UNITED INSURANCE HOLDINGS CORP.
Form 10-Q
November 05, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
Commission File Number 001-35761

United Insurance Holdings Corp.
(Exact name of Registrant as specified in its charter)

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

360 Central Avenue, Suite 900
St. Petersburg, Florida 33701
(Address, including zip code, of principal executive offices)
727-895-7737
(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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No £

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

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

Large accelerated filer	£	Accelerated filer	þ
Non-accelerated filer	£	Smaller reporting company	£

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No R
As of November 5, 2015; 21,527,817 shares of common stock, par value $0.0001 per share, were outstanding.

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

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q as of September 30, 2015, and for the three and nine months ended September 30, 2015 (Form 10-Q) or in documents incorporated by reference that are not historical fact are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity, and our ability to meet our investment objectives and to manage and mitigate market risk with respect to our investments. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management’s beliefs and assumptions. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue” or the negative variations thereof or co terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the regulatory, economic and weather conditions present in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost and availability of reinsurance;
- assessments charged by various governmental agencies;
- pricing competition and other initiatives by competitors;
- our ability to attract and retain the services of senior management;
- the outcome of litigation pending against us, including the terms of any settlements;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- our exposure to catastrophic events and severe weather conditions;
- downgrades in our financial strength ratings; and
- other risks and uncertainties described in the section entitled "Risk Factors" in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014 and in Part II, Item 1A of this Form 10-Q.

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

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us described in our filings with the SEC. The forward-looking events that we discuss in our Form 10-Q are valid only as of the date of our Form 10-Q and may not occur in light of the risks, uncertainties and assumptions that we describe from time to time in our filings with the SEC. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our forward-looking statements is included in the section entitled “RISK FACTORS” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014 and in Part II, Item 1A of this Form 10-Q. Except as required by applicable law, we undertake no obligation and disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

ASSETS	September 30, 2015 (Unaudited)	December 31, 2014
Investments available for sale, at fair value:		
Fixed maturities (amortized cost of $415,605 and $350,063, respectively)	$418,399	$352,630
Equity securities (adjusted cost of $22,896 and $22,278, respectively)	24,303	25,987
Other investments (amortized cost of $2,734 and $2,749, respectively)	3,036	3,010
Total investments	$445,738	$381,627
Cash and cash equivalents	84,341	61,391
Accrued investment income	2,565	2,239
Property and equipment, net	15,343	8,022
Premiums receivable, net	46,389	31,369
Reinsurance recoverable on paid and unpaid losses	2,804	2,068
Prepaid reinsurance premiums	120,657	63,827
Goodwill	4,196	—
Deferred policy acquisition costs	46,928	31,925
Other assets	11,719	1,701
Total Assets	$780,680	$584,169
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	$71,943	$54,436
Unearned premiums	299,419	229,486
Reinsurance payable	118,440	45,254
Other liabilities	51,048	37,701
Notes payable	12,647	13,529
Total Liabilities	$553,497	$380,406
Commitments and contingencies (Note 9)		
Stockholders' Equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.0001 par value; 50,000,000 shares authorized; 21,739,900 and 21,116,497 issued; 21,527,817 and 20,904,414 outstanding for 2015 and 2014, respectively	2	2
Additional paid-in capital	96,718	82,380
Treasury shares, at cost; 212,083 shares	(431)	(431)
Accumulated other comprehensive income	2,763	4,011
Retained earnings	128,131	117,801
Total Stockholders' Equity	$227,183	$203,763
Total Liabilities and Stockholders' Equity	$780,680	$584,169

See accompanying Notes to Unaudited Consolidated Financial Statements.

UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUE:				
Gross premiums written	$155,985	$105,065	$425,183	$322,986
Increase in gross unearned premiums	(27,252)	(4,214)	(60,286)	(29,901)
Gross premiums earned	128,733	100,851	364,897	293,085
Ceded premiums earned	(44,730)	(35,741)	(122,394)	(99,757)
Net premiums earned	84,003	65,110	242,503	193,328
Investment income	2,413	1,807	6,725	4,891
Net realized gains (losses)	323	(69)	312	(24)
Other revenue	3,067	1,999	8,002	5,863
Total revenue	89,806	68,847	257,542	204,058
EXPENSES:				
Losses and loss adjustment expenses	40,432	30,140	137,030	86,605
Policy acquisition costs	23,756	17,291	64,140	48,668
Operating expenses	4,329	3,086	12,679	8,453
General and administrative expenses	8,331	4,709	22,244	13,394
Interest expense	81	98	232	325
Total expenses	76,929	55,324	236,325	157,445
Income before other income	12,877	13,523	21,217	46,613
Other income	107	—	292	16
Income before income taxes	12,984	13,523	21,509	46,629
Provision for income taxes	4,901	4,883	7,953	17,010
Net income	$8,083	$8,640	$13,556	$29,619
OTHER COMPREHENSIVE INCOME:				
Change in net unrealized gains (losses) on investments	641	(1,249)	(1,722)	4,401
Reclassification adjustment for net realized investment (gains) losses	(323)	69	(312)	24
Income tax benefit (expense) related to items of other comprehensive income	(123)	456	786	(1,710)
Total comprehensive income	$8,278	$7,916	$12,308	$32,334
Weighted average shares outstanding				
Basic	21,290,759	20,745,245	21,193,825	19,658,199
Diluted	21,528,546	20,843,603	21,427,398	19,756,411
Earnings per share				
Basic	$0.38	$0.42	$0.64	$1.51
Diluted	$0.38	$0.41	$0.63	$1.50
Dividends declared per share	$0.05	$0.04	$0.15	$0.12

See accompanying Notes to Unaudited Consolidated Financial Statements.

UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2015	2014
OPERATING ACTIVITIES		
Net income	$13,556	$29,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,093	518
Bond amortization and accretion	(286)	1,101
Net realized gains	(312)	24
Provision for uncollectable premiums/over and short	314	60
Deferred income taxes, net	3,892	(1,112)
Stock based compensation	1,525	230
Changes in operating assets and liabilities:		
Accrued investment income	(326)	(95)
Premiums receivable	(13,838)	(7,929)
Reinsurance recoverable on paid and unpaid losses	(736)	(1,271)
Prepaid reinsurance premiums	(56,830)	(41,975)
Deferred policy acquisition costs, net	(15,003)	(8,578)
Other assets	(9,581)	280
Unpaid losses and loss adjustment expenses	15,117	5,962
Unearned premiums	60,286	29,901
Reinsurance payable	72,188	55,977
Other liabilities	11,136	(3,513)
Net cash provided by operating activities	$83,195	$59,199
INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments available for sale	113,377	145,059
Purchases of investments available for sale	(173,336)	(204,429)
Cash from acquisition	14,467	—
Cost of property, equipment and capitalized software acquired	(8,218)	(1,948)
Net cash used in investing activities	$(53,710)	$(61,318)
FINANCING ACTIVITIES		
Tax withholding payment related to net settlement of equity awards	(181)	(110)
Repayments of borrowings	(3,128)	(882)
Dividends	(3,226)	(2,500)
Proceeds from issuance of common stock	—	54,041
Net cash provided by (used in) financing activities	$(6,535)	$50,549
Increase in cash	22,950	48,430
Cash and cash equivalents at beginning of period	61,391	34,888
Cash and cash equivalents at end of period	$84,341	$83,318
Supplemental Cash Flows Information		
Interest paid	$230	$301
Income taxes paid	$6,920	$21,464

See accompanying Notes to Unaudited Consolidated Financial Statements.

1) ORGANIZATION, CONSOLIDATION AND PRESENTATION

(a)Business

United Insurance Holdings Corp. (referred to in this document as we, our, us, the Company or UPC Insurance) is a property and casualty insurance holding company that sources, writes, and services residential and commercial property and casualty insurance policies using a network of agents and two wholly-owned insurance subsidiaries. Our primary insurance subsidiary is United Property & Casualty Insurance Company, which was formed in Florida in 1999 and has operated continuously since that time. Our other subsidiaries include United Insurance Management, L.C., the managing general agent that manages substantially all aspects of United Property & Casualty Insurance Company's business; Skyway Claims Services, LLC (our claims adjusting affiliate) that provides services to our insurance affiliates; and UPC Re (our reinsurance affiliate) that provides a portion of the reinsurance protection purchased by our insurance affiliates. On February 3, 2015, we acquired Family Security Holdings, LLC (FSH) and its two wholly-owned subsidiaries, Family Security Insurance Company, Inc. and Family Security Underwriters, LLC, via merger. See Note 4 for information regarding this acquisition.

Our primary product is homeowners' insurance, which we currently offer in Florida, Georgia, Louisiana, Massachusetts, New Jersey, North Carolina, Rhode Island, South Carolina and Texas, and we are licensed to write in Alabama, Connecticut, Delaware, Hawaii, Maryland, Mississippi, New Hampshire, New York and Virginia.

We conduct our operations under one business segment.

