligations under the terms of our policies. We review the analysis underlying the actuary's opinion and compare the projected ultimate losses per the actuary's analysis to our own projection of ultimate losses to ensure that our reserve for unpaid losses recorded at each annual balance sheet date is based upon our analysis of all internal and external factors related to known and unknown claims against us and to ensure our reserve is within guidelines promulgated by the National Association of Insurance Commissioners (NAIC).

We maintain an in-house claims staff that monitors and directs all aspects of our claims process. We assign the fieldwork to our wholly-owned claims subsidiary, or to third-party claims adjusting companies, none of whom have the authority to settle or pay any claims on our behalf. The claims adjusting companies conduct inspections of the damaged property and prepare initial estimates. We review the inspection reports and initial estimates to determine the amounts to be paid to the policyholder in accordance with the terms and conditions of the policy in effect at the time that the policyholder incurs the loss. We maintain strategic relationships with multiple claims adjusting companies that we can engage should we need additional non-catastrophe claims servicing capacity. We believe the combination of our internal resources and relationships with external claims servicing providers provide an adequate level of claims servicing in the event catastrophes affect our policyholders.

The table below shows the analysis of our reserve for unpaid losses for each of our last three fiscal years on a GAAP basis:

	2015	2014	2013
Balance at January 1	$54,436	$47,451	$35,692
Acquisition of Family Security Insurance Company, Inc. reserves	2,390	—	—
Less: reinsurance recoverable on unpaid losses	1,252	1,957	1,935
Net balance at January 1	$55,574	$45,494	$33,757
Incurred related to:			
Current year	185,476	122,114	94,752
Prior years	(2,368)	(4,037)	4,078
Total incurred	$183,108	$118,077	$98,830
Paid related to:			
Current year	127,306	83,967	62,494
Prior years	36,698	26,420	24,599
Total paid	$164,004	$110,387	$87,093
Net balance at December 31	$74,678	$53,184	$45,494
Plus: reinsurance recoverable on unpaid losses	2,114	1,252	1,957
Balance at December 31	$76,792	$54,436	$47,451
Composition of reserve for unpaid losses and LAE:			
Case reserves	45,502	29,726	28,054
IBNR reserves	31,290	24,710	19,397
Balance at December 31	$76,792	$54,436	$47,451

LOSS RESERVE DEVELOPMENT

The table on the next page displays UPC Insurance's loss reserve development, on a GAAP basis, for business written in each year from 2005 through 2015; it does not distinguish between catastrophe and attritional losses. The following explanations of the main sections of the table should provide a better understanding of the information displayed:

Original net liability. The original net liability represents the original estimated amount of reserves for unpaid losses recorded at the balance sheet date for each of the years indicated in the column headings, net of reinsured losses. We record reserves related to claims arising in the current year and in all prior years that remained unpaid at the balance sheet date for each of the years indicated, including estimated losses that had been incurred but not reported.

Net cumulative paid as of. This section displays the net cumulative payments we have made for losses, as of the balance sheet date of each succeeding year, related to claims incurred prior to the balance sheet date of the year indicated in the column heading.

Net liability re-estimated as of. This section displays the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. An increase or decrease from the original reserve estimate is caused by a combination of factors, including (i) claims being settled for amounts different than originally estimated, (ii) reserves being increased or decreased for claims remaining open as more information becomes available on those individual claims and (iii) more or fewer claims being reported after the year end than estimated.

Cumulative redundancy (deficiency) at December 31, 2015. The cumulative redundancy or deficiency results from the comparison of the net liability re-estimated as of the current balance sheet date to the original net liability, and it indicates an overestimation of the original net liability (a redundancy) or an underestimation of the original net liability (a deficiency).

It is important to note that the table presents a run-off of balance sheet liability for the periods indicated rather than accident or policy loss development for those periods. Therefore, each amount in the table includes the cumulative effects of changes in liability for all prior periods. Conditions and trends that have affected liabilities in the past may not necessarily occur in the future.

	2015	2014*	2013	2012	2011	2010	2009	2008	2007	2006
Original net liability	$74,678	$55,574	$45,494	$33,757	$30,282	$23,600	$20,665	$19,192	$21,559	$23,73
Net cumulative paid as of:										
One year later		36,698	26,420	24,599	17,028	3,322	12,533	8,984	9,707	9,047
Two years later			34,952	32,622	26,889	10,562	7,409	13,148	12,127	13,083
Three years later				37,692	30,929	16,776	12,444	6,030	14,310	14,115
Four years later					34,334	18,382	16,369	10,145	6,113	15,395
Five years later						19,628	17,556	13,441	9,552	7,032
Six years later							18,478	14,403	11,649	10,264
Seven years later								15,095	12,543	12,219
Eight years later									13,097	13,067
Nine years later										13,508
Ten years later										
Net liability re-estimated as of:										
End of year	$74,678	$55,574	$45,494	$33,757	$30,282	$23,600	$20,665	$19,192	$21,559	$23,73
One year later		53,206	41,464	37,835	30,949	19,444	21,674	16,556	16,864	17,652
Two years later			41,457	39,328	33,960	18,382	18,184	17,472	15,759	16,707
Three years later				37,835	34,469	20,395	17,123	14,400	16,505	16,337
Four years later					35,996	20,385	18,395	13,590	13,688	16,781
Five years later						20,807	18,520	14,838	12,568	14,140
Six years later							18,932	15,111	12,854	12,943
Seven years later								15,544	13,060	13,171
Eight years later									13,311	13,387
Nine years later										13,722
Ten years later										
Cumulative redundancy (deficiency) at December 31,		2,368	4,037	(4,078)	(5,714)	2,793	1,733	3,648	8,248	10,013

2015 Cumulative redundancy (deficiency) as a % of reserves originally established		4.3 %	8.9 %	(12.1)%	(18.9)%	11.8 %	8.4 %	19.0 %	38.3 %	42.2
Net reserves	$74,678	$55,574	$45,494	$33,757	$30,282	$23,600	$20,665	$19,192	$21,559	$23,73
Ceded reserves	2,114	1,252	1,957	1,935	3,318	23,814	23,446	20,907	14,445	33,440
Gross reserves	$76,792	$56,826	$47,451	$35,692	$33,600	$47,414	$44,111	$40,099	$36,004	$57,17
Net re-estimated		$53,206	$41,457	$37,835	$35,996	$20,807	$18,932	$15,544	$13,311	$13,72
Ceded re-estimated		1,190	1,744	2,316	3,944	20,996	21,480	16,933	8,919	19,333
Gross re-estimated		$54,396	$43,201	$40,151	$39,940	$41,803	$40,412	$32,477	$22,230	$33,05

Note: The cash we received in relation to the commutation of our 2005 contract with the Florida Hurricane Catastrophe Fund (FHCF) caused the decrease in the net cumulative paid amounts beginning in the 2005 column in the table above. The FHCF is a Florida State-sponsored trust fund that provides reimbursement to Florida property insurers for covered hurricane losses.
* The 2014 original net liability balance includes the reserves acquired from Family Security Insurance Company, Inc. as part of the acquisition that was completed on February 3, 2015. See Note 4 to our Notes to Consolidated Financial Statements for further discussion of the acquisition of Family Security Insurance Company, Inc.

The NAIC requires all property and casualty insurers to present current and historical loss information in an alternative format known as Schedule P, Part 2. This summary schedule in United Property & Casualty Insurance Company's and Family Security Insurance Company's statutory filings is designed to measure reserve adequacy by evaluating the inception-to-date loss and defense and cost containment (DCC) expenses incurred by calendar year and accident year and calculating the one and two year development on those expenses reported in prior periods.

The following table includes United Property & Casualty Insurance Company's and Family Security Insurance Company Inc.'s Schedule P, Part 2 information, but was modified to also include all remaining loss adjustment expenses incurred, known as adjusting and other, as well as backing out loss payments from United Property & Casualty Insurance Company to Skyway Claims Services, LLC that are included in Schedule P, Part 2, but are eliminated in our consolidated GAAP results:

	CALENDAR YEAR												
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	1 YR Development	2 YR Development
2005 AY*	$58,205	$53,998	$52,824	$52,509	$52,901	$53,378	$50,963	$49,618	$49,894	$50,120	$50,462	$(342)	$(568)
2006 AY		36,386	31,195	30,570	29,728	29,946	29,753	29,857	29,864	29,858	29,859	(1)	5
2007 AY			31,465	27,432	26,696	27,000	26,824	26,901	26,958	26,949	26,865	84	93
2008 AY				33,039	31,157	31,338	31,083	31,394	32,356	32,422	32,604	(182)	(248)
2009 AY					43,732	43,826	43,406	43,155	43,179	43,031	43,010	21	169
2010 AY						41,525	40,862	40,858	41,596	41,464	41,474	(10)	122
2011 AY							43,018	44,746	45,744	46,265	47,370	(1,105)	(1,626)
2012 AY								57,746	58,818	59,793	59,346	447	(528)
2013 AY									95,395	89,616	87,759	1,857	7,636
2014 AY										125,354	123,755	1,599	—
2015 AY											185,476	—	—
(unfavorable) favorable												$2,368	$5,055

* Accident Year

As indicated above, the one-year development for our insurance affiliates was $2,368,000 favorable for 2015, and a reconciliation of these two amounts is shown below:

	2015
Insurance affiliate schedule P, part 2 (loss and DCC) as filed	$208
Adjusting and other added to table above	671
One year development total including adjusting and other	879
Internal payment eliminations for consolidation	1,434
Favorable development per statutory filings	2,313
Favorable development for the month of January for Family Security Insurance Company, Inc. not included in consolidated financial statements	55
Consolidated one year development	$2,368

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REGULATION

We are subject to extensive regulation in the markets we serve, primarily at the state level. In general, these regulations are designed to protect the interests of insurance policyholders. These rules have a substantial effect on our business and relate to a wide variety of matters, including insurer solvency, reserve adequacy, insurance company licensing and examination, agent and adjuster licensing, policy forms, rate setting, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, transactions with affiliates, the payment of dividends, underwriting standards, statutory accounting methods, trade practices, and corporate governance. Some of these matters are discussed in more detail below. From time to time, individual states and/or the NAIC propose new regulations and/or legislation that affect us. We can neither predict whether any of these proposals in the various jurisdictions might be adopted, nor what effect, if any, their adoption may have on our results of operations or financial condition. For a discussion of statutory financial information and regulatory contingencies, see Note 12 to our Notes to Consolidated Financial Statements which is incorporated in this Part I, Item 1 by reference.

