

UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
May 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from _____ to _____

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Address of principal executive offices)

(954) 958-1200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,331,319 shares of common stock, par value \$0.01 per share, outstanding on May 2, 2016.

UNIVERSAL INSURANCE HOLDINGS, INC.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

| | Page No. |
|---|----------|
| Item 1. <u>Financial Statements:</u> | 4 |
| <u>Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015 (unaudited)</u> | 4 |
| <u>Condensed Consolidated Statements of Income for the three month period ended March 31, 2016 and 2015 (unaudited)</u> | 5 |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three month period ended March 31, 2016 and 2015 (unaudited)</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows for the three month period ended March 31, 2016 and 2015 (unaudited)</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> | 7 |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 27 |
| Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u> | 36 |
| Item 4. <u>Controls and Procedures</u> | 37 |
| <u>PART II – OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 37 |
| Item 1A. <u>Risk Factors</u> | 38 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 38 |
| Item 6. <u>Exhibits</u> | 39 |
| <u>Signatures</u> | 40 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Universal Insurance Holdings, Inc. and Subsidiaries

Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the "Company") as of March 31, 2016 and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three-month period ended March 31, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of December 31, 2015 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 24, 2016. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Plante & Moran, PLLC
Chicago, Illinois

May 9, 2016

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

| | As of | |
|---|--------------|------------|
| | March 31, | December |
| | 2016 | 31, |
| | | 2015 |
| ASSETS | | |
| Cash and cash equivalents | \$ 160,034 | \$ 197,014 |
| Restricted cash and cash equivalents | 2,635 | 2,635 |
| Fixed maturities, at fair value | 488,725 | 416,083 |
| Equity securities, at fair value | 31,754 | 42,214 |
| Short-term investments, at fair value | 12,505 | 25,021 |
| Investment real estate, net | 8,110 | 6,117 |
| Prepaid reinsurance premiums | 119,927 | 114,673 |
| Reinsurance recoverable | 17,162 | 22,853 |
| Reinsurance receivable, net | 186 | 353 |
| Premiums receivable, net | 54,719 | 50,980 |
| Other receivables | 21,754 | 4,626 |
| Property and equipment, net | 28,070 | 27,065 |
| Deferred policy acquisition costs, net | 61,158 | 60,019 |
| Income taxes recoverable | 5,420 | 5,420 |
| Deferred income tax asset, net | 11,840 | 13,912 |
| Other assets | 4,997 | 4,563 |
| Total assets | \$ 1,028,996 | \$ 993,548 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Unpaid losses and loss adjustment expenses | \$ 84,975 | \$ 98,840 |
| Unearned premiums | 449,086 | 442,366 |
| Advance premium | 32,289 | 24,813 |
| Accounts payable | 3,894 | 378 |
| Reinsurance payable, net | 75,446 | 73,585 |
| Income taxes payable | 17,383 | — |
| Other liabilities and accrued expenses | 28,549 | 36,424 |
| Long-term debt | 23,077 | 24,050 |
| Total liabilities | 714,699 | 700,456 |
| Commitments and Contingencies (Note 12) | | |
| STOCKHOLDERS' EQUITY: | | |

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| | | |
|---|--------------|------------|
| Cumulative convertible preferred stock, \$.01 par value | — | — |
| Authorized shares - 1,000 | | |
| Issued shares - 10 and 10 | | |
| Outstanding shares - 10 and 10 | | |
| Minimum liquidation preference, \$9.99 and \$9.99 per share | | |
| Common stock, \$.01 par value | 453 | 455 |
| Authorized shares - 55,000 | | |
| Issued shares - 45,315 and 45,525 | | |
| Outstanding shares - 34,800 and 35,110 | | |
| Treasury shares, at cost - 10,515 and 10,415 | (82,676) | (80,802) |
| Additional paid-in capital | 70,280 | 70,789 |
| Accumulated other comprehensive income (loss), net of taxes | (725) | (4,006) |
| Retained earnings | 326,965 | 306,656 |
| Total stockholders' equity | 314,297 | 293,092 |
| Total liabilities and stockholders' equity | \$ 1,028,996 | \$ 993,548 |

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2016 | 2015 |
| PREMIUMS EARNED AND OTHER REVENUES | | |
| Direct premiums written | \$227,973 | \$211,605 |
| Ceded premiums written | (74,059) | (106,497) |
| Net premiums written | 153,914 | 105,108 |
| Change in net unearned premium | (1,466) | (10,748) |
| Premiums earned, net | 152,448 | 94,360 |
| Net investment income (expense) | 1,605 | 862 |
| Net realized gains (losses) on investments | 667 | 171 |
| Commission revenue | 4,113 | 3,168 |
| Policy fees | 4,114 | 3,832 |
| Other revenue | 1,499 | 1,417 |
| Total premiums earned and other revenues | 164,446 | 103,810 |
| OPERATING COSTS AND EXPENSES | | |
| Losses and loss adjustment expenses | 66,117 | 33,590 |
| General and administrative expenses | 57,230 | 32,197 |
| Total operating costs and expenses | 123,347 | 65,787 |
| INCOME BEFORE INCOME TAXES | 41,099 | 38,023 |
| Income tax expense | 15,873 | 15,693 |
| NET INCOME | \$25,226 | \$22,330 |
| Basic earnings per common share | \$0.73 | \$0.65 |
| Weighted average common shares outstanding - Basic | 34,527 | 34,578 |
| Fully diluted earnings per common share | \$0.71 | \$0.62 |
| Weighted average common shares outstanding - Diluted | 35,594 | 36,081 |
| Cash dividend declared per common share | \$0.14 | \$0.12 |

CONDENSED CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME (unaudited)

| | Three Months Ended March 31, | |
|------------|------------------------------------|----------|
| | 2016 | 2015 |
| Net income | \$25,226 | \$22,330 |

| | | |
|-----------------------------------|----------|----------|
| Other comprehensive income (loss) | 3,281 | 1,197 |
| Comprehensive income (loss) | \$28,507 | \$23,527 |

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2016 | 2015 |
| Cash flows from operating activities | \$43,737 | \$60,662 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property and equipment | — | 50 |
| Purchases of property and equipment | (1,728) | (7,613) |
| Payments to acquire a business | — | (1,000) |
| Purchases of equity securities | (20,178) | (17,056) |
| Purchases of fixed maturities | (95,889) | (24,965) |
| Purchases of investment real estate, net | (2,021) | — |
| Proceeds from sales of equity securities | 13,210 | 15,300 |
| Proceeds from sales of fixed maturities | 16,152 | 12,891 |
| Proceeds from sales of short-term investments | 12,500 | — |
| Maturities of fixed maturities | 10,504 | 19,786 |
| Maturities of short-term investments | — | 12,500 |
| Net cash provided by (used in) investing activities | (67,450) | 9,893 |
| Cash flows from financing activities: | | |
| Preferred stock dividend | (3) | (2) |
| Common stock dividend | (4,915) | (4,237) |
| Issuance of common stock | — | 503 |
| Purchase of treasury stock | (1,874) | — |
| Payments related to tax withholding for share-based compensation | (3,897) | (3,673) |
| Excess tax benefits (shortfall) from share-based compensation | (1,510) | 4,136 |
| Repayment of debt | (1,068) | (368) |
| Net cash provided by (used in) financing activities | (13,267) | (3,641) |
| Net increase (decrease) in cash and cash equivalents | (36,980) | 66,914 |
| Cash and cash equivalents at beginning of period | 197,014 | 115,397 |
| Cash and cash equivalents at end of period | \$160,034 | \$182,311 |
| Supplemental cash and non-cash flow disclosures: | | |
| Interest paid | \$196 | \$310 |
| Income taxes paid | \$— | \$1,619 |

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc. (“UVE”) is a Delaware corporation incorporated in 1990. UVE with its wholly-owned subsidiaries (the “Company”) is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned subsidiaries, Universal Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC”), together referred to as the “Insurance Entities,” the Company is principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company’s primary product is homeowners’ insurance currently offered in twelve states as of March 31, 2016, including Florida, which comprises the vast majority of the Company’s in-force policies. See “—Note 5 (Insurance Operations)” for more information regarding the Company’s insurance operations.

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

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements (“Financial Statements”) in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, the Financial Statements do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (“GAAP”) for complete financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the SEC on February 24, 2016. The condensed consolidated balance sheet at December 31, 2015, was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

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

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

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

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2015. There are no new or revised disclosures or disclosures required on a quarterly basis.