(b)Consolidation and Presentation

We prepare our financial statements in conformity with U.S. generally accepted accounting principles (GAAP). While preparing our financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Reported amounts that require us to make extensive use of estimates include our reserves for unpaid losses and loss adjustment expenses, reinsurance recoverable, deferred policy acquisition costs, and investments. Except for the captions on our Unaudited Consolidated Balance Sheets and Unaudited Consolidated Statements of Comprehensive Income, we generally use the term loss(es) to collectively refer to both loss and loss adjustment expenses.

We include all of our subsidiaries in our unaudited consolidated financial statements, eliminating all significant intercompany balances and transactions during consolidation.

We prepared the accompanying Unaudited Consolidated Balance Sheet as of September 30, 2015, with the Audited Consolidated Balance Sheet amounts as of December 31, 2014, presented for comparative purposes, and the related Unaudited Consolidated Statements of Comprehensive Income and Statements of Cash Flows in accordance with the instructions for Form 10-Q and Article 10-01 of Regulation S-X. In compliance with those instructions, we have omitted certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP, though management believes the disclosures made herein are sufficient to ensure that the information presented is not misleading.

Our results of operations and our cash flows as of the end of the interim periods reported herein do not necessarily indicate the results we may experience for the remainder of the year or for any other future period.

We reclassified certain amounts in the 2014 financial statements to conform to the 2015 presentation. These reclassifications had no impact on our results of operations, cash flows or stockholders' equity as previously reported.

Management believes our unaudited consolidated interim financial statements include all the normal recurring adjustments necessary to fairly present our Unaudited Consolidated Balance Sheet as of September 30, 2015, our Unaudited Consolidated Statements of Comprehensive Income and our Unaudited Consolidated Statements of Cash Flows for all periods presented. Our unaudited consolidated interim financial statements and footnotes should be read in conjunction with our consolidated financial statements and footnotes included within our Annual Report filed on Form 10-K for the year ended December 31, 2014 (2014 Form 10-K).

2) SIGNIFICANT ACCOUNTING POLICIES

(a) Changes to significant accounting policies

We have made no material changes to our significant accounting policies as reported in our 2014 Form 10-K.

(b) Fair value assumptions

The carrying amounts for the following financial instrument categories approximate their fair values at September 30, 2015 and December 31, 2014, because of their short-term nature: cash and cash equivalents, accrued investment income, premiums receivable, reinsurance recoverable, reinsurance payable, accounts payable and accrued expenses. The carrying amount of notes payable approximates fair value as the interest rate is variable.

(c) Pending Accounting Pronouncements

We have evaluated recent accounting pronouncements that have had or may have a significant effect on our financial statements or on our disclosures.

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-09 (ASU 2015-09), Financial Services - Insurance (Topic 944), which improves disclosure requirements for all insurance entities that issue short-duration contracts. The amendments in ASU 2015-09 increase transparency of significant estimates made in measuring the liability for unpaid claims and claim adjustment expenses, improve comparability by requiring consistent disclosure of information, and provide financial statement users with additional information to facilitate analysis of the amount, timing, and uncertainty of cash flows and the development of loss reserve estimates. ASU 2015-09 is effective for all public entities for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments are effective for annual years beginning after December 15, 2016, and for interim periods within annual years beginning after December 15, 2017. Early adoption is permitted. We do not expect that our adoption of ASU 2015-09 will have a material effect on our consolidated financial statements.

In August 2015, the FASB issued Final Rulemaking Release No. 33-9877: Pay Ratio Disclosure. The amendments covered by the Final Rules to Implement Section 953(b) of the Dodd-Frank Concerning Pay Ratio Disclosures requires disclosure of (1) an entity's median annual compensation for all employees, other than the chief executive officer, and the total annual compensation for the entity's chief executive officer, and (2) the two amounts expressed as a ratio. The release is effective for all public entities in the annual report for the first full fiscal year beginning on or after January 1, 2017, with a transition period provided for new registrants. We are evaluating the impact of the new guidance on our consolidated financial statements; however, we do not expect that our adoption of this guidance will have a material effect on our consolidated financial statements.