Our insurance affiliates provide audited statutory financial statements to the various insurance regulatory authorities. With regard to periodic examinations of an insurance company's affairs, insurance regulatory authorities, in general, defer to the insurance regulatory authority in the state in which an insurer is domiciled; however, insurance regulatory authorities from any state in which we operate may conduct examinations at their discretion. United Property & Casualty Insurance Company is domiciled in Florida and Family Security Insurance Company, Inc. is domiciled in Hawaii.

Florida state law requires our insurance affiliate to maintain adequate surplus as to policyholders on a statutory basis of accounting such that 90% of written premiums divided by surplus does not exceed the ratio of 10:1 for gross written premiums or 4.5:1 for net written premiums. The ratio of gross and net written premium to surplus as of December 31, 2015, was 3.7:1 and 2.5:1, respectively, and United Property & Casualty Insurance Company’s statutory surplus as regards policyholders of $135,288,000 exceeded the minimum capital of $5,000,000 required by Florida law. Family Security Insurance Company's statutory surplus as regards policyholders of $15,572,302 also exceeded the minimum capital required by Hawaii law.

We are subject to various assessments imposed by governmental agencies or certain quasi-governmental entities. While we may be able to recover from policyholders some of the assessments imposed upon us, our payment of the assessments and our recoveries through policy surcharges may not offset each other in the same fiscal period in our financial statements. See Note 2(j) and Note 12 in our Notes to Consolidated Financial Statements for additional information regarding the assessments that we are currently collecting.

Limitations on Dividends by Insurance Subsidiaries

As a holding company with no significant business operations of our own, we rely on payments from our insurance affiliates as one of the principal sources of cash to pay dividends and meet our obligations. Our insurance affiliates are regulated as property and casualty insurance companies and their ability to pay dividends is restricted by Florida and Hawaii law. For additional information regarding those restrictions, see Part II, Item 5 of this report.

Risk-Based Capital Requirements

To enhance the regulation of insurer solvency, the NAIC published risk-based capital (RBC) guidelines for insurance companies designed to assess capital adequacy and to raise the level of protection statutory surplus provides for policyholders. The guidelines measure three major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss developments and inadequate pricing; (ii) declines in asset values

arising from credit risk; and (iii) other business risks. Most states, including Florida and Hawaii, have enacted the NAIC guidelines as statutory requirements, and insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. Insurance regulatory authorities could require our insurance subsidiaries to cease operations in the event it fails to maintain the required statutory capital.

At December 31, 2015, the RBC ratio for United Property & Casualty Insurance Company and Family Security Insurance Company, Inc. was 419% and 445%, respectively. See Note 12 to our Notes to Consolidated Financial Statements for further discussion of risk-based capital requirements.

Insurance Holding Company Regulation

As a holding company of insurance subsidiaries, we are subject to laws governing insurance holding companies in Florida and Hawaii. These laws, among other things, (i) require us to file periodic information with the insurance regulatory authority,

including information concerning our capital structure, ownership, financial condition and general business operations, (ii) regulate certain transactions between our affiliates and us, including the amount of dividends and other distributions and the terms of surplus notes and (iii) restrict the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval. Any purchaser of 5% or more of the outstanding shares of our common stock could be presumed to have acquired control of us unless the insurance regulatory authority, upon application, determines otherwise.

Insurance holding company regulations also govern the amount any affiliate of the holding company may charge our insurance affiliates for services (e.g., management fees and commissions). We have a long-term management agreement between United Property & Casualty Insurance Company and United Insurance Management, L.C., which presently provides for monthly management fees. The Florida insurance regulatory authority must approve any changes to this agreement.

We also have a management agreement between Family Security Insurance Company, Inc. and Family Security Underwriters, LLC, which presently provides for monthly management fees. The Hawaii regulatory authority must approve any changes to this agreement.

Underwriting and Marketing Restrictions

During the past several years, various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations (i) created “market assistance plans” under which insurers are induced to provide certain coverage; (ii) restrict the ability of insurers to reject insurance coverage applications, to rescind or otherwise cancel certain policies in mid-term, and to terminate agents; (iii) restrict certain policy non-renewals and require advance notice on certain policy non-renewals; and (iv) limit rate increases or decrease rates permitted to be charged.

Most states also have insurance laws requiring that rate schedules and other information be filed with the insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The insurance regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory.

Most states require licensure or insurance regulatory authority approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company’s business plan, solvency, reinsurance, character of its officers and directors, rates, forms and other financial and non-financial aspects of a company. The insurance regulatory authorities may prohibit entry into a new market by not granting a license or by withholding approval.

FINANCIAL STABILITY RATING

Financial stability ratings are important to insurance companies in establishing their competitive position and such ratings may impact an insurance company’s ability to write policies. Demotech maintains a letter-scale financial stability rating system ranging from A** (A double prime) to L (licensed by insurance regulatory authorities); they have assigned our insurance subsidiaries a financial stability rating of A, which is the third highest of six rating levels. According to Demotech, "Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating of A possess Exceptional financial stability related to maintaining surplus as regards policyholders at an acceptable level.” With a financial stability rating of A, we expect our property insurance policies will be acceptable to the secondary mortgage marketplace and mortgage lenders. This rating is intended to provide an independent opinion of an insurer’s financial strength and is not an evaluation directed at our

investors. At least annually, based on year-to-date results as of the third quarter, Demotech reviews our rating and may revise it upward or downward or revoke it at their sole discretion.

EMPLOYEES

As of March 2016, we have one part time employee, and 119 full time employees, which includes our executive officers. We are neither party to any collective bargaining agreements nor have we experienced any work stoppages or strikes as a result of labor disputes. We believe we have good working relationships with our employees.

AVAILABLE INFORMATION

We make available, free of charge through our website, www.upcinsurance.com, our Annual Report, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC.

These reports may also be obtained at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. You may also access this information at the SEC's website (www.sec.gov). This site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

Many factors affect our business and results of operations, some of which are beyond our control. Additional risks and uncertainties we are unaware of, or we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial conditions or results of operations may be materially and adversely affected. In that event, the trading price of our securities could decline, and our stockholders could lose all or part of their investment in our securities. This discussion contains forward-looking statements. See the section entitled FORWARD-LOOKING STATEMENTS for a discussion of uncertainties, risks and assumptions associated with these statements.

RISKS RELATED TO OUR BUSINESS

As a property and casualty insurer, we may experience significant losses and our financial results may vary from period to period due to our exposure to catastrophic events and severe weather conditions, the incidence and severity of which could be affected by climate change.

Our property and casualty insurance operations expose us to claims arising from catastrophes. Catastrophes can be caused by various natural events, including hurricanes, windstorms, earthquakes, hail, severe winter weather and fires; they can also be man-made, such as terrorist attacks (including those involving nuclear, biological, chemical or radiological events) or consequences of war or political instability. We may incur catastrophe losses that exceed the amount of:

- catastrophe losses that we experienced in prior years;
- catastrophe losses that, using third-party catastrophe modeling software, we projected could be incurred;
- catastrophe losses that we used to develop prices for our products; or
- our current reinsurance coverage (which would cause us to have to pay such excess losses).

The incidence and severity of weather conditions are largely unpredictable, but the frequency and severity of property claims generally increase when severe weather conditions occur. Climate change, to the extent that it may affect weather patterns, may cause an increase in the frequency and/or the severity of catastrophic events or severe weather conditions which, in addition to the attendant increase in claims-related costs, may also cause an increase in our reinsurance costs and/or negatively impact our ability to provide homeowners insurance to our policyholders in the future. Governmental entities may also respond to climate change by enacting laws and regulations that may adversely affect our cost of providing homeowners insurance in the future.

Catastrophes may cause a material adverse effect on our results of operations during any reporting period; they may also materially harm our financial condition, which in turn may materially harm our liquidity and impair our ability to raise capital on acceptable terms or at all. In addition to catastrophes, the accumulation of losses from smaller weather-related events in any reporting period may cause a material adverse effect on our results of operations and liquidity in that period.

Because we conduct the majority of our business in Florida, our financial results substantially depend on the regulatory, economic and weather conditions present in that state.

Although we wrote approximately 49% of our policies outside of Florida in 2015, a majority of our policies in-force are still in Florida; therefore, prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in Florida affect our revenues and profitability. Changes in conditions could make doing business in Florida less attractive for us and would have a more pronounced effect on us than it would on other insurance companies that are more geographically diversified.

We are subject to increased exposure to certain catastrophic events such as hurricanes, as well as an increased risk of losses. The occurrence of one or more catastrophic events or other conditions affecting losses in Florida may cause a material adverse effect on our results of operations and financial condition.

We may enter new markets and there can be no assurance that our diversification strategy will be effective.