3. Investments

Securities Available for Sale

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

| | March 31, 2016 | | | |
|---|------------------------|------------------------|-------------------------|------------------|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Fixed Maturities: | | | | |
| U.S. government obligations and agencies | \$131,110 | \$ 904 | \$ (91) | \$131,923 |
| Corporate bonds | 157,358 | 1,410 | (445) | 158,323 |
| Mortgage-backed and asset-backed securities | 183,108 | 794 | (380) | 183,522 |
| Redeemable preferred stock | 9,518 | 444 | (11) | 9,951 |
| Other | 5,000 | 6 | — | 5,006 |
| Equity Securities: | | | | |
| Common stock | 215 | — | (96) | 119 |
| Mutual funds | 35,340 | 11 | (3,716) | 31,635 |
| Short-term investments | 12,504 | 1 | — | 12,505 |
| Total | \$534,153 | \$ 3,570 | \$ (4,739) | \$532,984 |

| | December 31, 2015 | | | |
|---|------------------------|------------------------|-------------------------|------------------|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Fixed Maturities: | | | | |
| U.S. government obligations and agencies | \$126,209 | \$ — | \$ (867) | \$125,342 |
| Corporate bonds | 126,421 | 137 | (1,041) | 125,517 |
| Mortgage-backed and asset-backed securities | 151,328 | 97 | (1,265) | 150,160 |
| Redeemable preferred stock | 9,665 | 429 | (29) | 10,065 |
| Other | 5,000 | — | (1) | 4,999 |
| Equity Securities: | | | | |
| Common stock | 10,991 | 15 | (244) | 10,762 |
| Mutual funds | 35,221 | 5 | (3,774) | 31,452 |
| Short-term investments | 25,011 | 10 | — | 25,021 |
| Total | \$489,846 | \$ 693 | \$ (7,221) | \$483,318 |

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

| Comparable Ratings | March 31, 2016 | | December 31, 2015 | |
|---------------------|----------------|-----------------------|-------------------|-----------------------|
| | Fair Value | % of Total Fair Value | Fair Value | % of Total Fair Value |
| AAA | \$105,619 | 21.1 % | \$103,097 | 23.4 % |
| AA | 250,589 | 50.0 % | 189,600 | 43.0 % |
| A | 67,894 | 13.5 % | 83,850 | 19.0 % |
| BBB | 72,580 | 14.5 % | 41,408 | 9.4 % |
| BB+ and Below | 1,537 | 0.3 % | 4,261 | 1.0 % |
| No Rating Available | 3,011 | 0.6 % | 18,888 | 4.2 % |
| Total | \$501,230 | 100.0 % | \$441,104 | 100.0 % |

The tables above include comparable credit quality ratings by Standard and Poor's Rating Services, Inc., Moody's Investors Service, Inc. and Fitch Ratings, Inc.

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

| | March 31, 2016 | | December 31, 2015 | |
|------------------------------------|-------------------|------------|-------------------|------------|
| | Cost or Amortized | | Cost or Amortized | |
| | Cost | Fair Value | Cost | Fair Value |
| Mortgage-backed securities: | | | | |
| Agency | \$83,623 | \$83,897 | \$74,353 | \$73,854 |
| Non-agency | 17,411 | 17,383 | 10,430 | 10,183 |
| Asset-backed securities: | | | | |
| Auto loan receivables | 39,247 | 39,360 | 29,883 | 29,712 |
| Credit card receivables | 34,706 | 34,763 | 32,225 | 31,985 |
| Other receivables | 8,121 | 8,119 | 4,437 | 4,426 |
| Total | \$183,108 | \$183,522 | \$151,328 | \$150,160 |

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

| | March 31, 2016 | | | | December 31, 2015 | |
|---|---------------------|------------|---------------------|-----------|-------------------|-------------------|
| | Less Than 12 Months | | 12 Months or Longer | | | |
| | Number of | Fair Value | Unrealized Losses | Number of | Fair Value | Unrealized Losses |
| Fixed maturities: | | | | | | |
| U.S. government obligations and agencies | 2 | \$28,934 | \$ (26) | 2 | \$3,506 | \$ (64) |
| Corporate bonds | 28 | 24,139 | (304) | 7 | 7,826 | (145) |
| Mortgage-backed and asset-backed securities | 17 | 32,977 | (198) | 5 | 12,486 | (118) |
| Redeemable preferred stock | 5 | 2,149 | (9) | 2 | 257 | (5) |
| Other | | | | | | |
| Equity securities: | | | | | | |
| Common stock | 1 | 67 | (13) | 2 | 119 | (96) |
| Mutual funds | 5 | 34,819 | (751) | 1 | 8,436 | (3,010) |
| Short-term investments | — | — | — | — | — | — |
| Total | 58 | \$123,085 | \$ (1,301) | 19 | \$32,630 | \$ (3,438) |

| | December 31, 2015 | | | | | |
|--|---------------------|------------|---------------------|-----------|------------|-------------------|
| | Less Than 12 Months | | 12 Months or Longer | | | |
| | Number of | Fair Value | Unrealized Losses | Number of | Fair Value | Unrealized Losses |

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| | Fair | | | Fair | | |
|---|------------|------------------|--------------------|-----------|-----------------|--------------------|
| | Issues | Value | Losses | Issues | Value | Losses |
| Fixed maturities: | | | | | | |
| U.S. government obligations and agencies | 10 | \$121,912 | \$ (690) | 2 | \$3,429 | \$ (177) |
| Corporate bonds | 101 | 90,717 | (927) | 6 | 4,789 | (114) |
| Mortgage-backed and asset-backed securities | 51 | 118,743 | (974) | 6 | 13,902 | (291) |
| Redeemable preferred stock | 5 | 764 | (29) | — | — | — |
| Other | 1 | 4,999 | (1) | — | — | |
| Equity securities: | | | | | | |
| Common stock | 3 | 8,690 | (148) | 2 | 93 | (96) |
| Mutual funds | 3 | 13,192 | (374) | 1 | 7,867 | (3,400) |
| Total | 174 | \$359,017 | \$ (3,143) | 17 | \$30,080 | \$ (4,078) |

At March 31, 2016, the Company held fixed maturity, equity securities and short-term investments that were in an unrealized loss position as presented in the table above. For fixed maturity securities with significant declines in value, the Company performs quarterly fundamental credit analysis on a security-by-security basis, which includes consideration of credit quality and credit ratings, review of relevant industry analyst reports and other available market data. For fixed maturity, equity securities and short-term investments, the Company considers whether it has the intent and ability to hold the securities for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the security's decline in fair value is considered other than temporary and is recorded in earnings. Based upon management's intent and

ability to hold the securities until recovery and its credit analysis of the individual issuers of the securities, management has no reason to believe the unrealized losses for securities available for sale at March 31, 2016 are other than temporary.

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

| | March 31, 2016 | |
|---|----------------|-----------|
| | Cost or | Fair |
| | Amortized Cost | Value |
| Due in one year or less | \$34,979 | \$34,960 |
| Due after one year through five years | 266,958 | 268,810 |
| Due after five years through ten years | 3,006 | 3,055 |
| Due after ten years | 3,990 | 4,084 |
| Mortgage-backed and asset-backed securities | 183,108 | 183,522 |
| Perpetual maturity securities | 6,557 | 6,799 |
| Total | \$498,598 | \$501,230 |

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

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

| | Three Months Ended | |
|-----------------------------|--------------------|----------|
| | March 31, | |
| | 2016 | 2015 |
| Sales proceeds (fair value) | \$60,167 | \$40,595 |
| Gross realized gains | \$685 | \$186 |
| Gross realized losses | \$(18) | \$(15) |

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

| | Three Months Ended | |
|------------------|--------------------|---------|
| | March 31, | |
| | 2016 | 2015 |
| Fixed maturities | \$1,831 | \$1,184 |

| | | |
|---------------------------------|---------|--------|
| Equity securities | 203 | 57 |
| Short-term investments | 115 | 38 |
| Other (1) | 73 | 66 |
| Total investment income | 2,222 | 1,345 |
| Less: Investment expenses (2) | (617) | (483) |
| Net investment (expense) income | \$1,605 | \$862 |

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

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

Investment Real Estate

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

| | March 31, 2016 | December 31, 2015 |
|--------------------------------|----------------------|----------------------|
| Investment real estate | \$8,242 | \$ 6,220 |
| Less: Accumulated depreciation | (132) | (103) |
| Investment real estate, net | \$8,110 | \$ 6,117 |

4. Reinsurance

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

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

Amounts recoverable from reinsurers are estimated in a manner consistent with the terms of the respective reinsurance contracts. Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the respective reinsurance contracts. Ceding commissions received in connection with quota share reinsurance are deferred and netted against deferred policy acquisition costs and amortized over the effective period of the related insurance policies.

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

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

| Reinsurer | Ratings as of March 31, 2016 | | | Due from as of | |
|------------------------------------|------------------------------|--------------------|----------------------------|----------------------|-------------------------|
| | AM Best Company | Rating Services | Investors Service, Inc. | March 31, 2016 | December 31, 2015 |
| Florida Hurricane Catastrophe Fund | n/a | n/a | n/a | 16,834 | 42,086 |
| Odyssey Reinsurance Company | A | A- | A3 | 13,393 | 18,742 |
| Total (1) | | | | \$30,227 | \$ 60,828 |

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

n/a No rating available, because this state trust fund, which is under the direction of the Florida State Board of Administration, is not rated.