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3) INVESTMENTS

The following table details the difference between cost or adjusted/amortized cost and estimated fair value, by major investment category, at September 30, 2015 and December 31, 2014:

	Cost or Adjusted/Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
U.S. government and agency securities	$ 118,473	$415	$158	$118,730
Foreign government	3,265	126	—	3,391
States, municipalities and political subdivisions	135,699	2,325	469	137,555
Public utilities	8,927	199	19	9,107
Corporate securities	147,399	1,454	1,048	147,805
Redeemable preferred stocks	1,842	10	41	1,811
Total fixed maturities	415,605	4,529	1,735	418,399
Public utilities	1,669	69	27	1,711
Other common stocks	18,871	2,527	1,150	20,248
Non-redeemable preferred stocks	2,356	15	27	2,344
Total equity securities	22,896	2,611	1,204	24,303
Other long-term investments	2,734	302	—	3,036
Total investments	$ 441,235	$7,442	$2,939	$445,738
December 31, 2014				
U.S. government and agency securities	$ 134,601	$423	$590	$134,434
Foreign government	3,275	79	—	3,354
States, municipalities and political subdivisions	90,262	1,866	217	91,911
Public utilities	9,044	217	39	9,222
Corporate securities	111,787	1,409	580	112,616
Redeemable preferred stocks	1,094	9	10	1,093
Total fixed maturities	350,063	4,003	1,436	352,630
Public utilities	1,222	211	—	1,433
Other common stocks	19,560	3,738	250	23,048
Non-redeemable preferred stocks	1,496	17	7	1,506
Total equity securities	22,278	3,966	257	25,987
Other long-term investments	2,749	261	—	3,010
Total investments	$ 375,090	$8,230	$1,693	$381,627

When we sell investments, we calculate the gain or loss realized on the sale by comparing the sales price (fair value) to the cost or adjusted/amortized cost of the security sold. We determine the cost or adjusted/amortized cost of the security sold using the specific-identification method. The following table details our realized gains (losses) by major investment category for the three and nine month periods ended September 30, 2015 and 2014:

	2015 Gains (Losses)	Fair Value at Sale	2014 Gains (Losses)	Fair Value at Sale
Three Months Ended September 30,				
Fixed maturities	$315	$24,168	$2	$333
Equity securities	778	2,469	2	44,024
Total realized gains	1,093	26,637	4	44,357
Fixed maturities	(95)	4,131	(73)	2,270
Equity securities	(675)	2,106	—	—
Total realized losses	(770)	6,237	(73)	2,270
Net realized investment gains (losses)	$323	$32,874	$(69)	$46,627
Nine Months Ended September 30,				
Fixed maturities	$542	$45,392	$23	$1,453
Equity securities	817	3,441	174	111,075
Total realized gains	1,359	48,833	197	112,528
Fixed maturities	(364)	22,159	(150)	4,823
Equity securities	(683)	2,264	(71)	1,013
Total realized losses	(1,047)	24,423	(221)	5,836
Net realized investment gains (losses)	$312	$73,256	$(24)	$118,364

The table below summarizes our fixed maturities at September 30, 2015 by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of those obligations.

	September 30, 2015			
	Cost or Amortized Cost	Percent of Total	Fair Value	Percent of Total
Due in one year or less	$55,322	13.3 %	$55,360	13.2 %
Due after one year through five years	181,013	43.6	182,064	43.5
Due after five years through ten years	134,012	32.2	134,815	32.2
Due after ten years	45,258	10.9	46,160	11.1
Total	$415,605	100.0 %	$418,399	100.0 %

The following table summarizes our net investment income by major investment category:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Fixed maturities	$2,078	$1,611	$5,879	$4,237
Equity securities	222	171	656	537
Cash, cash equivalents and short-term investments	4	2	9	7
Other investments	105	23	171	110
Other assets	4	—	10	—
Investment income	2,413	1,807	6,725	4,891
Investment expenses	(92)	(79)	(181)	(227)
Net investment income	$2,321	$1,728	$6,544	$4,664

Portfolio monitoring

We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, we determine if the loss is temporary or other-than-temporary. If our management decides to sell the security or determines that it is more likely than not that we will be required to sell the security before recovery of the cost or amortized cost basis for reasons such as liquidity, contractual or regulatory purposes, then the security's decline in fair value is considered other-than-temporary and is recorded in earnings.

If we have not made the decision to sell the fixed income security and it is not more likely than not that we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect the security to receive cash flows sufficient to recover the entire cost or amortized cost basis of the security. We calculate the estimated recovery value by discounting the best estimate of future cash flows at the security's original or current effective rate, as appropriate, and compare this to the cost or amortized cost of the security. If we do not expect to receive cash flows sufficient to recover the entire cost or amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss related to other factors recognized in other comprehensive income.

For equity securities, we consider various factors, including whether we have the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. If we lack the intent and ability to hold to recovery, or if we believe the recovery period is extended, the equity security's decline in fair value is considered other-than-temporary and is recorded in earnings.