Although we intend to continue focusing on Florida as a key market for our insurance products, we continue to take advantage of prudent opportunities to expand our core business into other states where we believe the independent agent distribution channel is strong. As a result of a number of factors, including the difficulties of finding appropriate expansion opportunities and the challenges of operating in unfamiliar markets, we may not be successful in this diversification strategy.

Because we rely on insurance agents, the loss of these agent relationships or our ability to attract new agents could have an adverse impact on our business.

We currently market our policies to a broad range of prospective policyholders through over 7,000 independent agencies. Many of these agents are independent insurance agents that own their customer relationships, and our agency contracts with them limit our ability to directly solicit business from our existing policyholders. Independent agents most commonly represent other insurance companies and we do not control their activities. Historically, we have used marketing relationships with two well-known national insurance companies that do not write new homeowners insurance policies in Florida and two associations of independent insurance agents in Florida to attract and retain agents and agency groups. The loss of these marketing relationships could adversely impact our ability to attract new agents or retain our agency network.

Actual claims incurred may exceed our loss reserves for claims, which could adversely affect our results of operations and financial condition.

Loss reserves represent our estimate of ultimate unpaid losses for claims that have been reported and claims that have been incurred but not yet reported. Loss reserves do not represent an exact calculation of liability, but instead represent our best estimate, generally utilizing actuarial expertise, historical information and projection techniques at a given reporting date.

The process of estimating our loss reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends, legislative changes, and varying judgments and viewpoints of the individuals involved in the estimation process, among others.

Because of the inherent uncertainty in estimating loss reserves, including reserves for catastrophes, additional liabilities resulting from one insured event, or an accumulation of insured events, may exceed our existing loss reserves and cause a material adverse effect on our results of operations and our financial condition.

Our financial results may vary from period to period based on the timing of our collection of government-levied assessments from our policyholders.

Our insurance affiliates are subject to assessments levied by various governmental and quasi-governmental entities in the states in which we operate. While we may have the ability to recover these assessments from policyholders through policy surcharges in some states in which we operate, our payment of the assessments and our recoveries may not offset each other in the same reporting period in our financial statements and may cause a material adverse effect on our results of operations in a particular reporting period.

Our failure to implement and maintain adequate internal controls over financial reporting in our business could have a material adverse effect on our business, financial condition, results of operations and stock price.

We have complied with the provisions regarding annual management assessments of the effectiveness of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 during 2015 and 2014.

If we fail to achieve and maintain the adequacy of our internal controls in accordance with applicable standards as then in effect, and as supplemented or amended from time to time, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Moreover, effective internal controls are necessary for us to produce reliable financial reports. If we cannot produce reliable financial reports or otherwise maintain appropriate internal controls, our business, financial condition and results of operations could be harmed, investors could lose confidence in our reported financial information, and the market price for our stock could decline.

If we experience difficulties with technology, data security and/or outsourcing relationships, our ability to conduct our business could be negatively impacted.

While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present certain risks. Our business is highly dependent upon our information technology systems and upon our contractors' and third-party administrators' ability to perform, in an efficient and uninterrupted fashion, necessary business functions such as the processing of policies and the adjusting of claims. Because our information technology and telecommunications systems interface with and often depend on these third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Despite our implementation of security measures, our information technology systems are vulnerable to computer viruses, natural disasters, unauthorized access, cyber-attacks, system failures and similar disruptions. A material breach in the security of our information technology systems and data could include the theft of our confidential or proprietary information, including trade secrets and the personal information of our customers, claimants and employees. From time to time, we have experienced threats to our data and information technology systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. To the extent that any disruptions or security breaches result in a loss or damage to our data or inappropriate disclosure of proprietary or confidential information, it could cause significant damage to our reputation, adversely affect our relationships with our customers, result in litigation, increased costs and/or regulatory penalties, and ultimately harm our business. Third parties to whom we outsource certain of our functions are also subject to the risks outlined above, any one of which may result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, financial condition, results of operations and liquidity.

Loss of key vendor relationships or failure of a vendor to protect personal information of our customers, claimants or employees could affect our operations.

We rely on services and products provided by many vendors. These include, for example, vendors of computer hardware and software and vendors of services such as claim adjustment services and human resource benefits management services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect personal information of our customers, claimants or employees, we may suffer operational impairments and financial losses.

Our success has been and will continue to be greatly influenced by our ability to attract and retain the services of senior management.

Our senior executive officers play an integral role in the development and management of our business. We do not maintain any key person life insurance policies on any of our officers or employees. The loss of the services of any of our senior executive officers could have an adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

RISKS RELATED TO THE INSURANCE INDUSTRY

Because we are smaller than some of our competitors, we may lack the resources to increase or maintain our market share.

The property and casualty insurance industry is highly competitive, and we believe it will remain highly competitive for the foreseeable future. The principal competitive factors in our industry are price, service, commission structure and financial condition. We compete with other property and casualty insurers that write coverage in the same territories in which we write coverage; some of those insurers have greater financial resources and have a longer operating history than we do. In addition, our competitors may offer products for alternative forms of risk protection. Competition could limit our ability to retain existing business or to write new business at adequate rates, and such limitation may cause a material adverse effect on our results of operations and financial position.

State regulations limiting rate increases and requiring us to underwrite business in certain areas are beyond our control and may adversely affect our results of operation and financial condition.

States have from time to time passed legislation, and regulators have taken action, that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from reducing exposures or withdrawing from catastrophe-prone areas, or mandating that insurers participate in residual markets. In addition, following catastrophes, there are sometimes legislative initiatives and court decisions which seek to expand insurance coverage for catastrophe claims beyond the original intent of the policies. Further, our ability to increase pricing to the extent necessary to offset rising costs of catastrophes requires approval of insurance regulatory authorities.

One example of such legislation occurred following the 2004 and 2005 hurricane seasons, when the Florida legislature required all insurers issuing replacement cost policies to pay the full replacement cost of damaged properties without depreciation whether or not the insureds repaired or replaced the damaged property. Under prior law, insurers would have paid the depreciated amount of the property until insureds commenced repairs or replacement. This law has led to an increase in disagreements regarding the scope of damage. Despite our efforts to adjust claims and promptly pay meritorious amounts, our operating results have been affected by a claims environment in Florida that produces opportunities for fraudulent or overstated claims.

Our ability or willingness to manage our catastrophe exposure by raising prices, modifying underwriting terms or reducing exposure to certain geographies may be limited due to considerations of public policy, the evolving political environment and our ability to penetrate other geographic markets, which may cause a material adverse effect on our results of operations, financial condition and cash flows. We cannot predict whether and to what extent new legislation and regulations that would affect our ability to manage our exposure to catastrophic events will be adopted, the timing of adoption or the effects, if any, they would have on our ability to manage our exposure to catastrophic events.

The insurance industry is heavily regulated and further restrictive regulation may reduce our profitability and limit our growth.

The insurance industry is extensively regulated and supervised. Insurance regulatory authorities generally design insurance rules and regulations to protect the interests of policyholders, and not necessarily the interests of insurers, their stockholders, and other investors. We are subject to comprehensive regulation and supervision by state insurance departments in all states, in which our insurance subsidiaries are domiciled, as well as all states in which they are licensed, sell insurance products, issue policies, or handle claims. The regulations of each state are unique and complex and subject to change from time to time, and certain states may have regulations that conflict with the regulations of other states. As a result, we are subject to the risk that compliance with the regulations in one state may not result in compliance with the regulations in another state.

State statutes and administrative rules generally require each insurance company to register with the department of insurance in its state of domicile and to furnish information concerning the operations of the companies within the holding company system which may materially affect the operations, management or financial condition of the insurers. As part of its registration, each insurance company must identify material agreements, relationships and transactions with affiliates, including without limitation loans, investments, asset transfers, transactions outside of the ordinary course of business, certain management, service, and cost sharing agreements, reinsurance transactions, dividends, and other financial and non-financial components of an insurer’s business. Some states impose restrictions or require prior regulatory approval of specific corporate actions, which may adversely affect our ability to operate,

innovate, obtain necessary rate adjustments in a timely manner or grow our business profitably. Our ability to comply with these laws and regulations, and to obtain necessary regulatory action in a timely manner is, and will continue to be, critical to our success.

Currently, the federal government's role in regulating or dictating the policies of insurance companies is limited. However, Congress, from time to time, considers proposals that would increase the role of the federal government in insurance regulation, either in addition to or in lieu of state regulation.
In recent years, the state insurance regulatory framework has come under increased federal scrutiny. Changes in federal legislation, regulation and/or administrative policies in several areas, including changes in financial services regulation and federal taxation, could negatively affect the insurance industry and us. In addition, Congress and some federal agencies from time to time investigate the current condition of insurance regulation in the United States to determine whether to impose federal or national regulation or to allow an optional federal charter, similar to the option available to most banks. Further, the NAIC and state insurance regulators continually reexamine existing laws and regulations, specifically focusing on

modifications to holding company regulations, interpretations of existing laws and the development of new laws and regulations. We cannot predict what effect, if any, proposed or future legislation or NAIC initiatives may have on the manner in which we conduct our business.

As part of ongoing, industry-wide investigations, we may from time to time receive subpoenas and written requests for information from government agencies and authorities at the state or federal level. If we are subpoenaed for information by government agencies and authorities, potential outcomes could include law enforcement proceedings or settlements resulting in fines, penalties and/or changes in business practices that could cause a material adverse effect on our results of operations. In addition, these investigations may result in changes to laws and regulations affecting the industry.