12

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

| | Three Months Ended March 31, 2016 | | | 2015 | | |
|--------|--------------------------------------|--------------------|---|---------------------|--------------------|---|
| | Premiums Written | Premiums Earned | Losses and Loss Adjustment Expenses | Premiums Written | Premiums Earned | Losses and Loss Adjustment Expenses |
| Direct | \$227,973 | \$221,252 | \$ 66,148 | \$211,605 | \$196,671 | \$ 49,290 |
| Ceded | (74,059) | (68,804) | (31) | (106,497) | (102,311) | (15,700) |
| Net | \$153,914 | \$152,448 | \$ 66,117 | \$105,108 | \$94,360 | \$ 33,590 |

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

| | March 31, 2016 | December 31, 2015 |
|--|----------------------|-------------------------|
| Prepaid reinsurance premiums | \$119,927 | \$114,673 |
| Reinsurance recoverable on unpaid losses and LAE | \$7,709 | \$13,540 |
| Reinsurance recoverable on paid losses | 9,453 | 9,313 |
| Reinsurance receivable, net | 186 | 353 |
| Reinsurance recoverable and receivable | \$17,348 | \$23,206 |

5. Insurance Operations

Deferred Policy Acquisition Costs, net

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

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

| | Three Months Ended March 31, | |
|---------------------------------------|------------------------------------|----------|
| | 2016 | 2015 |
| DPAC, beginning of period | \$60,019 | \$54,603 |
| Capitalized Costs | 30,735 | 28,567 |
| Amortization of DPAC | (29,596) | (26,987) |
| DPAC, end of period | \$61,158 | \$56,183 |
| DRCC, beginning of period | \$— | \$28,943 |
| Ceding Commissions Written | — | 17,661 |
| Earned Ceding Commissions | — | (16,616) |
| DRCC, end of period | \$— | \$29,988 |
| DPAC (DRCC), net, beginning of period | \$60,019 | \$25,660 |
| Capitalized Costs, net | 30,735 | 10,906 |
| Amortization of DPAC (DRCC), net | (29,596) | (10,371) |
| DPAC (DRCC), net, end of period | \$61,158 | \$26,195 |

Liability for Unpaid Losses and Loss Adjustment Expenses

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

| | Three Months Ended March 31, | |
|------------------------------------|---------------------------------|-----------|
| | 2016 | 2015 |
| Balance at beginning of period | \$98,840 | \$134,353 |
| Less: Reinsurance recoverable | (13,540) | (47,350) |
| Net balance at beginning of period | 85,300 | 87,003 |
| Incurred (recovered) related to: | | |
| Current year | 66,101 | 33,559 |
| Prior years | 16 | 27 |
| Total incurred | 66,117 | 33,586 |
| Paid related to: | | |

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| | | |
|-------------------------------|----------|-----------|
| Current year | 18,618 | 6,789 |
| Prior years | 55,533 | 31,352 |
| Total paid | 74,151 | 38,141 |
| Net balance at end of period | 77,266 | 82,448 |
| Plus: Reinsurance recoverable | 7,709 | 42,713 |
| Balance at end of period | \$84,975 | \$125,161 |

Regulatory Requirements and Restrictions

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

In accordance with Florida Statutes, and based on the calculations performed by the Company as of December 31, 2015, UPCIC has the capacity to pay ordinary dividends of \$52.9 million during 2016. APPCIC does not have the capacity to pay ordinary dividends during 2016. For the three months ended March 31, 2016, no dividends were paid from UPCIC or APPCIC to UVECF. Dividends paid to the shareholders of UVE in 2016 have been paid from the earnings of UVE and its non-insurance subsidiaries.

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

| | March 31, 2016 | December 31, 2015 |
|----------------------------------|----------------------|-------------------------|
| Ten percent of total liabilities | | |
| UPCIC | \$57,002 | \$55,928 |
| APPCIC | \$449 | \$463 |
| Statutory capital and surplus | | |
| UPCIC | \$274,069 | \$256,987 |
| APPCIC | \$14,754 | \$14,777 |

As of the dates in the table above, both UPCIC and APPCIC met the capitalization requirement. UPCIC also met the capitalization requirements of the other states in which it is licensed as of March 31, 2016. UPCIC and APPCIC are also required to adhere to prescribed premium-to-capital surplus ratios and have met those requirements at such dates.

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

| | March | December |
|--------------------------------------|---------|----------|
| | 31, | 31, |
| | 2016 | 2015 |
| Restricted cash and cash equivalents | \$2,635 | \$ 2,635 |
| Investments | \$3,964 | \$ 3,876 |

6. Long-Term Debt

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

| | March 31, 2016 | December 31, 2015 |
|-----------------|----------------------|-------------------------|
| Surplus note | \$ 15,441 | \$ 15,809 |
| Term loan | 6,946 | 6,851 |
| Promissory note | 690 | 1,390 |
| Total | \$ 23,077 | \$ 24,050 |

In addition to the long-term debt listed above, UVE has an unsecured line of credit and had not drawn any amounts under that debt facility. The term loan and unsecured line of credit contain certain covenants and restrictions applicable while amounts are outstanding thereunder. Pursuant to the agreements underlying the term loan and unsecured line of credit, UVE will be prohibited from paying dividends to its shareholders should UVE default on such underlying agreements. UVE was in compliance with the covenants of the term loan as of March 31, 2016. UPCIC was in compliance with the terms of the surplus note as of March 31, 2016.

7. Stockholders' Equity

Common Stock

The following table summarizes the activity relating to shares of the Company's common stock and contingently redeemable common stock during the three months ended March 31, 2016 (in thousands):

| | Issued Shares | Treasury Shares | Outstanding Shares |
|---|------------------|--------------------|-----------------------|
| Balance, as of December 31, 2015 | 45,525 | (10,415) | 35,110 |
| Shares repurchased | — | (100) | (100) |
| Shares acquired through cashless exercise (1) | — | (210) | (210) |
| Shares cancelled | (210) | 210 | — |
| Balance, as of March 31, 2016 | 45,315 | (10,515) | 34,800 |

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

In November 2015, UVE announced that its Board of Directors authorized a share repurchase program under which UVE may repurchase in the open market in compliance with Exchange Act Rule 10b-18 up to \$10 million of its outstanding shares of common stock through December 31, 2016. During the three months ended March 31, 2016, UVE repurchased 100,000 shares, at an aggregate price of \$1.9 million, pursuant to such repurchase program.

Dividends

On January 14, 2016, UVE declared a cash dividend of \$0.14 per share on its outstanding common stock paid on March 2, 2016, to the shareholders of record at the close of business on February 18, 2016.

8. Related Party Transactions

Scott P. Callahan, a director of the Company, provided the Company with consulting services and advice with respect to the Company's reinsurance and related matters through SPC Global RE Advisors LLC, an entity affiliated with Mr. Callahan. The Company entered into the consulting agreement with SPC Global RE Advisors LLC effective June 6, 2013. The Company and SPC Global RE Advisors LLC terminated the consulting agreement on September 18, 2015 by mutual consent.

The following table provides payments made by the Company for the periods presented (in thousands):

| | |
|----------------------------|--|
| | Three Months Ended March 31, 2016 |
| SPC Global RE Advisors LLC | \$—\$ 30 |

There were no amounts due to SPC Global RE Advisors LLC as of March 31, 2016, and December 31, 2015, respectively. Payments due to SPC Global RE Advisors LLC were generally made in the month the services were provided.

9. Income Taxes

During the three months ended March 31, 2016 and 2015, the Company recorded approximately \$15.9 million and \$15.7 million of income taxes, respectively. The effective tax rate for the quarter ending March 31, 2016 is 38.6% compared to a 41.3% effective tax rate for the same period in the prior year.

In arriving at these rates, the Company considers a variety of factors including the forecasted full year pre-tax results, the U.S. federal tax rate of 35%, expected non-deductible expenses, and estimated state income taxes. The Company's final effective tax rate for the full year will be dependent on the level of pre-tax income, the apportionment of taxable income between state tax jurisdictions and the extent of non-deductible expenses in relation to pre-tax income.

The reduction in the Company's effective tax rates for the three months ended March 31, 2016 compared to the same periods in 2015 was primarily the result of:

- a reduction in the amount of non-deductible executive compensation, and
- lower state income taxes as the Company diversifies outside of Florida.

Tax years that remain open for purposes of examination of the Company's income tax liability due to taxing authorities, include the years ended December 31, 2014, 2013 and 2012. The Company received notice from the IRS Joint Committee on Taxation that it has completed its consideration of the audit relating to the loss carryback of realized losses from securities sold during 2012 and applied to 2009. The IRS Joint Committee on Taxation has taken no exception to the conclusion reached by the Internal Revenue Service, the result of which yielded no material change.

10. Earnings Per Share

Basic earnings per share (“EPS”) is based on the weighted average number of common shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution resulting from the exercise of stock options, vesting of restricted stock and conversion of preferred stock.

The following table reconciles the numerator (i.e., income) and denominator (i.e., shares) of the basic and diluted earnings per share computations for the periods presented (in thousands, except per share data):

| | Three Months Ended March 31, 2016 2015 | |
|--|--|----------|
| Numerator for EPS: | | |
| Net income | \$25,226 | \$22,330 |
| Less: Preferred stock dividends | (3) | (2) |
| Income available to common stockholders | \$25,223 | \$22,328 |
| Denominator for EPS: | | |
| Weighted average common shares outstanding | 34,527 | 34,578 |
| Plus: Assumed conversion of stock-based compensation (1) | 1,042 | 1,468 |
| Assumed conversion of preferred stock | 25 | 35 |
| Weighted average diluted common shares outstanding | 35,594 | 36,081 |
| Basic earnings per common share | \$0.73 | \$0.65 |
| Diluted earnings per common share | \$0.71 | \$0.62 |

(1) Represents the dilutive effect of unvested restricted stock and unexercised stock options.