Our portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its cost or amortized cost (for fixed income securities) or cost (for equity securities) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which we may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in our evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition and future earnings potential of the issue or issuer. Some of the factors that may be considered in evaluating whether a decline in fair value is other-than-temporary are: (1) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; (2) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and (3) the length of time and extent to which the fair value has been less than amortized cost or cost.

The following table presents an aging of our unrealized investment losses by investment class:

	Less Than Twelve Months			Twelve Months or More		
	Number of Securities*	Gross Unrealized Losses	Fair Value	Number of Securities*	Gross Unrealized Losses	Fair Value
September 30, 2015						
U.S. government and agency securities	13	$28	$22,250	20	$130	$11,186
States, municipalities and political subdivisions	34	458	36,940	5	11	6,447
Public utilities	4	1	364	2	18	2,302
Corporate securities	61	841	48,978	8	207	9,123
Redeemable preferred stocks	5	41	566	—	—	—
Total fixed maturities	117	1,369	109,098	35	366	29,058
Public utilities	7	27	683	—	—	—
Other common stocks	97	1,090	10,723	3	60	196
Non-redeemable preferred stocks	14	27	1,164	—	—	—
Total equity securities	118	1,144	12,570	3	60	196
Total	235	$2,513	$121,668	38	$426	$29,254
December 31, 2014						
U.S. government and agency securities	32	$285	$36,081	20	$305	$16,947
States, municipalities and political subdivisions	24	100	22,272	11	117	14,310
Public utilities	1	1	1,274	1	38	1,014
Corporate securities	23	271	23,738	16	309	20,215
Redeemable preferred stocks	4	10	408	—	—	—
Total fixed maturities	84	667	83,773	48	769	52,486
Other common stocks	54	247	3,992	1	3	31
Non-redeemable preferred stocks	4	7	378	—	—	—
Total equity securities	58	254	4,370	1	3	31
Total	142	$921	$88,143	49	$772	$52,517

* This amount represents the actual number of discrete securities, not the number of shares of those securities. The numbers are not presented in thousands.

During our quarterly evaluations of our securities for impairment, we determined that none of our investments in debt and equity securities that reflected an unrealized loss position were other-than-temporarily impaired. The issuers of our debt securities continue to make interest payments on a timely basis. We do not intend to sell nor is it likely that we would be required to sell the debt securities before we recover our amortized cost basis. All the issuers of the equity securities we own had near-term prospects that indicated we could recover our cost basis, and we also do not intend to sell these securities until their value equals or exceeds their cost.

During the three and nine months ended September 30, 2015 and 2014, we recorded no other-than-temporary impairment charges.

Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Assets and liabilities recorded on the Unaudited Consolidated Balance Sheets at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1: Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.

Level 2: Assets and liabilities whose values are based on the following:
(a) Quoted prices for similar assets or liabilities in active markets;
(b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or
(c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect our estimates of the assumptions that market participants would use in valuing the assets and liabilities.

We estimate the fair value of our investments using the closing prices on the last business day of the reporting period, obtained from active markets such as the NYSE, NASDAQ, and NYSE MKT. For securities for which quoted prices in active markets are unavailable, we use a third-party pricing service that utilizes quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs to estimate the fair value of those securities for which quoted prices are unavailable. Our estimates of fair value reflect the interest rate environment that existed as of the close of business on September 30, 2015 and December 31, 2014. Changes in interest rates subsequent to September 30, 2015 may affect the fair value of our investments.

The fair value for our fixed-maturities is initially calculated by a third-party pricing service. Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources, and through the use of proprietary models, produce valuation information in the form of a single fair value for individual fixed income and other securities for which a fair value has been requested. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, liquidity spreads, currency rates, and other information, as applicable. Credit and liquidity spreads are typically implied from completed transactions and transactions of comparable securities. Valuation service providers also use proprietary discounted cash flow models that are widely accepted in the financial services industry and similar to those used by other market participants to value the same financial information. The valuation models take into account, among other things, market observable information as of the measurement date, as described above, as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and where applicable, collateral quality and other issue or issuer specific information. Executing valuation models effectively requires seasoned professional judgment and experience.

For our Level 3 assets, our internal pricing methods are primarily based on models using discounted cash flow methodologies that determine a single best estimate of fair value for individual financial instruments. In addition, our models use a discount rate and internally assigned credit ratings as inputs (which are generally consistent with any external ratings) and those we use to report our holdings by credit rating. Market related inputs used in these fair values, which we believe are representative of inputs other market participants would use to determine fair value of the same instruments include: interest rate yield curves, quoted market prices of comparable securities, credit spreads, and other applicable market data. As a result of the significance of non-market observable inputs, including internally assigned credit ratings as described above, judgment is required in developing these fair values. The fair value of these financial assets may differ from the amount actually received if we were to sell the asset. Moreover, the use of different valuation assumptions may have a material effect on the fair values on the financial assets.