Changes to insurance laws or regulations, or new insurance laws and regulations, may be more restrictive than current laws or regulations and could cause material adverse effects on our results of operations and our prospects for future growth. Additionally, our failure to comply with certain provisions of applicable insurance laws and regulations may cause a material adverse effect on our results of operations or financial condition.

Our inability to obtain reinsurance on acceptable terms would increase our loss exposure or limit our ability to underwrite policies.

We use, and we expect to continue to use, reinsurance to help manage our exposure to property and casualty risks. The availability and cost of reinsurance are each subject to prevailing market conditions beyond our control which can affect business volume and profitability. We may be unable to maintain our current reinsurance coverage, to obtain additional reinsurance coverage in the event our current reinsurance coverage is exhausted by a catastrophic event, or to obtain other reinsurance coverage in adequate amounts or at acceptable rates. Similar risks exist whether we are seeking to replace coverage terminated during the applicable coverage period or to renew or replace coverage upon its expiration. We provide no assurance that we can obtain sufficient reinsurance to cover losses resulting from one or more storms in the future, or that we can obtain such reinsurance in a timely or cost-effective manner. If we are unable to renew our expiring coverage or to obtain new reinsurance coverage, either our net exposure to risk would increase or, if we are unwilling to accept an increase in net risk exposures, we would have to reduce the amount of risk we underwrite. Either increasing our net exposure to risk or reducing the amount of risk we underwrite may cause a material adverse effect on our results of operations and our financial condition.

In each of the past ten years, a portion of our reinsurance protection has been provided by the Florida Hurricane Catastrophe Fund (FHCF), a government sponsored entity that provides a layer of reinsurance protection at a price that is lower than otherwise available in the commercial market. The purpose of the FHCF is to protect and advance the state's interest in maintaining insurance capacity in Florida by providing reimbursements to insurers for a portion of their catastrophe hurricane losses. There is no assurance that FHCF will continue to make such reinsurance available on terms consistent with historical practice. The loss of reinsurance provided by FHCF would have an adverse impact on our results of operations and financial condition.

Our inability to collect from our reinsurers on our reinsurance claims could cause a material adverse affect on our results of operation and financial condition.

Although reinsurers are liable to us to the extent of the reinsurance coverage we purchase, we remain primarily liable as the direct insurer on all risks that we reinsure; therefore, our reinsurance agreements do not eliminate our obligation to pay claims. As a result, we are subject to risk with respect to our ability to recover amounts due from reinsurers.

The risk could arise in two situations: (i) our reinsurers may dispute some of our reinsurance claims based on contract terms, and we may
ultimately receive partial or no payment, or (ii) the amount of losses that reinsurers incur related to worldwide catastrophes may materially harm the financial condition of our reinsurers and cause them to default on their obligations.

While we will attempt to manage these risks through underwriting guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. As a result, our exposure to credit risk may cause a material adverse effect on our results of operations, financial condition and cash flow.

Our investments are subject to market risks that may result in reduced returns or losses.

We expect investment returns to contribute to our overall profitability. Accordingly, fluctuations in interest rates or in the fixed-maturity, equity or alternative-investment markets may cause a material adverse effect on our results of operations.

Changes in the general interest rate environment will affect our returns on, and the fair value of, our fixed maturities and short-term investments. A decline in interest rates reduces the returns available on new investments, thereby negatively impacting our net investment income. Conversely, rising interest rates reduce the fair value of existing fixed maturities. In addition, defaults under, or impairments of, any of these investments as a result of financial problems with the issuer and, where applicable, its guarantor of the investment could reduce our net investment income and net realized investment gains or result in investment losses.

We may decide to invest an additional portion of our assets in equity securities or other investments, which are subject to greater volatility than fixed maturities. General economic conditions, stock market conditions and many other factors beyond our control can adversely affect the fair value of our equity securities or other investments, and could adversely affect the realization of net investment income. As a result of these factors, we may not realize an adequate return on our investments, we may incur losses on sales of our investments and we may be required to write down the value of our investments, which could reduce our net investment income and net realized investment gains or result in investment losses.

The fair value of our investment portfolio is also subject to valuation uncertainties. The valuation of investments is more subjective when the markets are illiquid and may increase the risk that the estimated fair value of our investment portfolio is not reflective of prices at which actual transactions would occur.

Our determination of the amount of other-than-temporary impairment to record varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective investment type. We revise our evaluations and assessments as conditions change and new information becomes available, and we reflect changes in other-than-temporary impairments in our Consolidated Statements of Comprehensive Income. We base our assessment of whether other-than-temporary impairments have occurred on our case-by-case evaluation of the underlying reasons for the decline in fair value. We can neither provide assurance that we have accurately assessed whether the impairment of one or more of our investments is temporary or other-than-temporary, nor that we have accurately recorded amounts for other-than-temporary impairments in our financial statements. Furthermore, historical trends may not be indicative of future impairments and additional impairments may need to be recorded in the future.

Our portfolio may benefit from certain tax laws, including, but not limited to, those governing dividends-received deductions and tax credits. Federal and/or state tax legislation could be enacted that would lessen or eliminate some or all of these tax advantages and could adversely affect the value of our investment portfolio. This result could occur in the context of deficit reduction or various types of fundamental tax reform.

The property and casualty insurance industry is historically cyclical and the pricing and terms for our products may decline, which would adversely affect our profitability.

Historically, the financial performance of the property and casualty insurance industry has been cyclical, characterized by periods of severe price competition and excess underwriting capacity, or soft markets, followed by periods of high premium rates and shortages of underwriting capacity, or hard markets. We cannot predict how long any given hard or soft market will last. Downturns in the property and casualty market may cause a material adverse effect on our results of operations and our financial condition.

Losses from legal actions may be material to our operating results, cash flows and financial condition.

Trends in the insurance industry regarding claims and coverage issues, such as increased litigation, the willingness of courts to expand covered causes of loss, and the escalation of loss severity may contribute to increased litigation costs and increase our loss exposure under the policies that we underwrite.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. Examples of emerging claims and coverage issues include, but are not limited to:

- judicial expansion of policy coverage and the impact of new theories of liability;

- plaintiffs targeting property and casualty insurers in purported class-action litigation relating to claims-handling and other practices; and

- adverse changes in loss cost trends, including inflationary pressures in home repair costs.

Loss severity in the property and casualty insurance industry may increase and may be driven by the effects of these and other unforeseen emerging claims and coverage issues. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant award or a judicial ruling that was otherwise detrimental, could create a precedent in our industry that could have a material adverse effect on our results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain.

We are a defendant in a number of legal actions, including class action litigation, relating to those emerging claim and coverage issues. The propensity of policyholders and third party claimants to litigate and the willingness of courts to expand causes of loss and the size of awards may result in increased costs associated with litigation, render our loss reserves inadequate, and may be material to our operating results and cash flows for a particular quarter or annual period and to our financial condition. In addition, claims and coverage issues may not become apparent to us for some time after our issuance of the affected insurance policies. As a result, we may not know the full extent of liability under insurance policies we issue for many years after the policies are issued.

A downgrade in our financial strength rating could adversely impact our business volume and our ability to access additional debt or equity financing.

Financial strength ratings have become increasingly important to an insurer’s competitive position. Rating agencies review their ratings periodically, and our current ratings may not be maintained in the future. A downgrade in our rating could negatively impact our business volumes, as it is possible demand for our products in certain markets may be reduced or our ratings could fall below minimum levels required to maintain existing business. Additionally, we may find it more difficult to access the capital markets and we may incur higher borrowing costs. If significant losses, such as those resulting from one or more major catastrophes, or significant reserve additions were to cause our capital position to deteriorate significantly, or if one or more rating agencies substantially increase their capital requirements, we may need to raise equity capital in the future to maintain our ratings or limit the extent of a downgrade. For example, a trend of more frequent and severe weather-related catastrophes may lead rating agencies to substantially increase their capital requirements.

We cannot guarantee that our insurance affiliates, United Property & Casualty Insurance Company and Family Security Insurance Company, will maintain their current A (Exceptional) ratings by Demotech. Any downgrade of this rating could impact the acceptability of our products to mortgage lenders that require homeowners to buy insurance, reduce our ability to retain and attract policyholders and agents and damage our ability to compete, which may cause a material adverse effect on our results of operations and financial condition.

RISKS RELATED TO AN INVESTMENT IN OUR COMMON STOCK

Future sales of substantial amounts of our common stock by us or our existing stockholders could cause our stock price to decrease.

We have registered up to $75,000,000 of our securities, which we may sell from time to time in one or more offerings. Additional equity financings or other share issuances by us could adversely affect the market price of our common stock. Sales by existing stockholders of a large number of shares of our common stock in the public trading

market (or in private transactions), or the perception that such additional sales could occur, could cause the market price of our common stock to decrease.

Dividend payments on our common stock in the future is uncertain.

We have paid dividends on our common stock in the past; however, we provide no assurance or guarantee that we will continue to pay dividends in the future. Therefore, investors who purchase our common stock may only realize a return on their investment if the value of our common stock appreciates.

The declaration and payment of dividends will be at the discretion of our Board of Directors and will be dependent upon our profits, financial requirements and other factors, including legal and regulatory restrictions on the payment of dividends from our subsidiaries, general business conditions and such other factors as our Board of Directors deems relevant.

The substantial ownership of our common stock by our officers and directors allows them to exert significant control over us.

Our officers and directors beneficially owned approximately 21% of UPC Insurance at December 31, 2015. Our officers' and directors' interests may conflict with the interests of other holders of our common stock and our officers and directors may take action affecting us with which other stockholders may disagree. Our officers and directors, acting together, have the ability to exert significant influence over the following:

- the nomination, election and removal of our Board of Directors;
- the adoption of amendments to our charter documents;
- management and policies; and
- the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets.