11. Other Comprehensive Income (Loss)

The following table provides the components of other comprehensive income (loss) on a pre-tax and after-tax basis for the periods presented (in thousands):

| | For the Three Months Ended March 31, | | | | | |
|---|--------------------------------------|---------|-----------|----------|-------|-----------|
| | 2016 | | | 2015 | | |
| | Pre-tax | Tax | After-tax | Pre-tax | Tax | After-tax |
| Net unrealized gains (losses) on investments available for sale | | | | | | |
| arising during the period | \$6,020 | \$2,327 | \$ 3,693 | \$2,121 | \$818 | \$ 1,303 |
| Less: Amounts reclassified from accumulated other comprehensive income (loss) | (667) | (255) | (412) | (171) | (65) | (106) |
| Net current period other comprehensive income (loss) | \$5,353 | \$2,072 | \$ 3,281 | \$ 1,950 | \$753 | \$ 1,197 |

The following table provides the reclassifications out of accumulated other comprehensive income for the periods presented (in thousands):

| Details about Accumulated Other Comprehensive Income Components | Amounts Reclassified from Accumulated Other Comprehensive Income Three Months Ended March | | Affected Line Item in the Statement Where Net Income is Presented |
|---|---|--------|---|
| | 31, 2016 | 2015 | |
| Unrealized gains (losses) on investments available for sale | \$ 667 | \$ 171 | Net realized gains (losses) on investments |
| | (255) | (65) | Income taxes |
| | \$412 | \$ 106 | Net of tax |

12. Commitments and Contingencies

Litigation

Certain lawsuits have been filed against the Company. These lawsuits generally involve matters related to the claims aspect of the Company's business. The Company contests liability and/or the amount of damages as appropriate in each pending matter. In accordance with applicable accounting guidance, the Company establishes an accrued liability for legal matters when those matters present loss contingencies that are both probable and estimable.

Legal proceedings are subject to many uncertain factors that generally cannot be predicted with assurance, and the Company may be exposed to losses in excess of any amounts accrued. The Company currently estimates that the reasonably possible losses for legal proceedings, whether in excess of a related accrued liability or where there is no accrued liability, and for which the Company is able to estimate a possible loss, are immaterial. This represents management's estimate of possible loss with respect to these matters and is based on currently available information. This estimate of possible loss does not represent our maximum loss exposure. The legal proceedings underlying the estimate will change from time to time and actual results may vary significantly from current estimates.

13. Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAP describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. GAAP does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1 — Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 — Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Summary of significant valuation techniques for assets measured at fair value on a recurring basis

Level 1

Common stock: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Mutual funds: Comprise actively traded funds. Valuation is based on daily quoted net asset values for identical assets in active markets that the Company can access.

Level 2

U.S. government obligations and agencies: Comprise U.S. Treasury Bills or Notes or U.S. Treasury Inflation Protected Securities. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Corporate Bonds: Comprise investment-grade fixed income securities. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Mortgage-backed and asset-backed securities: Comprise securities that are collateralized by mortgage obligations and other assets. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields, collateral performance and credit spreads.

Redeemable Preferred Stock: Comprise preferred stock securities that are redeemable. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.

Short-term investments: Comprise investment securities subject to remeasurement with original maturities within one year but more than three months. The primary inputs to the valuation include quoted prices for identical or similar

assets in markets that are not active.

Other: Comprise investment securities subject to remeasurement with original maturities beyond one year. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.

As required by GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the placement of the asset or liability within the fair value hierarchy levels.

23

The following tables set forth by level within the fair value hierarchy the Company's assets that were measured at fair value including those on a recurring basis as of the dates presented (in thousands):

| | Fair Value Measurements | | | |
|---|-------------------------|------------------|------------|------------------|
| | March 31, 2016 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed maturities: | | | | |
| U.S. government obligations and agencies | \$— | \$131,923 | \$— | \$131,923 |
| Corporate bonds | — | 158,323 | — | 158,323 |
| Mortgage-backed and asset-backed securities | — | 183,522 | — | 183,522 |
| Redeemable preferred stock | — | 9,951 | — | 9,951 |
| Other | — | 5,006 | — | 5,006 |
| Equity securities: | | | | |
| Common stock | 119 | — | — | 119 |
| Mutual funds | 31,635 | — | — | 31,635 |
| Short-term investments | — | 12,505 | — | 12,505 |
| Total assets accounted for at fair value | \$31,754 | \$501,230 | \$— | \$532,984 |

| | Fair Value Measurements | | | |
|---|-------------------------|------------------|------------|------------------|
| | December 31, 2015 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed maturities: | | | | |
| U.S. government obligations and agencies | \$— | \$125,342 | \$— | \$125,342 |
| Corporate bonds | — | 125,517 | — | 125,517 |
| Mortgage-backed and asset-backed securities | — | 150,160 | — | 150,160 |
| Redeemable preferred stock | — | 10,065 | — | 10,065 |
| Other | — | 4,999 | — | 4,999 |
| Equity securities: | | | | |
| Common stock | 10,762 | — | — | 10,762 |
| Mutual funds | 31,452 | — | — | 31,452 |
| Short-term investments | — | 25,021 | — | 25,021 |
| Total assets accounted for at fair value | \$42,214 | \$441,104 | \$— | \$483,318 |

The Company utilizes third-party independent pricing services that provide a price quote for each fixed maturity, equity security and short-term investment. Management reviews the methodology used by the pricing services. If management believes that the price used by the pricing service does not reflect an orderly transaction between participants, management will use an alternative valuation methodology. There were no adjustments made by the Company to the prices obtained from the independent pricing source for any fixed maturities or equity securities included in the tables above.

The following table summarizes the carrying value and estimated fair values of the Company's financial instruments that are not carried at fair value as of the dates presented (in thousands):

| | March 31, 2016 | | December 31, 2015 | |
|----------------------------|----------------|-----------|-------------------|-----------|
| | (Level 3) | | (Level 3) | |
| | Estimated Fair | | Estimated Fair | |
| | Carrying | Value | Carrying | Value |
| Liabilities (debt): | | | | |
| Surplus note | \$ 15,441 | \$ 13,688 | \$ 15,809 | \$ 14,166 |
| Term loan | \$ 6,946 | \$ 6,946 | \$ 6,851 | \$ 6,851 |
| Promissory note | \$ 690 | \$ 690 | \$ 1,390 | \$ 1,390 |

Level 3

Long-term debt: The fair value of the surplus note was determined by management from the expected cash flows discounted using the interest rate quoted by the holder. The State Board of Administration of Florida (“SBA”) is the holder of the surplus note and the quoted interest rate is below prevailing rates quoted by private lending institutions. However, as the Company’s use of funds from the surplus note is limited by the terms of the agreement, the Company has determined the interest rate quoted by the SBA to be appropriate for purposes of establishing the fair value of the note.

The fair value of the term loan approximates the carrying value given the original issue discount which was calculated based on the present value of future cash flows using the Company's effective borrowing rate. The fair value of the promissory note is not materially different than its carrying value.

14. Subsequent Events

The Company performed an evaluation of subsequent events through the date the Financial Statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the Financial Statements as of March 31, 2016.

On April 13, 2016, the Company declared a cash dividend of \$0.14 per share on its outstanding common stock to be paid on July 5, 2016 to shareholders of record at the close of business on June 15, 2016.

On April 28, 2016, the Company sold 583,771 shares of UVE common stock in a private placement to RenaissanceRe Ventures Ltd. ("RenRe") at a price of \$17.13 per share for total consideration of \$10 million, which was comprised of \$2,965,000 in cash and \$7,035,000 in cancellation of outstanding indebtedness.

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

Unless the context otherwise requires, all references to "we," "us," "our," and "Company" refer to Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries. You should read the following discussion together with our condensed consolidated financial statements ("Financial Statements") and the related notes thereto included in Part I, Item 1 "Financial Statements." Operating results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for the year.

Forward-Looking Statements

In addition to historical information, the following discussion may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act. Forward-looking statements are based on various factors and assumptions that include known and unknown risks and uncertainties, some of which are beyond our control and cannot be predicted or quantified. Certain statements made in this report reflect management's expectations regarding future events, and the words "expect," "estimate," "anticipate," "believe," "intend," "project," "plan" and similar expressions and variations thereof, speak only as of the date the statement was made and are intended to identify forward-looking statements. Such statements may include, but not be limited to, projections of revenues, income or loss, expenses, plans, as well as assumptions relating to the foregoing. Future results could differ materially from those in the following discussion and those described in forward-looking statements as a result of the risks set forth below which are a summary of those set forth in our Annual Report on Form 10-K for the year ended December 31, 2015.