Any change in the estimated fair value of our securities would impact the amount of unrealized gain or loss we have recorded, which could change the amount we have recorded for our investments and other comprehensive income on our Unaudited Consolidated Balance Sheet as of September 30, 2015.

The following table presents the fair value of our financial instruments measured on a recurring basis by level at September 30, 2015 and December 31, 2014:

	Total	Level 1	Level 2	Level 3
September 30, 2015				
U.S. government and agency securities	$118,730	$—	$118,730	$—
Foreign government	3,391	—	3,391	—
States, municipalities and political subdivisions	137,555	—	137,555	
Public utilities	9,107	—	9,107	
Corporate securities	147,805	—	147,805	—
Redeemable preferred stocks	1,811	1,811	—	
Total fixed maturities	418,399	1,811	416,588	—
Public utilities	1,711	1,711	—	—
Other common stocks	20,248	20,248	—	
Non-redeemable preferred stocks	2,344	2,344	—	—
Total equity securities	24,303	24,303	—	—
Other long-term investments	3,036	300	831	1,905
Total investments	$445,738	$26,414	$417,419	$1,905
December 31, 2014				
U.S. government and agency securities	$134,434	$—	$134,434	$—
Foreign government	3,354	—	3,354	—
States, municipalities and political subdivisions	91,911	—	91,911	—
Public utilities	9,222	—	9,222	—
Corporate securities	112,616	—	112,616	—
Redeemable preferred stocks	1,093	1,093	—	—
Total fixed maturities	352,630	1,093	351,537	—
Public utilities	1,433	1,433	—	—
Other common stocks	23,048	23,048	—	—
Non-redeemable preferred stocks	1,506	1,506	—	—
Total equity securities	25,987	25,987	—	—
Other long-term investments	3,010	300	739	1,971
Total investments	$381,627	$27,380	$352,276	$1,971

The table below presents the rollforward of our Level 3 investments held at fair value during the nine months ended September 30, 2015:

	Other Investments
December 31, 2014	$1,971
Transfers in	—
Partnership income	69
Return of capital	(177)
Unrealized gains in accumulated other comprehensive income	42
September 30, 2015	$1,905

We are responsible for the determination of fair value and the supporting assumptions and methodologies. We gain assurance on the overall reasonableness and consistent application of valuation methodologies and inputs and compliance with accounting standards through the execution of various processes and controls designed to provide assurance that our assets and liabilities are appropriately valued. For fair values received from third parties, our processes are designed to provide assurance that the valuation methodologies and inputs are appropriate and consistently applied, the assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded.

At the end of each quarter, we determine whether we need to transfer the fair values of any securities between levels of the fair value hierarchy and, if so, we report the transfer as of the end of the quarter. During the first nine months of 2015, we transferred no investments between levels. We used unobservable inputs to derive our estimated fair value for Level 3 investments and the unobservable inputs are significant to the overall fair value measurement.

For our investments in U.S. government securities that do not have prices in active markets, agency securities, state and municipal governments, and corporate bonds, we obtain the fair values from Synovus Trust Company, NA, which uses a third-party valuation service. The valuation service calculates prices for our investments in the aforementioned security types on a month-end basis by using several matrix-pricing methodologies that incorporate inputs from various sources. The model the valuation service uses to price U.S. government securities and securities of states and municipalities incorporates inputs from active market makers and inter-dealer brokers. To price corporate bonds and agency securities, the valuation service calculates non-call yield spreads on all issuers, uses option-adjusted yield spreads to account for any early redemption features, then adds final spreads to the U.S. Treasury curve at 3 p.m. (ET) as of quarter end. Since the inputs the valuation service uses in their calculations are not quoted prices in active markets, but are observable inputs, they represent Level 2 inputs.

Other investments

We acquired investments in limited partnerships, recorded in the other investments line of our Unaudited Consolidated Balance Sheets, that are currently being accounted for at fair value utilizing a discounted cash flow methodology. The estimated fair value of our investments in the limited partnership interests was $2,736,000. We have fully funded our investments in DCR and RCH, but we are still obligated to fund an additional $1,169,000 for our investment in Kayne. The information presented in the table below is as of September 30, 2015.