Provisions in our charter documents and the shareholder rights plan that we adopted may make it harder for others to obtain control of us even though some stockholders might consider such a development to be favorable.

Our charter and bylaws contain provisions that may discourage unsolicited takeover proposals our stockholders may consider to be in their best interests. Our Board of Directors is divided into two classes, each of which will generally serve for a term of two years with only one class of directors being elected in each year. At a given annual meeting, only a portion of our Board of Directors may be considered for election. Since our “staggered board” may prevent our stockholders from replacing a majority of our Board of Directors at certain annual meetings, it may entrench our management and discourage unsolicited
stockholder proposals that may be in the best interests of our stockholders.

Moreover, our Board of Directors has the ability to designate the terms of and issue a new series of preferred stock.

We have also adopted a shareholder rights plan that could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, our Company or a large block of our common stock. A third party that acquires 20% or more of our common stock could suffer substantial dilution of its ownership interest under the terms of the shareholder rights plan through the issuance of common stock to all stockholders other than the acquiring person. In certain circumstances the foregoing threshold may be reduced to 15%.

Together these provisions may make the removal of our management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our securities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

On September 5, 2014, we acquired approximately 40,000 square feet of commercial office space and associated property located at 800 2nd Avenue South, St. Petersburg, Florida, for use as our principal executive offices. We completed the renovation of that property in 2015 and moved our principal executive offices in December 2015.

On September 9, 2015, we acquired approximately 7,800 square feet of commercial office space at 724 2nd Avenue South, St. Petersburg, FL. The building is currently unoccupied but is being held for future use and expansion purposes.

We currently lease approximately 800 square feet of office space at 7192 Kalanianaole Highway, Honolulu, Hawaii 96825, in suite G-220. We paid approximately $22.08 per square foot for rent in 2015 and will pay approximately $23.16 per square foot from December 2015 through November 2016 when the lease expires.

Item 3. Legal Proceedings

We are involved in claims-related legal actions arising in the ordinary course of business. We accrue amounts resulting from claims-related legal actions in unpaid losses and loss adjustment expenses during the period that we determine an unfavorable outcome becomes probable and we can estimate the amounts. Management makes revisions to our estimates based on its analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) judicial decisions and legal developments in the awarding of damages; and (iv) trends in general economic conditions, including the effects of inflation.

At December 31, 2015, we were not involved in any material non claims-related legal actions.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION

Our common stock trades on the NASDAQ Capital Market (NASDAQ) under the symbol "UIHC". We have one class of authorized common stock for 50,000,000 shares at a par value of $0.0001 per share.

The table below sets forth, for the calendar quarter indicated, the high and low sales prices of our common stock as reported on NASDAQ.

	Sales Prices	
	High	Low
2015		
Fourth Quarter	$ 19.77	$ 12.83
Third Quarter	16.79	12.12
Second Quarter	22.98	13.78
First Quarter	28.43	20.23
2014		
Fourth Quarter	22.41	14.59
Third Quarter	17.77	12.91
Second Quarter	18.56	13.62
First Quarter	16.25	12.00

HOLDERS OF COMMON EQUITY

As of March 1, 2016, we had 4,991 holders of record of our common stock.

DIVIDENDS

During the twelve month period ended December 31, 2015, we declared and paid dividends of $0.05 per share, each quarter, for total dividends paid of $4,302,000. During 2014, we paid dividends of $0.04 per share, each quarter, for total dividends paid of $3,336,000. In conjunction with the fourth quarter 2012 dividend, our Board indicated its intention to consistently pay a quarterly dividend. However, any future dividend payments will be at the discretion of our Board of Directors and will depend upon our profits, financial requirements and other factors, including legal and regulatory restrictions on the payment of dividends, general business conditions and such other factors as our Board of Directors deems relevant.

Under Florida law, a Florida-domiciled insurer like United Property & Casualty Insurance Company, may not pay any dividend or distribute cash or other property to its stockholders except out of its available and accumulated surplus funds which is derived from realized net operating profits on its business and net realized capital gains. Additionally, Florida-domiciled insurers may not make dividend payments or distributions to stockholders without the prior approval of the insurance regulatory authority if the dividend or distribution would exceed the larger of:

1. the lesser of:

a. ten percent of United Property & Casualty Insurance Company's capital surplus, or

b. net income, not including realized capital gains, plus a two-year carryforward

2. ten percent of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains, or

3. the lesser of:

a. ten percent of capital surplus, or

b. net investment income plus a three-year carryforward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains.

Alternatively, United Property & Casualty Insurance Company may pay a dividend or distribution without the prior written approval of the insurance regulatory authority when:

1. the dividend is equal to or less than the greater of:

a. ten percent of United Property & Casualty Insurance Company's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains, or

b. United Property & Casualty Insurance Company's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, and:

2. United Property & Casualty Insurance Company will have surplus as to policyholders equal to or exceeding 115% of the minimum required statutory surplus as to policyholders after the dividend or distribution is made, and

3. United Property & Casualty Insurance files a notice of the dividend or distribution with the insurance regulatory authority at least ten business days prior to the dividend payment or distribution, and

4. the notice includes a certification by an officer of United Property & Casualty Insurance Company attesting that, after the payment of the dividend or distribution, United Property & Casualty Insurance Company will have at least 115% of required statutory surplus as to policyholders.

Except as provided above, a Florida-domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the insurance regulatory authority, or (ii) 30 days after the insurance regulatory authority has received notice of intent to pay such dividend or distribution and has not disapproved it within such time.

Under the insurance regulation of Hawaii, the maximum amount of dividends that Family Security Insurance Company, Inc. may pay to its parent company without prior approval from the Insurance Commissioner is:

1. the lesser of:

a. ten percent (10%) of Family Security Insurance Company Inc.'s surplus as of December 31 of the preceding year, or

b. ten percent (10%) of the net income, not including realized capital gains, for the twelve-month period ending December 31 of the preceding year.

In performing the net income test, property and casualty insurers may carry-forward income from the previous two calendar years that has not already been paid out as dividends. This carry-forward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediately preceding calendar years.

See Note 12 to our Notes to Consolidated Financial Statements for further discussion of restrictions on future payments of dividends by our insurance affiliates.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the dollar change in the cumulative total shareholder return on our common stock from December 31, 2010 through December 31, 2015 as compared to the cumulative total return of the Russell 2000 index and the cumulative total return of the NASDAQ Insurance index. The cumulative total shareholder return is a concept used to compare the performance of a company's stock over time and is the ratio of the stock price change plus the cumulative amount of dividends over the specified time period (assuming dividend reinvestment), to the stock price at the beginning of the time period. The chart depicts the value on December 31, 2011, 2012, 2013, 2014 and 2015 of a $100 investment made on December 31, 2010 with all dividends reinvested.

	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
United Insurance Holdings Corp.	$100.00	$143.55	$198.68	$469.44	$737.16	$581.00
Russell 2000 index	100.00	94.55	108.38	148.49	153.73	144.95
NASDAQ Insurance index	100.00	103.09	117.01	150.69	163.56	174.12

The foregoing performance graph and data shall not be deemed "filed" as part of this Annual Report for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section and should not be deemed incorporated by reference into any other filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such filing.

RECENT SALES OF UNREGISTERED SECURITIES

During 2015, we did not have any unregistered sales of our equity securities.

REPURCHASES OF EQUITY SECURITIES

During 2015, we did not repurchase any of our equity securities.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with Item 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our consolidated financial statements and the related notes appearing in Item 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA of this Annual Report. The consolidated statements of income data for the years ended December 31, 2015, 2014 and 2013 and the consolidated balance sheet data at December 31, 2015 and 2014 are derived from our audited financial statements appearing in Item 8 of this Annual Report. The consolidated statements of income data for the years ended December 31, 2012 and 2011 and the balance sheet data for the years ended December 31, 2013, 2012 and 2011 are derived from our audited consolidated financial statements that are not included in this Annual Report. The historical results shown below are not necessarily indicative of the results to be expected in any future period.

	As of and for the Years Ended December 31,									
	2015		2014		2013		2012		2011	
Income Statement Data:										
Revenue:										
Gross premiums written	$569,736		$436,753		$381,352		$254,909		$203,806	
Gross premiums earned	504,215		400,695		316,708		226,254		180,837	
Net premiums earned	$335,958		$264,850		$197,378		$121,968		$90,080	
Net investment income and realized gains	10,039		6,775		3,742		5,243		2,950	
Other revenue	11,572		8,605		6,960		4,023		3,388	
Total revenue	$357,569		$280,230		$208,080		$131,234		$96,418	
Expenses:										
Loss and loss adjustment expenses	183,108		118,077		98,830		58,409		38,861	
Other operating expenses	132,569		97,410		74,397		57,241		43,818	
Interest expense	326		410		367		355		548	
Total expenses	$316,003		$215,897		$173,594		$116,005		$83,227	
Income before income taxes	41,860		64,410		34,487		15,714		13,016	
Provision for income taxes	14,502		23,397		14,145		6,009		4,928	
Net income	$27,358		$41,013		$20,342		$9,705		$8,088	
Earnings per share										
Basic	$1.29		$2.06		$1.26		$0.91		$0.77	
Diluted	$1.28		$2.05		$1.26		$0.91		$0.77	
Cash dividends declared per share	$0.20		$0.16		$0.12		$0.08		$0.05	
Return on average equity	12.4	%	27.2	%	20.8	%	16.1	%	16.1	%
Ceded ratio[1]	33.4	%	33.9	%	37.7	%	46.1	%	50.2	%
Ratios to net premiums earned:										
Loss and loss adjustment expenses	54.5	%	44.6	%	50.0	%	47.9	%	43.1	%
Expenses	39.5	%	36.8	%	37.7	%	46.9	%	48.6	%
Combined Ratio	94.0	%	81.4	%	87.7	%	94.8	%	91.7	%
Effect of current year catastrophe losses on combined ratio	8.5	%	0.3	%	1.8	%	3.0	%	—	%
Effect of prior year (favorable) development on combined ratio	(0.7	)%	(1.5	)%	2.1	%	0.5	%	(4.8	)%
Underlying Combined Ratio[2]	86.2	%	82.6	%	83.8	%	91.3	%	96.5	%

[1] Calculated as ceded premiums earned divided by gross premiums earned.
[2] Underlying combined ratio, a measure that is not based on accounting principles generally accepted in the United States of America (GAAP), is reconciled above to the combined ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this document is in the "Definitions of Non-GAAP Measures" in Part II Item 7 of this document.