Risks Relating to our Business

- As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events
- Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition
- Our success depends in part on our ability to accurately price the risks we underwrite
- Unanticipated increases in the severity or frequency of claims may adversely affect our profitability and financial condition
- The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations
- Because we rely on independent insurance agents, the loss of these independent agent relationships and the business they control or our ability to attract new independent agents could have an adverse impact on our business
- The inherent uncertainty of models and our reliance on such models as a tool to evaluate risks may have an adverse effect on our financial results
- Reinsurance may be unavailable in the future at current levels and prices, which may limit our ability to write new business or to adequately mitigate our exposure to loss
- Reinsurance subjects us to the credit risk of our reinsurers, which could have a material adverse effect on our operating results and financial condition
- Our financial condition and operating results and the financial condition and operating results of our Insurance Entities may be adversely affected by the cyclical nature of the property and casualty business
- Because we conduct the substantial majority of our business in Florida, our financial results depend on the regulatory, economic and weather conditions in Florida
- Changing climate conditions may adversely affect our financial condition, profitability or cash flows
 - We have entered and in the future may enter new markets, but there can be no assurance that our diversification and growth strategy will be effective
- Loss of key executives or our inability to otherwise attract and retain talent could affect our operations
-

We could be adversely affected if our controls designed to ensure compliance with guidelines, policies and legal regulatory standards are not effective

- The failure of our claims department to effectively manage claims could adversely affect our insurance business, financial results and capital requirements
- Litigation or regulatory actions could have a material adverse impact on us

27

- Our future results are dependent in part on our ability to successfully operate in a highly competitive insurance industry
- A downgrade in our Financial Stability Rating® may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition
- Breaches of our information systems or denial of service on our website could have an adverse impact on our business and reputation
- Lack of effectiveness of exclusions and other loss limitation methods in the insurance policies we write could have a material adverse effect on our financial condition or our results of operations

Risks Relating to Investments

- We are subject to market risk which may adversely affect investment income
- Our overall financial performance is dependent in part on the returns on our investment portfolio, which may have a material adverse effect on our financial condition or results of operations or cause such results to be volatile

Risks Relating to the Insurance Industry

- We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth
- UVE is a holding company and, consequently, its cash flow is dependent on dividends and other permissible payments from its subsidiaries
- Regulation limiting rate changes and requiring us to participate in loss sharing or assessments may decrease our profitability
- The amount of statutory capital that each of the Insurance Entities has and the amount of statutory capital it must hold can vary and are sensitive to a number of factors outside of our control, including market conditions and the regulatory environment and rules
- Our Insurance Entities are subject to examination and actions by state insurance departments

Risks Relating to Debt Obligations

- Our revolving line of credit and term loan have restrictive terms, and our failure to comply with any of these terms could have an adverse effect on our business and prospects
- Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms

Risks Relating to Ownership of Our Common Stock

- The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.
- Any issuance of preferred stock could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.
- Future sales of our common stock may depress our stock price.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Universal Insurance Holdings, Inc. and its wholly-owned consolidated subsidiaries. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and accompanying notes in Item 1 above.

Overview

Universal Insurance Holdings, Inc. ("UVE," and together with its wholly-owned subsidiaries, "we," "our," "us." or "the Company") is the largest private personal residential insurance company in Florida by direct written premium in-force, with a 9.16% market share as of December 31, 2015, according to the most recent data reported by the Florida Office of Insurance Regulation ("FLOIR"). We perform substantially all aspects of insurance underwriting, policy issuance, general administration and claims processing and settlement internally through our vertically integrated operations.

Our wholly-owned licensed insurance subsidiaries, Universal

28

Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC”), currently write personal residential insurance policies, predominantly in Florida with \$209.4 million in direct written premium for the three months ended March 31, 2016. UPCIC also writes homeowners insurance policies in Delaware, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Michigan, Minnesota, North Carolina, Pennsylvania and South Carolina, with \$18.6 million in direct written premium in those states for the three months ended March 31, 2016, and is licensed to issue policies in Alabama, New Hampshire, New Jersey, New York, Virginia and West Virginia.

We generate revenues primarily from the collection of premiums. The nature of our business tends to be seasonal, reflecting consumer behaviors in connection with the Florida residential real estate market and the hurricane season. The amount of direct written premium tends to increase just prior to the second quarter of our fiscal year and to decrease approaching the fourth quarter. Other sources of revenue include: commissions paid by our reinsurers to our reinsurance intermediary subsidiary Blue Atlantic Reinsurance Company, policy fees collected from policyholders by our managing general agency subsidiary Universal Risk Advisors and financing fees charged to policyholders who choose to defer premium payments. We also generate income by investing our assets.

Over the past several years, we have grown our business both within Florida and elsewhere in the United States through our distribution network of approximately 7,800 licensed independent agents. Our goals are to profitably grow our business, invest in our vertically integrated structure and independent agent network, and return value to shareholders. Some of our key strategies include increasing our policies in force in Florida through continued profitable and organic growth; expanding into other states to diversify our revenue and risk; optimizing our reinsurance program; and continuing to provide high quality service through our vertically integrated structure. We believe each of these strategies has contributed towards an increase in earnings and earnings per share as well as an improvement in our overall financial condition. See “—Results of Operations” below for a discussion of our quarterly results for the three months ended March 31, 2016 compared to the same period in 2015.

Our overall organic growth strategy emphasizes taking prudent measures to increase our policy count and improving the quality of our business rather than merely increasing our policy count. Our goal is to write risks that are priced adequately and meet our underwriting standards. We believe that our strategy of expanding the size of our business through our independent agent distribution network, streamlining claims management and balancing appropriate pricing with disciplined underwriting standards will maximize our profitable growth. Our focus on long-term capital strength and organic growth causes us to be selective in the risks we accept. We also intend to continue our expansion outside of Florida in markets that allow us to write profitable business and to diversify our revenue and risk. Upon entering new markets, we leverage our existing independent agent network to generate new relationships and business and take the time to learn about each new market and any of its unique risks in order to carefully develop our own policy forms, rates and informed underwriting standards. Our expansion efforts differ from our competitors that have grown in recent years primarily through assumption of policies from Citizens Property Insurance Corporation.

As a result of our organic growth strategy and initiatives, we have seen increases in policy count and insured value in all states since March 31, 2014. As for states outside of Florida, our total insured value increased from 10.2% as of March 31, 2014 to 17.1% as of March 31, 2016. The following table provides direct written premium for Florida and other states for the three months ended March 31, 2016 and 2015 (dollars in thousands):

| Three Months Ended | Three Months Ended |
|-----------------------|-----------------------|
| March 31, 2016 | March 31, 2015 |

| State | Direct Written Premium | % | Direct Written Premium | % |
|--------------|------------------------------|---------|------------------------------|---------|
| Florida | 209,360 | 91.8 % | \$ 199,102 | 94.1 % |
| Other states | 18,613 | 8.2 % | 12,503 | 5.9 % |
| Grand total | 227,973 | 100.0 % | \$ 211,605 | 100.0 % |

Our ability to achieve rate adequacy relative to the risks written improved our underwriting profit and together with our improved financial strength led to our decision to retain a greater share of our profitable business by reducing our quota share cession rate in our 2014-2015 reinsurance program and eliminating the use of quota share reinsurance in our 2015-2016 reinsurance program.

First-Quarter 2016 Highlights

- Net earned premiums grew by \$58.1 million, or 61.6%, to \$152.4 million compared to the first quarter of 2015.
- Total revenues increased by \$60.6 million, or 58.4%, to \$164.4 million compared to the first quarter of 2015.
- Net income increased by \$2.9 million, or 13.0%, to \$25.2 million compared to the first quarter of 2015.
- Diluted earnings per share grew by \$0.09, or 14.5%, to \$0.71 per share compared to the first quarter of 2015.

29

- Paid dividends of \$0.14 per share.
- Received Certificates of Authority from New York and New Jersey.
- Wrote our first policy in Michigan.
- Launched beta test of Universal Direct®, a Direct-to-Consumer online platform for homeowners insurance and wrote our first policy.

2015 – 2016 Reinsurance Program

Developing and implementing our reinsurance strategy to adequately protect us in the event of one or more catastrophes while maintaining efficient reinsurance costs has been a key focus for our leadership team. We believe that our reinsurance program is structured such that if we were to experience an active hurricane season like the hurricane seasons in 2004 and 2005, we would be able to pay policyholder claims, maintain sufficient surplus to grow profitably and take advantage of the resulting market dislocation that would likely follow. Effective June 1, 2015, we entered into multiple reinsurance agreements comprising our 2015-2016 reinsurance program. See “Item 1—Note 4 (Reinsurance).”

Reinsurance Generally

We use reinsurance to reduce our exposure to catastrophic losses primarily through excess of loss reinsurance. We believe that the overall terms of the 2015-2016 reinsurance program are more favorable than the 2014-2015 reinsurance program. We eliminated our quota share reinsurance arrangements effective June 1, 2015; purchased additional excess of loss catastrophe cover; converted the exposure of all UPCIC states from a two-tower reinsurance program to a single tower reinsurance program; realized cost reductions in part due to market conditions and our preparation and efforts to manage risk exposure; and further enhanced our reinsurance coverage terms and conditions.

By eliminating our quota share arrangements, we now retain a greater percentage of gross written premiums than we did under our 2014-2015 reinsurance program. Our termination of the quota share arrangements was on a cut-off basis, taking back previously ceded premium that was unearned at the date of the termination. We expect to increase our overall profitability by retaining more premium; however, the elimination of the quota share cession in its entirety affects several line items in our Condensed Consolidated Statements of Income. In eliminating the quota share, we increase the amount of premium we retain as well as the related risk. This results in an increase in both earned premiums and losses and LAE. The elimination of the quota share also ends any ceding commissions we would otherwise receive, which would offset costs associated with writing premium. This elimination of ceding commissions increases general and administrative expenses.

We believe that restructuring our reinsurance program and re-evaluating that structure on an ongoing basis has allowed us to take advantage of attractive reinsurance pricing, while still maintaining reinsurance coverage that we believe is sufficient to protect our policyholders and shareholders. While we believe the changes to the current reinsurance program are beneficial, there can be no assurance that our actual results of operations or financial condition will be positively affected. The Insurance Entities remain responsible for insured losses notwithstanding the failure of any reinsurer to make payments otherwise due to the Insurance Entities.

Refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 for discussions surrounding the reinsurance programs of UPCIC and APPCIC.