	Initial Investment	Book Value	Unrealized Gain	Fair Value
DCR Mortgage Partners VI, L.P.	$627	$638	$231	$869
RCH Mortgage Fund VI Investors, LP	1,000	965	71	1,036
Kayne Senior Credit Fund II, L.P.	831	831	—	831
Total limited partnerships	$2,458	$2,434	$302	$2,736
Other short-term investments	300	300	—	300
Total other investments	$2,758	$2,734	$302	$3,036

The following table summarizes the quantitative impact that the significant unobservable inputs used to estimate the fair value of our Level 3 investments has on the estimated fair value on our investments shown in the tables above. The DCR and RCH investments were valued using a duration of 60 months for both periods presented below.

	Fair Value Impact	Valuation Technique	Unobservable Input	Rate Adjustment
September 30, 2015				
DCR	$(89)	Discounted cash flow	Discount rate based on D&B paydex scale	2.35%
RCH	$(292)	Discounted cash flow	Discount rate based on D&B paydex scale	6.10%
December 31, 2014				
DCR	$(107)	Discounted cash flow	Discount rate based on D&B paydex scale	2.35%
RCH	$(292)	Discounted cash flow	Discount rate based on D&B paydex scale	6.10%

4) ACQUISITION

On February 3, 2015, we successfully completed the acquisition of Family Security Holdings, LLC and its two wholly-owned subsidiaries. The purchase price for FSH and its subsidiaries consisted of an initial purchase price of $12,994,000 in common stock and contingent consideration based on a percentage of gross premiums written on the renewal of FSH policies during the one year period following the closing date, which we estimate to be $540,000 as of September 30, 2015. The contingent consideration will be paid in shares of our common stock one year after the closing of the merger.

The business combination has been accounted for using the acquisition method of accounting, which requires, among other things, that most assets acquired, liabilities assumed and earn-out consideration be recognized at their fair values as of the acquisition date.

The purchase price consisted of the following amounts:

Fair market value of common stock issued	$12,994
Estimate of potential contingent consideration[(1)]	540
Total purchase price	$13,534

(1) The amount of the contingent consideration reflected in the table above reflects our estimate, as of September 30, 2015, of the amount of contingent consideration that we will be required to pay to the former shareholders of FSH pursuant to the purchase agreement to acquire FSH and it subsidiaries. The contingent consideration will be paid out in additional shares of our stock based on the 180 day average of the closing price of our stock in the 180 days immediately prior to the one year anniversary of the closing of the acquisition. The contingent consideration will be measured at each reporting date with changes in its fair value recognized in our Unaudited Consolidated Statements of Comprehensive Income.

The operations of FSH and its subsidiaries are included in our Unaudited Consolidated Statements of Comprehensive Income effective February 3, 2015. We have one year from the acquisition date to finalize the allocation of the purchase price of FSH and its subsidiaries. The initial purchase price allocation is as follows:

Cash	$14,467
Investments	5,588
Premium and agents' receivable	1,496
Intangible assets	6,312
Goodwill	4,196
Other assets	609
Loss reserves	(2,390)
Unearned premiums	(9,646)
Reinsurance payable	(998)
Loans payable	(2,246)
Deferred taxes	(2,182)
Other liabilities	(1,672)
Total purchase price	$13,534

The unaudited pro forma information has been prepared as if the FSH acquisition had taken place on January 1, 2015. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transaction taken place on January 1, 2015, and the unaudited pro forma information does not purport to be indicative of future financial operating results.

	For the Nine Months Ended September 30, 2015		
	As Reported	Pro Forma Adjustments	Pro Forma
Revenues	$257,542	$1,127	$258,669
Net income	$13,556	$77	$13,633
Diluted earnings per share	$0.63	$—	$0.64

5) 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 vesting of restricted stock awards. The following table shows the computation of basic and diluted EPS for the three and nine month periods ended September 30, 2015 and September 30, 2014, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income attributable to common stockholders	$8,083	$8,640	$13,556	$29,619
Denominator:				
Weighted-average shares outstanding	21,290,759	20,745,245	21,193,825	19,658,199
Effect of dilutive securities	237,787	98,358	233,573	98,212
Weighted-average diluted shares	21,528,546	20,843,603	21,427,398	19,756,411
Basic earnings per share	$0.38	$0.42	$0.64	$1.51
Diluted earnings per share	$0.38	$0.41	$0.63	$1.50

See Note 14 for additional information on the stock grants related to dilutive securities.

6) PROPERTY AND EQUIPMENT, NET

On September 5, 2014, we entered into a purchase and sale agreement to acquire approximately 40,000 square feet of commercial office space and associated property in St. Petersburg, Florida. At acquisition, the real estate consisted of approximately 2.3 acres of land and an office building, plus an additional 1.5 acres of leased parking space. We are depreciating the building over its expected useful life of 39 years.