	As of and for the Years Ended December 31,				
	2015	2014	2013	2012	2011
Balance Sheet Data:					
Cash and invested assets	$537,500	$443,018	$326,548	$223,385	$165,898
Prepaid reinsurance premiums	79,399	63,827	55,268	49,916	40,968
Total Assets	$740,021	$584,169	$441,230	$314,715	$240,215
Unpaid loss and loss adjustment expenses	$76,792	$54,436	$47,451	$35,692	$33,600
Unearned premiums	304,653	229,486	193,428	128,785	100,130
Reinsurance payable	64,542	45,254	39,483	26,063	16,571
Notes payable	12,353	13,529	14,706	15,882	17,059
Total Liabilities	$500,810	$380,406	$333,643	$225,628	$185,226
Total Stockholders' Equity	$239,211	$203,763	$107,587	$89,087	$54,989
Statutory Surplus	$150,860	$126,249	$78,362	$68,007	$48,188

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those which are not within our control.

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of UPC Insurance. This discussion should be read in conjunction with the Consolidated Financial Statements and related notes found under Part II. Item 8 contained herein.

The most important factors we monitor to evaluate the financial condition and performance of our Company include:

- For Results of Operations: premiums written, policies in-force, premiums earned, retention, price changes, claim frequency (rate of claim occurrence per policies in-force), severity (average cost per claim), catastrophes, loss ratio, expenses, combined ratio, underwriting results, reinsurance costs, premium to probable maximum loss, and geographic concentration;
- For Investments: credit quality, maximizing total return, investment income, cash flows, realized gains and losses, unrealized gains and losses, asset diversification, and portfolio duration; and
- For Financial Condition: liquidity, reserve strength, financial strength, ratings, operating leverage, book value per share, capital preservation, return on investment, and return on equity.

2015 HIGHLIGHTS

- Consolidated net income was $27,358,000 in 2015 compared to $41,013,000 in 2014. Net income per diluted share was $1.28 in 2015 compared to $2.05 in 2014.

- Our combined ratio (calculated as losses and loss adjustment expenses and operating expenses less interest expense relative to net premiums earned) was 94.0% in 2015 compared to 81.4% in 2014.

- Total revenues were $357,569,000 in 2015 compared to $280,230,000 in 2014.

- Investment and cash holdings were $537,500,000 at December 31, 2015, compared to $443,018,000 at December 31, 2014.

- Investment income was $9,212,000 in 2015 compared to $6,795,000 in 2014.

- Net realized gains were $827,000 in 2015 compared to net realized losses of $(20,000) in 2014.

- Book value per diluted share (ratio of stockholders' equity to total shares outstanding and dilutive potential shares outstanding) was $11.11 at December 31, 2015, a 13.9% increase from $9.75 at December 31, 2014.

- Return on average equity for the twelve months ended December 31, 2015 was 12.4%, compared to 27.2% for the twelve months ended December 31, 2014.

- Policies in-force were 347,015 at December 31, 2015, a 37.6% increase from 252,104 policies in-force at December 31, 2014.

CONSOLIDATED NET INCOME

	Year Ended December 31,		
	2015	2014	2013
REVENUE:			
Gross premiums written	$569,736	$436,753	$381,352
Increase in gross unearned premiums	(65,521)	(36,058)	(64,644)
Gross premiums earned	504,215	400,695	316,708
Ceded premiums earned	(168,257)	(135,845)	(119,330)
Net premiums earned	335,958	264,850	197,378
Net investment income	9,212	6,795	3,871
Net realized gains (losses)	827	(20)	(129)
Other revenue	11,572	8,605	6,960
Total revenue	357,569	280,230	208,080
EXPENSES:			
Losses and loss adjustment expenses	183,108	118,077	98,830
Policy acquisition costs	87,401	65,657	50,623
Operating expenses	15,316	11,746	9,222
General and administrative expenses	29,852	20,007	14,552
Interest expense	326	410	367
Total expenses	316,003	215,897	173,594
Income before other income	41,566	64,333	34,486
Other income	294	77	1
Income before income taxes	41,860	64,410	34,487
Provision for income taxes	14,502	23,397	14,145
Net income	$27,358	$41,013	$20,342
Net income per diluted share	$1.28	$2.05	$1.26
Book value per share	$11.11	$9.75	$6.64
Return on average equity	12.4 %	27.2 %	20.8 %
Loss ratio, net[1]	54.5 %	44.6 %	50.0 %
Expense ratio[2]	39.5 %	36.8 %	37.7 %
Combined ratio (CR)[3]	94.0 %	81.4 %	87.7 %
Effect of current year catastrophe losses on CR	8.5 %	0.3 %	1.8 %
Effect of prior year development on CR	(0.7)%	(1.5)%	2.1 %
Underlying combined ratio[4]	86.2 %	82.6 %	83.8 %

[1] Loss ratio, net is losses and loss adjustment expenses relative to net premiums earned.

[2] Expense ratio is calculated as the sum of all operating expenses less interest expense relative to net premiums earned.

[3] Combined ratio is the sum of the loss ratio, net and the expense ratio.

[4] Underlying combined ratio, a measure that is not based on accounting principles generally accepted in the United States of America (GAAP), is reconciled above to the combined ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this document is in the "Definitions of Non-GAAP Measures" section of this document.

Definitions of Non-GAAP Measures

We believe that investors' understanding of UPC Insurance's performance is enhanced by our disclosure of the following non-GAAP measures. Our methods for calculating these measures may differ from those used by other companies and therefore comparability may be limited.

Combined ratio excluding the effects of current year catastrophe losses and reserve development (underlying combined ratio) is a non-GAAP ratio, which is computed as the difference between three GAAP operating ratios: the combined ratio, the

effect of current year catastrophe losses on the combined ratio and the effect of prior year development on the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our business that may be obscured by current year catastrophe losses, prior year development and assessments. Current year catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on the combined ratio. Prior year development is caused by unexpected loss development on historical reserves. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. The most direct comparable GAAP measure is the combined ratio. The underlying combined ratio should not be considered as a substitute for the combined ratio and does not reflect the overall profitability of our business.

Net Loss and LAE excluding the effects of current year catastrophe losses and reserve development (underlying Loss and LAE) is a non-GAAP measure which is computed as the difference between loss and LAE, current year catastrophe losses and prior year reserve development. We use underlying loss and LAE figures to analyze our loss trends that may be impacted by current year catastrophe losses and prior year development on our reserves. As discussed previously, these two items can have a significant impact on our loss trend in a given period. The most direct comparable GAAP measure is net loss and LAE. The underlying loss and LAE figure should not be considered a substitute for net losses and LAE and does not reflect the overall profitability of our business.

Consolidated net loss ratio excluding the effects of current year catastrophe losses, reserve development (underlying loss ratio) is a non-GAAP ratio, which is computed as the difference between three GAAP operating ratios: the consolidated net loss ratio, the effect of current year catastrophe losses on the loss ratio, and the effect of prior year development on the loss ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our consolidated net loss ratio that may be obscured by current year catastrophe losses and prior year development. As discussed previously, these two items can have a significant impact on our consolidated net loss ratio in a given period. The most direct comparable GAAP ratio is our net consolidated Loss and LAE ratio. The underlying loss ratio should not be considered as a substitute for net consolidated loss ratio and does not reflect the overall profitability of our business.

RECENT ACCOUNTING STANDARDS

Please refer to Note 2(o) in our Notes to Consolidated Financial Statements for a discussion of recent accounting standards that may affect us.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates include those used in determining:

- reserves for unpaid losses,
- fair value of investments, and
- investment portfolio impairments.

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance industry. It is reasonably likely that changes in these estimates could occur from time to time and result in a material impact on our consolidated financial statements.

Reserves for Unpaid Losses and Loss Adjustment Expenses

General Discussion of Loss Reserving Process

Reserves for unpaid losses and loss adjustment expenses represent the most significant accounting estimate inherent in the preparation of our financial statements. These reserves represent management’s best estimate of the amount we will ultimately pay for losses and we base the amount upon the application of various actuarial reserve estimation techniques as well as considering other material facts and circumstances known at the balance sheet date.

We establish two categories of loss reserves as follows:

- Case reserves – When a claim is reported, we establish an automatic minimum case reserve for that claim type that represents our initial estimate of the losses that will ultimately be paid on the reported claim. Our initial estimate for each claim is based upon averages of loss payments for our prior closed claims made for that claim type. Then, our claims personnel perform an evaluation of the type of claim involved, the circumstances surrounding each claim and the policy provisions relating to the loss and adjust the reserve as necessary. As claims mature, we increase or decrease the reserve estimates as deemed necessary by our claims department based upon additional information we receive regarding the loss, the results of on-site reviews and any other information we gather while reviewing the claims.