UVE Insurance Risk-Linked Contract

Separate from the Insurance Entities' reinsurance programs, which provide protection for the Insurance Entities in the event we experience catastrophic losses, UVE also protects itself against diminution in value due to catastrophe events by purchasing a loss warranty contract that would provide a payment to UVE of \$80 million plus an amount equal to the forgiveness of related debt through a catastrophe risk-linked transaction contract, effective June 1, 2013 through May 31, 2016. This contract provides for recovery by UVE in the event of exhaustion of UPCIC's catastrophe coverage. The total cost to UVE of this risk-linked transaction contract is \$9.0 million per year for each of the three years.

Results of Operations—Three Months Ended March 31, 2016, Compared to Three Months Ended March 31, 2015

Net income increased by \$2.9 million, or 13.0%, to \$25.2 million for the three months ended March 31, 2016, compared to \$22.3 million for the three months ended March 31, 2015. This \$2.9 million increase reflects an increase in net earned premiums, net investment income, realized gains, commissions, policy fees and other revenue, partially offset by increases in operating expenses. The reduction in and the ultimate elimination of the cession rate of our quota share reinsurance contracts is a significant factor behind our results. Diluted earnings per common share increased by \$0.09, or 14.5%, to \$0.71 for the three months ended March 31, 2016, compared to \$0.62 for the three months ended March 31, 2015, as a result of an increase in net income, and a slight decrease in weighted average diluted shares outstanding. A more detailed discussion of this and other factors follows the table below.

| | Three Months Ended | | Change | |
|---|--------------------|-----------------|----------------|---------------|
| | March 31, 2016 | 2015 | \$ | % |
| PREMIUMS EARNED AND OTHER REVENUES | | | | |
| Direct premiums written | \$227,973 | \$211,605 | \$16,368 | 7.7 % |
| Ceded premiums written | (74,059) | (106,497) | 32,438 | -30.5 % |
| Net premiums written | 153,914 | 105,108 | 48,806 | 46.4 % |
| Change in net unearned premiums | (1,466) | (10,748) | 9,282 | -86.4 % |
| Premiums earned, net | 152,448 | 94,360 | 58,088 | 61.6 % |
| Net investment income (expense) | 1,605 | 862 | 743 | 86.2 % |
| Net realized gains (losses) on investments | 667 | 171 | 496 | 290.1 % |
| Commission revenue | 4,113 | 3,168 | 945 | 29.8 % |
| Policy fees | 4,114 | 3,832 | 282 | 7.4 % |
| Other revenue | 1,499 | 1,417 | 82 | 5.8 % |
| Total premiums earned and other revenues | 164,446 | 103,810 | 60,636 | 58.4 % |
| OPERATING COSTS AND EXPENSES | | | | |
| Losses and loss adjustment expenses | 66,117 | 33,590 | 32,527 | 96.8 % |
| General and administrative expenses | 57,230 | 32,197 | 25,033 | 77.7 % |
| Total operating costs and expenses | 123,347 | 65,787 | 57,560 | 87.5 % |
| INCOME BEFORE INCOME TAXES | 41,099 | 38,023 | 3,076 | 8.1 % |
| Income tax expense | 15,873 | 15,693 | 180 | 1.1 % |
| NET INCOME | \$25,226 | \$22,330 | \$2,896 | 13.0 % |
| Other comprehensive income (loss), net of taxes | 3,281 | 1,197 | 2,084 | 174.1 % |
| COMPREHENSIVE INCOME | \$28,507 | \$23,527 | \$4,980 | 21.2 % |

Premiums earned in the current period reflect premiums written over the past 12 months and any changes in rates or policy count during that time. Net earned premiums were \$152.4 million for the three months ended March 31, 2016, compared to \$94.4 million for the three months ended March 31, 2015. The increase in net earned premiums of \$58.1 million, or 61.6%, reflects an increase in direct earned premiums of \$24.6 million and a decrease in ceded earned premiums of \$33.5 million. The increase in direct earned premiums reflects organic growth in all states as well as rate changes that took effect in the second quarter of 2015.

Our reinsurance programs run from June 1 to May 31 of the following year. In June 2015, we eliminated quota share reinsurance. Prior to June 1, 2015, we were ceding premiums at a rate of 30% in our 2014-2015 reinsurance program which is reflected in the results for the three months ended March 31, 2015. The decrease in ceded earned premiums is

attributable to the elimination of quota share reinsurance which reduced ceded earned premium by \$57.6 million, partially offset by an increase in ceded earned premium of \$24.1 million for excess of loss and catastrophe reinsurance. As discussed above in "Overview," our ability to achieve rate adequacy relative to the risks written improved our underwriting profit and together with our improved financial strength led to our decision to retain a greater share of our profitable business by reducing our quota share cession rate in our 2014-2015 reinsurance program and eliminating the use of quota share reinsurance in our 2015-2016 reinsurance program.

Net investment income was \$1.6 million for the three months ended March 31, 2016, generated from cash and cash equivalents, short-term investments, investment real estate and the investments we held in our portfolio of securities available for sale, compared to \$862 thousand for the same three months during 2015. The increase in net investment income is the result of increases in our investments and actions taken to maximize yield as securities mature. Total cash and invested assets increased 18.9% to \$703.8 million at March 31, 2016, from \$591.8 million at March 31, 2015.

Management sells investment securities from its portfolio of securities available for sale from time to time when opportunities arise. We sold investment securities available for sale during the three months ended March 31, 2016 generating net realized gains of \$667 thousand compared to net realized gains of \$171 thousand for the three months ended March 31, 2015.

Commission revenue is comprised principally of brokerage commissions we earn from reinsurers. For the three months ended March 31, 2016 commission revenue was \$4.1 million, compared to \$3.2 million for the three months ended March 31, 2015. The increase in commission revenue of \$945 thousand, or 29.8%, was the result of overall changes in the structure of the reinsurance programs in effect during the three months ended March 31, 2016, compared to the three months ended March 31, 2015 including the amount of premiums paid for reinsurance and the types of reinsurance contracts used in each program.

Policy fees for the three months ended March 31, 2016, were \$4.1 million compared to \$3.8 million for the same period in 2015. The increase of \$282 thousand, or 7.4%, was the result of an increase in the number of policies written during the three months ended March 31, 2016 compared to the same period in 2015.

Losses and LAE were \$66.1 million for the three months ended March 31, 2016, compared to \$33.6 million during the same period in 2015. The largest portion of the increase in net losses and LAE of \$32.5 million was driven by the absence of losses and LAE ceded to reinsurers upon the elimination of our quota share reinsurance contracts in June 2015 as discussed above, which was \$15.4 million during the three months ended March 31, 2015. Losses and LAE also grew by \$8.6 million as a result of organic growth. Finally, we recorded \$8.5 million of incremental losses and LAE for severe weather events occurring in the first quarter of 2016. The \$8.5 million was in addition to amounts already provided for in our underlying loss ratios based on historical loss experience for such events. The net losses and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 43.4% and 35.6% during the three-month period ended March 31, 2016 and 2015, respectively, and were comprised of the following components (in thousands):

| | Three Months Ended March 31, 2016 | | | | | |
|-------------------------------------|--------------------------------------|---|----------|---|-----------|---|
| | Direct | | Ceded | | Net | |
| Losses and loss adjustment expenses | \$66,148 | | \$31 | | \$66,117 | |
| Premiums earned | \$221,252 | | \$68,804 | | \$152,448 | |
| Loss & LAE ratios | 29.9 | % | 0.0 | % | 43.4 | % |

| | Three Months Ended March 31, 2015 | | | | | |
|-------------------------------------|--------------------------------------|---|-----------|---|----------|---|
| | Direct | | Ceded | | Net | |
| Losses and loss adjustment expenses | \$49,290 | | \$15,700 | | \$33,590 | |
| Premiums earned | \$196,671 | | \$102,311 | | \$94,360 | |
| Loss & LAE ratios | 25.1 | % | 15.3 | % | 35.6 | % |

The key driver behind the increase in the net loss ratio was the \$8.5 million incremental charge to losses and LAE from the severe weather events occurring during the first quarter of 2016.

See “Item 1 — Note 5 (Insurance Operations)” for change in liability for unpaid losses and LAE.

For the three months ended March 31, 2016, general and administrative expenses were \$57.2 million, compared to \$32.2 million for the same period in 2015. The majority of the overall increase in general and administrative expenses of \$25.0 million resulted from additional amortization of net deferred policy acquisition costs of \$19.2 million, \$16.6 million of which represents the absence of ceding commission from the elimination of quota share reinsurance arrangements effective June 1, 2015. The remaining increase in amortization of \$2.6 million was driven by organic growth. The expense ratio, or general and administrative expenses as a percentage of net earned premiums, was 37.5% for the three months ended March 31, 2016 compared 34.1% for the same period in 2015 reflecting the increase in amortization of net deferred acquisition costs, which increased the expense ratio by 8.4 percentage points, mostly offset by economies of scale.

Income taxes increased by \$180 thousand, or 1.1%, as a result of an increase in income before income taxes. The effective tax rate decreased to 38.6% from 41.3% for the three months ended March 31, 2016 and 2015, respectively. See “Item 1 — Note 9 (Income Taxes)” for an explanation of the change in effective tax rate.

Comprehensive income includes net income and other comprehensive income or loss. Other comprehensive income for the three months ended March 31, 2016 and 2015, reflect after tax changes in fair value of securities held in our portfolio of securities available for sale and reclassification out of cumulative other comprehensive income for securities sold. See “Item 1 — Note 11 (Other Comprehensive Income (Loss)).”