- Reserves for losses incurred but not reported (IBNR reserves) – Our IBNR reserves include true IBNR reserves plus "bulk" reserves. Bulk reserves represent additional amounts that cannot be allocated to particular claims, but which are necessary to estimate ultimate losses on reported and unreported claims. We estimate our IBNR reserves by projecting the ultimate losses using the methods discussed below and then deducting actual loss payments and case reserves from the projected ultimate losses. We review and adjust our IBNR reserves on a quarterly basis based on information available to us at the balance sheet date.

When we establish our reserves, we analyze various factors such as our historical loss experience and that of the insurance industry, claims frequency and severity, our business mix, our claims processing procedures, legislative enactments, judicial decisions and legal developments in imposition of damages, and general economic conditions, including inflation. A change in any of these factors from the assumptions implicit in our estimates will cause our ultimate loss experience to be better or worse than indicated by our reserves, and the difference could be material. Due to the interaction of the aforementioned factors, there is no precise method for evaluating the impact of any one specific factor in isolation, and an element of judgment is ultimately required. Due to the uncertain nature of any projection of the future, the ultimate amount we will pay for losses will be different from the reserves we record. However, in our judgment, we employ techniques and assumptions that are appropriate, and the resulting reserve estimates are reasonable, given the information available at the balance sheet date.

We determine our ultimate losses by using multiple actuarial methods to determine an actuarial estimate within a relevant range of indications that we calculate using generally accepted actuarial techniques. Our selection of the actuarial estimate is influenced by the analysis of our historical loss and claims experience since inception. For each accident year, we estimate the ultimate incurred losses for both reported and unreported claims. In establishing this estimate, we reviewed the results of various actuarial methods discussed below.

Estimation of the Reserves for Unpaid Losses and Allocated Loss Adjustment Expenses

We calculate our estimate of ultimate losses by using the following actuarial methods. We separately calculate the methods using paid loss data and incurred loss data. In the versions of these methods based on incurred loss data, the incurred losses are defined as paid losses plus case reserves. For this discussion of our loss reserving process, the word "segment" refers to a subgrouping of our claims data, such as by geographic area and/or by particular line of business; it does not refer to operating segments.

- Incurred Development Method – The incurred development method is based upon the assumption that the relative change in a given year's incurred loss estimates from one evaluation point to the next is similar to the relative change in prior years' reported loss estimates at similar evaluation points. In utilizing this method, actual annual historical incurred loss data is evaluated. Successive years can be arranged to form a triangle of data. Loss development factors (LDFs) are calculated to measure the change in cumulative incurred costs from one evaluation point to the next. These historical LDFs and comparable industry benchmark factors form the basis for selecting the LDFs used in projecting the current valuation of losses to an ultimate basis. This method's implicit assumption is that the relative adequacy of case reserves has been consistent over time, and that there have been no material changes in the rate at which claims have been reported. The paid development method is similar to the incurred development method. While the paid development method has the disadvantage of not recognizing the information provided by current case reserves, it has the advantage of avoiding potential distortions in the data due to changes in case reserving methodology. The paid development method's implicit assumption is that the rate of payment of claims has been relatively consistent over time.

- Expected Loss Method – In the expected loss method, ultimate loss projections are based upon some prior measure of the anticipated losses, usually relative to some measure of exposure (i.e., earned house years). An expected loss cost is applied to the measure of exposure to determine estimated ultimate losses for each year. Actual losses are not considered in this calculation. This method has the advantage of stability over time, because the ultimate loss estimates do not change unless the exposures or loss costs change. However, this advantage of stability is offset by a lack of responsiveness, since this method does not consider actual loss experience as it emerges. This method is based on the assumption that the loss cost per unit of exposure is a good indication of ultimate losses. It can be entirely dependent on pricing assumptions (i.e., historical experience adjusted for loss trend).

- Bornhuetter-Ferguson Method – The incurred Bornhuetter-Ferguson (B-F) method is essentially a blend of two other methods. The first method is the loss development method whereby actual incurred losses are multiplied by an expected LDF. For slow reporting coverages, the loss development method can lead to erratic and unreliable projections because a relatively small swing in early reportings can result in a large swing in ultimate projections. The second method is the expected loss method whereby the IBNR estimate equals the difference between a predetermined estimate of expected losses and actual incurred losses. The incurred B-F method combines these two methods by setting ultimate losses equal to actual incurred losses plus expected unreported losses. As an experience year matures and expected unreported losses become smaller, the initial expected loss assumption becomes gradually less important. Two parameters are needed to apply the B-F method: the initial expected loss cost and the expected reporting pattern (LDFs). This method is often used for long-tail lines and in situations where the incurred loss experience is relatively immature or lacks sufficient credibility for the application of other methods. The paid B-F method is analogous to the incurred B-F method using paid losses and development patterns in place of incurred losses and patterns.

- Paid-to-Paid Development Method - In addition to the aforementioned methods, we also rely upon the paid-to-paid development method to project ultimate unallocated loss adjustment expense (ULAE). Ratios of paid ULAE to paid

loss and allocated loss adjustment expense (ALAE) are compiled by calendar year and a paid-to-paid ratio selection is made. The selected ratio is applied to the estimated IBNR amounts and one half of this ratio is applied to case reserves. This method is derived from rule of thumb that half of ULAE is incurred when a claim is opened and the other half is incurred over the remaining life of the claim.

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Reliance and Selection of Methods

The various methods we use have strengths and weaknesses that depend upon the circumstances of the segment and the age of the claims experience we analyze. The nature of our book of business allows us to place substantial, but not exclusive, reliance on the loss development methods. Ultimately, this means the main assumptions of the loss development methods, the selected LDFs, represent the most critical aspect of our loss reserving process. We use the same set of LDFs in the methods during our loss reserving process that we also use to calculate the premium necessary to pay expected ultimate losses.

Reasonably-Likely Changes in Variables

As previously noted, we evaluate several factors when exercising our judgment in the selection of the loss development factors that ultimately drive the determination of our loss reserves. The process of establishing our reserves is complex and necessarily imprecise, as it involves using judgment that is affected by many variables. We believe a reasonably-likely change in almost any of these aforementioned factors could have an impact on our reported results, financial condition and liquidity. However, we do not believe any reasonably-likely changes in the frequency or severity of claims would have a material impact on us.

Fair Value of Investments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are responsible for the determination of fair value of financial assets and the supporting assumptions and methodologies. We use quoted prices from active markets and we use an independent third-party valuation service to assist us in determining fair value. We obtain only one single quote or price for each financial instrument.

As discussed in Note 3 in our Notes to Consolidated Financial Statements, we value our investments at fair value using quoted prices from active markets, to the extent available. For securities for which quoted prices in active markets are unavailable, we use observable inputs such as quoted prices in inactive markets, quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs. We have several investments in limited partnerships that require us to use unobservable inputs.

Investment Portfolio Impairments

For investments classified as available for sale, the difference between fair value and cost or amortized cost for fixed income securities and cost for equity securities is reported as a component of accumulated other comprehensive income on our Consolidated Balance Sheet and is not reflected in our net income of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when a write-down is recorded due to an other-than-temporary decline in fair value. We have a portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, we assess whether management with the appropriate authority has made the decision to sell or whether it is more likely than not we will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If a security meets either of these criteria, the security's decline in fair value is considered other-than-temporary and is

recorded in earnings.

If we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration, available reserves or escrows, current subordination levels, third party

guarantees and other credit enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if we determine that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in accumulated other comprehensive income. If we determine that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, we may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

There are a number of assumptions and estimates inherent in evaluating impairments of equity securities and determining if they are other-than-temporary, including: (1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; (2) the length of time and extent to which the fair value has been less than cost; (3) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; and (4) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity.

Once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that a fixed income or equity security is other-than-temporarily impaired, including: (1) general economic conditions that are worse than previously forecasted or that have a greater adverse effect on a particular issuer or industry sector than originally estimated; (2) changes in the facts and circumstances related to a particular issue or issuer's ability to meet all of its contractual obligations; and (3) changes in facts and circumstances that result in changes to management's intent to sell or result in our assessment that it is more likely than not we will be required to sell before recovery of the amortized cost basis of a fixed income security or cause a change in our ability or intent to hold an equity security until it recovers in value. Changes in assumptions, facts and circumstances could result in additional charges to earnings in future periods to the extent that losses are realized. The charge to earnings, while potentially significant to net income, would not have a significant effect on stockholders' equity, since our securities are designated as available for sale and carried at fair value and as a result, any related unrealized loss, net of taxes would already be reflected as a component of accumulated other comprehensive income in stockholders' equity.

The determination of the amount of other-than-temporary impairment is an inherently subjective process based on periodic evaluations of the factors described above. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations quarterly and reflect changes in other-than-temporary impairments in results of operations as such evaluations are revised. The use of different methodologies and assumptions in the determination of the amount of other-than-temporary impairments may have a material effect on the amounts presented within the consolidated financial statements

See Note 2(b) in our Notes to Consolidated Financial Statements for further information regarding our impairment testing.

ANALYSIS OF FINANCIAL CONDITION - DECEMBER 31, 2015 COMPARED TO DECEMBER 31, 2014

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying consolidated financial statements and related notes.

Investments

With respect to our investments, we primarily attempt to preserve capital, maximize after-tax investment income, maintain liquidity and minimize risk. To accomplish our goals, we purchase debt securities in sectors that represent the most attractive relative value, and we maintain a moderate equity exposure. We must comply with applicable state insurance regulations that prescribe the type, quality and concentrations of investments our insurance affiliates can make; therefore, our current investment policy limits investment in non-investment-grade fixed maturities and limits total investment amounts in preferred stock, common stock and mortgage notes receivable. We do not invest in derivative securities.

Two outside asset management companies, which have the authority and discretion to buy and sell securities for us, manage our investments subject to (i) the guidelines established by our Board of Directors, and (ii) the direction of management. We direct our asset managers to make changes and to hold, buy or sell securities in our portfolios.

The Investment Committee of our Board of Directors reviews and approves our investment policy on a regular basis. Our cash, cash equivalents and investment portfolios totaled $537,500,000 at December 31, 2015.

The following table summarizes our investments, by type:

	December 31, 2015			December 31, 2014		
	Fair Value	Percent of Total		Fair Value	Percent of Total	
U.S. government and agency securities	$81,647	15.2	%	$134,434	30.4	%
Foreign governments	2,075	0.4	%	3,354	0.8	%
States, municipalities and political subdivisions	155,905	29.0	%	91,911	20.7	%
Public utilities	8,493	1.6	%	9,222	2.1	%
Corporate securities	146,758	27.2	%	112,616	25.4	%
Redeemable preferred stocks	1,820	0.3	%	1,093	0.2	%
Total fixed maturities	396,698	73.7	%	352,630	79.6	%
Mutual fund	26,343	4.9	%	—	—	%
Public utilities	1,352	0.3	%	1,433	0.3	%
Common stocks	20,694	3.9	%	23,048	5.2	%
Nonredeemable preferred stocks	2,417	0.4	%	1,506	0.3	%
Total equity securities	50,806	9.5	%	25,987	5.8	%
Other long-term investments	5,210	1.0	%	3,010	0.7	%
Total investments	$452,714	84.2	%	$381,627	86.1	%
Cash and cash equivalents	$84,786	15.8	%	$61,391	13.9	%
Total cash, cash equivalents and investments	$537,500	100.0	%	$443,018	100.0	%

We classify all of our investments as available-for-sale. Our investments at December 31, 2015 and 2014 consisted mainly of U.S. government and agency securities, states, municipalities and political subdivisions and securities of investment-grade corporate issuers. Our equity holdings consisted mainly of securities issued by companies in the

energy, consumer products, financial, technology and industrial sectors. Most of the corporate bonds we hold reflected a similar diversification. At December 31, 2015, approximately 83% of our fixed maturities were U.S. Treasuries, or corporate bonds rated "A" or better, and 17% were corporate bonds rated "BBB".

At December 31, 2015, securities in an unrealized loss position for a period of twelve months or longer reflected unrealized losses of $580,000; approximately $532,000 of the total related to thirty-six fixed maturities, while three equity securities reflected unrealized losses of $48,000. We currently have no plans to sell these thirty-nine securities, and we expect

to fully recover our cost basis. We reviewed all of our securities and determined that we did not need to record impairment charges at December 31, 2015. Similarly, we did not record impairment charges at December 31, 2014.

Reinsurance Payable

We follow industry practice of reinsuring a portion of our risks. Reinsurance involves transferring, or "ceding", all or a portion of the risk exposure on policies we write to another insurer, known as a reinsurer. To the extent that our reinsurers are unable to meet the obligations they assume under our reinsurance agreements, we remain liable for the entire insured loss.

During the second quarter of 2015, we placed our reinsurance program for the 2015 hurricane season. We purchased catastrophe excess of loss reinsurance protection of $1,243,122,000. The contracts reinsure for personal lines property excess catastrophe losses caused by multiple perils including hurricanes, tropical storms, and tornadoes. The agreements are effective June 1, 2015, for a one-year term and incorporate the mandatory coverage required by and placed with the FHCF. The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes. Effective January 1, 2016, we placed a new reinsurance agreement, that will expire on December 31, 2016.

See Note 8 in our Notes to Consolidated Financial Statements for additional information regarding our reinsurance program.

RESULTS OF OPERATIONS - 2015 COMPARED TO 2014

Revenues

Net income for the year ended December 31, 2015 was $27,358,000, compared to $41,013,000 for the twelve-months ended December 31, 2014. The decrease in net income was primarily driven by an increase in losses and loss adjustment expenses (LAE) resulting from multiple current year catastrophe events totaling $28,565,000. Our gross written premiums increased by $132,983,000, or 30.4%, to $569,736,000 primarily due to strong organic growth in new and renewal business outside of Florida. The breakdown of the year-over-year growth in total gross written premiums broken down by region and direct versus assumed is shown in the following table:

Direct and Assumed Written Premium By Region	2015	2014	Change
Florida	$314,588	$304,604	$9,984
Gulf	91,303	13,034	78,269
Texas	54,725	13,008	41,717
Louisiana	36,578	26	36,552
Northeast	73,128	53,348	19,780
Massachusetts	38,862	30,716	8,146
Rhode Island	23,176	17,951	5,225
New Jersey	11,087	4,681	6,406
New York	3	—	3
Southeast	69,897	46,783	23,114
South Carolina	40,365	32,001	8,364
North Carolina	29,155	14,782	14,373
Georgia	377	—	377
Total direct written premium	$548,916	$417,769	$131,147
Assumed premium [1]	20,820	18,984	1,836
Total gross written premium	$569,736	$436,753	$132,983

[1] All assumed premiums are written in Florida due to policy assumptions from Citizens that are written in Florida and are shown net of opt-outs.

New and Renewal Policies* By Region	2015	2014	Change
Florida	175,284	168,668	6,616
Gulf	58,752	9,865	48,887
Texas	39,659	9,855	29,804
Louisiana	19,093	10	19,083
Northeast	54,172	39,816	14,356
Massachusetts	25,836	20,924	4,912
Rhode Island	18,548	14,809	3,739
New Jersey	9,788	4,083	5,705
Southeast	52,522	32,392	20,130
South Carolina	26,995	20,273	6,722
North Carolina	25,128	12,119	13,009
Georgia	399	—	399
Total	340,730	250,741	89,989

* Only includes new and renewal homeowner, commercial and dwelling fire policies written during the year.

We expect our gross written premium growth to continue as we increase our policies in-force in the states in which we currently write policies and as we expand into other states in which we are currently licensed to write property and

casualty insurance.

Expenses

Expenses for the twelve months ended December 31, 2015 increased $100,106,000, or 46.4%, to $316,003,000 for the year ended December 31, 2015 from $215,897,000 for the same period in 2014, primarily due to increased losses, policy acquisition costs, operating costs and general and administrative expenses. The calculation of our underlying loss and combined ratios is shown below.

	Year Ended December 31,		
	2015	2014	Change
Net Loss and LAE	$183,108	$118,077	$65,031
% of Gross earned premiums	36.3 %	29.5 %	6.8 pts
% of Net earned premiums	54.5 %	44.6 %	9.9 pts
Less:			
Current year catastrophe losses	$28,565	$829	$27,736
Prior year reserve development	(2,368)	(4,037)	1,669
Underlying loss and LAE*	$156,911	$121,285	$35,626
% of Gross earned premiums	31.1 %	30.3 %	0.8 pts
% of Net earned premiums	46.7 %	45.8 %	0.9 pts
Policy acquisition costs	$87,401	$65,657	$21,744
Operating and underwriting	15,316	11,746	3,570
General and administrative	29,852	20,007	9,845
Total Operating Expenses	$132,569	$97,410	$35,159
% of Gross earned premiums	26.3 %	24.3 %	2.0 pts
% of Net earned premiums	39.5 %	36.8 %	2.7 pts
Interest Expense	$326	$410	$(84)
Total Expenses	$316,003	$215,897	$100,106
Combined Ratio - as % of gross earned premiums	62.6 %	53.8 %	8.8 pts
Underlying Combined Ratio - as % of gross earned premiums	57.4 %	54.6 %	2.8 pts
Combined Ratio - as % of net earned premiums	94.0 %	81.4 %	12.6 pts
Underlying Combined Ratio - as % of net earned premiums	86.2 %	82.6 %	3.6 pts

* Underlying Loss and LAE is a non-GAAP measure and is reconciled above to Net Loss and LAE, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this document is in the "Definitions of Non-GAAP Measures" in Part II Item 7 of this document.

Losses and LAE increased $65,031,000, or 55.1% to $183,108,000 for the year ended December 31, 2015, from $118,077,000 in 2014 primarily due to the growth of policies in-force and a $27,736,000 increase in current year catastrophe losses. Current year catastrophe losses increased to $28,565,000 for the twelve months ended December 31, 2015 from $829,000, for the same period in 2014.

Policy acquisition costs increased $21,744,000, or 33.1% to $87,401,000 for the year ended December 31, 2015 from $65,657,000 for the same period in 2014, primarily due to our ongoing growth in gross earned premium.

Operating expenses increased $3,570,000, or 30.4% to $15,316,000 for the year ended December 31, 2015 from $11,746,000 for the same period in 2014 due to increased costs related our ongoing growth and continuing expansion into new states.

General and administrative expenses increased $9,845,000, or 49.2%, to $29,852,000 for the year ended December 31, 2015, from $20,007,000 for the same period in 2014 primarily due to an increase in personnel costs and infrastructure development related to our continued growth and ongoing systems migrations.

Our net loss and loss adjustment expense ratio history along with the impact of reserve development and catastrophe losses is as follows:

	Historical Reserve Development				
($ in thousands, except ratios)	2015	2014	2013	2012	2011
Reserve development (unfavorable)	$2,368	$4,037	$(4,078)	$(670)	$4,158
Development as a % of earnings before interest and taxes	5.7 %	6.2 %	11.7 %	4.3	