Analysis of Financial Condition—As of March 31, 2016 Compared to December 31, 2015

We believe that cash flows generated from operations will be sufficient to meet our working capital requirements for at least the next twelve months. Our policy is to invest amounts considered to be in excess of current working capital requirements.

The following table summarizes, by type, the carrying values of investments as of the dates presented (in thousands):

| Type of Investment | March 31, 2016 | December 31, 2015 |
|-----------------------------|----------------------|-------------------------|
| Fixed maturities | \$488,725 | \$416,083 |
| Equity securities | 31,754 | 42,214 |
| Short-term investments | 12,505 | 25,021 |
| Investment real estate, net | 8,110 | 6,117 |
| Total | \$541,094 | \$489,435 |

See our Condensed Consolidated Statements of Cash Flows for explanations of changes in investments.

Prepaid reinsurance premiums represent the portion of ceded written premiums that will be earned pro-rata in the future. The increase of \$5.2 million to \$119.9 million reflects ceded premiums written of \$74.0 million offset by amortization of ceded earned premium of \$68.8 million during the three months ended March 31, 2016.

Reinsurance recoverable represents ceded losses and LAE. The decrease of \$5.7 million to \$17.2 million was primarily due to the timing of settlements and amounts available for right of offset with our reinsurers for reinsurance payables.

See “Item 1 — Note 5 (Insurance Operations)” for a roll-forward in the balance of our deferred policy acquisition costs, net.

Other receivables increased by \$17.1 million primarily due to unsettled investment security sales occurring near the end of the quarter.

See “Item 1 — Note 5 (Insurance Operations)” for a roll-forward in the balance of our unpaid losses and LAE.

Unearned premiums represent the portion of direct written premiums that will be earned pro rata in the future. The increase of \$6.7 million to \$449.1 million reflects both organic growth and seasonality of our business as described under “Overview.”

Advance premium represents premium payments made by policyholders ahead of the effective date of the policies. The increase of \$7.5 million to \$32.3 million reflects both organic growth and seasonality of our business as described under “Overview.”

Income taxes payable represent amounts due to taxing jurisdictions within one year and arise when taxable income exceeds tax payments. Income taxes payable of \$17.4 million as of March 31, 2016 represent amounts payable for federal and state income taxes.

Other liabilities and accrued expense decreased by \$7.9 million primarily due to the payment of incentive performance bonuses in February 2016.

Liquidity and Capital Resources

Liquidity

Liquidity is a measure of a company's ability to generate sufficient cash flows to meet its short and long-term obligations. Funds generated from operations have been sufficient to meet our liquidity requirements and we expect that in the future funds from operations will continue to meet such requirements.

The balance of cash and cash equivalents as of March 31, 2016, was \$160.0 million compared to \$197.0 million at December 31, 2015. See "Item 1 — Condensed Consolidated Statements of Cash Flows" for a reconciliation of the balance of cash and cash equivalents between March 31, 2016, and December 31, 2015. The decrease in cash and cash equivalents was driven by cash flows used for investing and financing activities in excess of those generated from operations. Most of the balance of cash and cash equivalents maintained is available to pay claims in the event of a catastrophic event in addition to any amounts recovered under our reinsurance agreements.

The balance of restricted cash and cash equivalents as of March 31, 2016, and December 31, 2015 includes cash equivalents on deposit with regulatory agencies in the various states in which our Insurance Entities do business.

As discussed in “Item 1 — Note 6 (Long-Term Debt),” UVE entered into a revolving loan agreement and related revolving note (“DB Loan”) with Deutsche Bank Trust Company Americas (“Deutsche Bank”) in March 2013, which was most recently amended in July 2015. The DB Loan makes available to UVE an unsecured line of credit in an aggregate amount not to exceed \$15 million. Draws under the DB Loan have a maturity date of July 31, 2017 and carry an interest rate of LIBOR plus a margin of 5.50% or Deutsche Bank’s prime rate plus a margin of 3.50%, at the election of UVE. The DB Loan contains certain covenants and restrictions applicable while amounts are outstanding thereunder, including limitations with respect to our indebtedness, liens, distributions, mergers or dispositions of assets, organizational structure, transactions with affiliates and business activities. As of March 31, 2016, UVE was in compliance with all such covenants, and no amounts have been drawn under this unsecured line of credit.

In May 2013, UVE also entered into a \$20 million unsecured term loan agreement and related term note (“Term Loan”) with RenaissanceRe Ventures Ltd. also discussed in “Item 1 — Note 6 (Long-Term Debt).” The Term Loan bears interest at the rate of 50 basis points per annum and matures on the earlier of May 23, 2016, or the date that all principal under the Term Loan is prepaid or deemed paid in full. The Term Loan is amortized over the three-year term and UVE may prepay the loan without penalty. The Term loan contains certain covenants and restrictions applicable while amounts are outstanding thereunder, including limitations with respect to our indebtedness, liens, distributions, mergers or dispositions of assets, organizational structure, transactions with affiliates and business activities. UVE was in compliance with the covenants of the term loan as of March 31, 2016. We made principal payments of \$6.0 and \$7.0 million on the Term Loan in May 2014 and May 2015, respectively. The Term Loan had a carrying amount of \$6.9 million as of March 31, 2016. Refer to “Item 1 — Note 14 (Subsequent Events)” for additional details on the Term Loan’s cancellation of outstanding indebtedness subsequent to March 31, 2016.

Liquidity for UVE and its non-insurance subsidiaries is required to cover the payment of general operating expenses, dividends to shareholders (if and when authorized and declared by our Board of Directors), payment for the possible repurchase of our common stock (if and when authorized by our Board of Directors), payment of income taxes, and interest and principal payments on debt obligations. The declaration and payment of future dividends by UVE to its shareholders, and any future repurchases of UVE common stock, will be at the discretion of our Board of Directors and will depend upon many factors, including our operating results, financial condition, debt covenants and any regulatory constraints. Principal sources of liquidity for UVE and its non-insurance subsidiaries include revenues generated from fees paid by the Insurance Entities to affiliated companies for policy administration, inspections and claims adjusting services. Additional sources of liquidity include brokerage commissions earned on reinsurance contracts and any unused credit lines. UVE also maintains investments in equity securities which would generate funds upon sale. As discussed in “Item 1 – Note 5 (Insurance Operations),” there are limitations on the dividends the Insurance Entities may pay to their immediate parent company.

Liquidity for the Insurance Entities is primarily required to cover payments for reinsurance premiums, claims payments including potential payments of catastrophe losses offset by recovery of any reimbursement amounts under our reinsurance agreements, fees paid to affiliates for managing general agency services, inspections and claims adjusting services, agent commissions, premiums and income taxes, regulatory assessments, general operating expenses, and interest and principal payments on debt obligations. The principal source of liquidity for the Insurance Entities consists of the revenue generated from the collection of net premiums, after deductions for expenses and the collection of reinsurance recoverable.

Our insurance operations provide liquidity in that premiums are generally received months or even years before losses are paid under the policies written. The Insurance Entities maintain substantial investments in highly liquid, marketable securities which would generate funds upon sale.

Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks, and facilitate continued business growth. At March 31, 2016, we had total capital of \$337.4 million, comprised of stockholders' equity of \$314.3 million and total long-term debt of \$23.1 million. Our debt-to-total-capital ratio and debt-to-equity ratio were 6.8% and 7.3%, respectively, at March 31, 2016. At December 31, 2015, we had total capital of \$317.2 million, comprised of stockholders' equity of \$293.1 million and total long-term debt of \$24.1 million. Our debt-to-total-capital ratio and debt-to-equity ratio were 7.6% and 8.2%, respectively, at December 31, 2015.

As described in our Form 10-K for the year ended December 31, 2015, UPCIC entered into a surplus note with the State Board of Administration of Florida under Florida's Insurance Capital Build-Up Incentive Program. The surplus note has a twenty-year term, quarterly payments of principal and accrues interest per the terms of the note agreement. At March 31, 2016, UPCIC was in compliance with the terms of the surplus note and total adjusted capital surplus was in excess of regulatory requirements for both UPCIC and APPCIC.

During the three months ended March 31, 2016, we repurchased an aggregate of 100,000 shares of UVE's common stock in the open market as discussed below in Part II, Item 2.

Cash Dividends

On January 14, 2016, we declared a cash dividend of \$0.14 per share on our outstanding common stock paid on March 2, 2016, to the shareholders of record at the close of business on February 18, 2016.

On April 13, 2016, we declared a cash dividend of \$0.14 per share on our outstanding common stock to be paid on July 5, 2016 to shareholders of record at the close of business on June 15, 2016.

Contractual Obligations

The following table represents our contractual obligations for which cash flows are fixed or determinable as of March 31, 2016 (in thousands):

| | Total | Less than 1 year | 1-3 years | 3-5 years | Over 5 years |
|-----------------------------------|-----------|---------------------|--------------|--------------|-----------------|
| Unpaid losses and LAE, direct (1) | \$84,975 | \$49,116 | \$23,963 | \$9,007 | \$2,889 |
| Long-term debt | 24,412 | 8,403 | 3,550 | 3,412 | 9,047 |
| Operating leases | 519 | 195 | 324 | — | — |
| Total contractual obligations | \$109,906 | \$57,714 | \$27,837 | \$12,419 | \$11,936 |

(1) There are generally no notional or stated amounts related to unpaid losses and LAE. Both the amounts and timing of future loss and LAE payments are estimates and subject to the inherent variability of legal and market conditions affecting the obligations and making the timing of cash outflows uncertain. The ultimate amount and timing of unpaid losses and LAE could differ materially from the amounts in the table above. Further, the unpaid losses and LAE do not represent all of the obligations that will arise under the contracts, but rather only the estimated liability incurred through March 31, 2015

Critical Accounting Policies and Estimates

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to Critical Accounting Policies and Estimates previously disclosed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Accounting Pronouncements Not Yet Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued guidance that will change certain aspects of accounting for share-based payments to employees. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to

repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The guidance is effective for us for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted in any annual or interim period for which financial statements haven't been issued or made available for issuance, but all of the guidance must be adopted in the same period. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In January 2016, the FASB issued guidance on recognition and measurement of financial instruments. The new guidance requires certain equity investments to be measured at fair value with changes in fair value reported in earnings and requires changes in instrument-specific credit risk for financial liabilities recorded at fair value under the fair value option to be reported in other comprehensive income ("OCI"). The new guidance is effective in fiscal years beginning after December 15, 2017, with early adoption permitted for the provisions related to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in OCI.

In May 2015, the FASB issued guidance addressing enhanced disclosure requirements for insurers relating to short-duration insurance contract claims and the unpaid claims liability rollforward for long and short-duration contracts. The disclosures are intended to provide users of financial statements with more transparent information about an insurance entity's initial claim estimates and subsequent adjustments to those estimates, the methodologies and judgments used to estimate claims, and the timing, frequency, and severity of claims. The guidance is effective for annual reporting periods beginning after December 15, 2015. Early application is permitted. The adoption of this guidance will result in additional disclosure but is not expected to impact our results of operations, financial position or liquidity.

Related Party Transactions

See “Item 1 — Note 8 (Related Party Transactions)” for information about related party transactions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential for economic losses due to adverse changes in fair value of financial instruments. We carry all of our investments at market value in our statement of financial condition. Our investment portfolio as of March 31, 2016, is comprised of fixed maturities and equity securities exposing us to changes in interest rates and equity prices.

Our investment objectives with respect to fixed maturities are to maximize after-tax investment income without exposing the surplus of our Insurance Entities to excessive volatility. Our investment objectives with respect to equity securities are to enhance our long-term surplus levels through capital appreciation and earn a competitive rate of total return versus appropriate benchmarks. We cannot provide any assurance that we will be able to achieve our investment objectives. None of our investments in risk sensitive instruments were entered into for trading purposes.

See “Item 1 – Note 3 (Investments)” for more information about our investments.

Interest Rate Risk

Interest rate risk is the sensitivity of a fixed-rate instrument to changes in interest rates. When interest rates rise, the fair value of our fixed-rate investment securities declines.

The following table provides information about our fixed income investments, which are sensitive to changes in interest rates. The table presents cash flows of principal amounts and related weighted average interest rates by expected maturity dates for investments available for sale as of the dates presented (in thousands):

| | | March 31, 2016 | | | | | | | | | | | | Fair Value | |
|--------------------------------|--|-------------------|----------|----------|----------|----------|------------|-----------|-----------|-----------|------|-------|------|------------|------|
| | | Amortized Cost | | 2018 | 2019 | 2020 | Thereafter | Other (1) | Total | Total | | Total | | | |
| | | 2016 | 2017 | | | | | | | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| Fixed income investments | | \$23,720 | \$52,907 | \$84,468 | \$81,863 | \$38,079 | \$27,370 | \$190,191 | \$498,598 | \$501,230 | | | | | |
| Weighted average interest rate | | 1.71 % | 2.09 % | 1.63 % | 1.72 % | 2.14 % | 2.43 % | 2.61 % | 2.15 % | 2.16 % | | | | | |
| | | December 31, 2015 | | | | | | | | | | | | Fair Value | |
| | | Amortized Cost | | 2018 | 2019 | 2020 | Thereafter | Other (1) | Total | Total | | Total | | | |
| | | 2016 | 2017 | | | | | | | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |

| | | | | | | | | | |
|--------------------------------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|
| Fixed income investments | \$57,229 | \$53,023 | \$78,272 | \$61,659 | \$30,634 | \$86,605 | \$76,212 | \$443,634 | \$441,104 |
| Weighted average interest rate | 1.12 % | 2.09 % | 1.65 % | 1.70 % | 1.93 % | 3.23 % | 1.65 % | 1.96 % | 1.95 % |

(1) Comprised of mortgage-backed and asset-backed securities that have multiple maturity dates, and perpetual maturity securities, and are presented separately for the purposes of this table.

The tables above represent average contract rates that differ from the book yield of the fixed maturities. The fixed income investments in our available for sale portfolio are comprised of United States government and agency securities, corporate bonds, redeemable preferred stock, mortgage-backed and asset-backed securities and certificates of deposit. Duration is a measure of interest rate sensitivity expressed as a number of years. The weighted average duration of the fixed maturity investments in our available for sale portfolio at March 31, 2016 was 2.6 years.

To a lesser extent, we also have exposure to interest on our debt obligations which are in the form of a surplus note, and on any amounts we draw under the DB Loan. The surplus note accrues interest at an adjustable rate based on the 10-year Constant Maturity Treasury rate. Draws under the DB Loan accrue interest at a rate based on LIBOR or Deutsche Bank's prime rate plus an applicable margin.

Equity Price Risk

Equity price risk is the potential for loss in fair value of investments in common stock and mutual funds from adverse changes in the prices of those instruments.

The following table provides information about the investments in our available for sale portfolio subject to price risk as of the dates presented (in thousands):

| | March 31, 2016 | | December 31, 2015 | |
|-------------------------|----------------|---------|-------------------|---------|
| | Fair Value | Percent | Fair Value | Percent |
| Equity securities: | | | | |
| Common stock | \$119 | 0.4 % | \$10,762 | 25.5 % |
| Mutual funds | 31,635 | 99.6 % | 31,452 | 74.5 % |
| Total equity securities | \$31,754 | 100.0 % | \$42,214 | 100.0 % |

A hypothetical decrease of 20% in the market prices of each of the equity securities held at March 31, 2016, and December 31, 2015 would have resulted in a decrease of \$6.4 million and \$8.4 million, respectively, in the fair value of those securities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of March 31, 2016, to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Certain lawsuits have been filed against the Company. These lawsuits generally involve matters related to the claims aspect of the Company's business. We contest liability and/or the amount of damages as appropriate in each pending matter. In accordance with applicable accounting guidance, we establish an accrued liability for legal matters when those matters present loss contingencies which are both probable and estimable.

Legal proceedings are subject to many uncertain factors that generally cannot be predicted with assurance, and we may be exposed to losses in excess of any amounts accrued. We currently estimate that the reasonably possible losses for legal proceedings, whether in excess of a related accrued liability or where there is no accrued liability, and for which we are able to estimate a possible loss, are immaterial. This represents management's estimate of possible loss with respect to these matters and is based on currently available information. This estimate of possible loss does not represent our maximum loss exposure. The legal proceedings underlying the estimate will change from time to time and actual results may vary significantly from current estimates.

Item 1A. Risk Factors

In the opinion of management, there have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors previously disclosed in Part I, Item 1A, "Risk Factors," included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

A summary of UVE's repurchases of common stock for the three months ended March 31, 2016 is as follows:

| | Total Number of Shares Purchased | Average Price Paid per Share (1) | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs (2) |
|------------------|---|--|---|---|
| 1/1/16 - 1/31/16 | — | \$— | — | — |
| 2/1/16 - 2/29/16 | — | \$— | — | — |
| 3/1/16 - 3/31/16 | 100,000 | \$ 18.70 | 100,000 | 257,165 |
| Total | 100,000 | \$ 18.70 | 100,000 | 257,165 |

(1) Average price paid per share does not reflect brokerage commissions paid to acquire shares in open market transactions.

(2) Number of shares were calculated using a closing price at March 31, 2016 of \$17.80 per share.

In November 2015, we announced that the Board of Directors authorized a share repurchase program under which the Company may repurchase in the open market in compliance with Exchange Act Rule 10b-18 under the Securities Exchange Act of 1934, as amended, up to \$10 million of its outstanding shares of common stock through December 31, 2016. Since November 2015, we have repurchased 285,000 shares pursuant to this program through March 31, 2016 at an aggregate cost of \$5.4 million.

Item 6. Exhibits

| Exhibit No. | Exhibit |
|--------------|---|
| 15.1 | Accountants' Acknowledgment |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS-XBRL | Instance Document |
| 101.SCH-XBRL | Taxonomy Extension Schema Document |
| 101.CAL-XBRL | Taxonomy Extension Calculation Linkbase Document |
| 101.DEF-XBRL | Taxonomy Extension Definition Linkbase Document |
| 101.LAB-XBRL | Taxonomy Extension Label Linkbase Document |
| 101.PRE-XBRL | Taxonomy Extension Presentation Linkbase Document |

SIGNATURES

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

UNIVERSAL INSURANCE HOLDINGS, INC.

Date: May 9, 2016 /s/ Sean P. Downes
Sean P. Downes, Chief Executive Officer and Principal Executive Officer

Date: May 9, 2016 /s/ Frank C. Wilcox
Frank C. Wilcox, Chief Financial Officer and Principal Accounting Officer