On September 9, 2015, we entered into a purchase and sale agreement to acquire approximately 7,800 square feet of commercial office space in St. Petersburg, Florida. We are depreciating the building over its expected useful life of 39 years.

Property and equipment, net consists of the following:

	September 30, 2015	December 31, 2014
Land	$2,114	$2,114
Building and building improvements	3,366	1,469
Computer hardware and software	12,002	6,001
Office furniture and equipment	1,638	1,319
Leasehold improvements	141	141
Total, at cost	19,261	11,044
Less: accumulated depreciation and amortization	(3,918)	(3,022)
Property and equipment, net	$15,343	$8,022

Depreciation and amortization expense under property and equipment was $446,000 and $191,000 for the three months ended September 30, 2015 and 2014, respectively and $897,000 and $518,000 for the nine months ended September 30, 2015 and 2014, respectively.

7) REINSURANCE

Our reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes. According to the Insurance Service Office (ISO), a catastrophe loss is defined as a single unpredictable incident or series of closely related incidents that result in $25,000,000 or more in U.S. industry-wide direct insured losses to property and that affect a significant number of policyholders and insurers (ISO catastrophe). In addition to ISO catastrophes, we also include as catastrophes those events (non-ISO catastrophes), which may include losses, that we believe are, or will be, material to our operations, either in amount or in number of claims made.

Our program provides reinsurance protection for catastrophes including hurricanes, tropical storms, and tornadoes. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings, while providing protection to our policyholders.

During the second quarter of 2015, we placed our reinsurance program for the 2015 treaty year beginning June 1, 2015 and ending on May 31, 2016. The agreements incorporate the mandatory coverage required by and placed with the Florida Hurricane Catastrophe Fund (FHCF). The FHCF is a Florida State-sponsored trust fund that provides reimbursement in Florida against storms that the National Hurricane Center designates as hurricanes. The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes.

For the treaty year beginning June 1, 2015 and ending on May 31, 2016, UPC Insurance has obtained reinsurance protection of $1,243,122,000 excess $25,000,000, providing sufficient protection for approximately a 1-in-100 year hurricane event and a second 1-in-50 year hurricane event as calculated using a blended model result predominately based on our licensed modeling software, AIR model version 15, using long-term event rates including demand surge. For a single first event hurricane or tropical storm, UPC Insurance will pay, or “retain”, 100% of losses up to $25,000,000 in a Florida event and 100% of losses up to $5,000,000 in an event outside of Florida. The catastrophe excess of loss reinsurance program provides 100% coverage for all losses in excess of $25,000,000 up to $1,173,122,000 for a first event and $1,243,122,000 for any number of subsequent events until all limit is exhausted.

For the 2015 contract year, UPC Insurance has elected a 45% participation rate with the FHCF and purchased FHCF replacement coverage from private reinsurers for the remaining 45%. Of the $1,243,122,000 in excess of $25,000,000, we estimate the mandatory FHCF layer will provide approximately $284,061,000 (45% of $631,247,000) of aggregate coverage for losses in excess of $230,356,000. The private market FHCF replacement coverage provides another $284,061,000 in excess of $230,356,000 layer for Florida only on a fully collateralized basis that also inures to the benefit of all other private reinsurance coverage.

In addition to the FHCF and FHCF replacement coverage, $585,000,000 of aggregate catastrophe reinsurance coverage in excess of $25,000,000 was acquired from 35 unaffiliated private reinsurers who either carry A.M. Best financial strength ratings of A- or higher, or have fully collateralized their maximum potential obligations in dedicated trusts for the benefit of UPC. Our 2015 agreements with these private reinsurers structure coverage into 6 layers, with a cascading feature such that all layers attach at $25,000,000. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted ensuring there are no potential gaps in coverage up to the $1,173,122,000 first event program exhaustion point. The Company also secured up to $95,000,000 of limit that can be utilized at our option for 2^{nd} and subsequent events at an additional cost, but the Company is under no obligation to activate this layer.

UPC also purchased a $20,000,000 per occurrence, excess of $5,000,000, underlying layer with $40,000,000 of aggregate contract year limit. This coverage reduces our retention for named windstorms to $5,000,000 subject to an overall annual aggregate limit of $40,000,000. For losses in Florida, this contract stipulates an annual aggregate deductible of $25,000,000, which effectively reduces our 2^{nd} event retention in Florida to $10,000,000 and 3^{rd} and subsequent event retentions in Florida to $5,000,000 subject to the overall $40,000,000 of aggregate limit.

The total cost of the 2015-16 catastrophe reinsurance program is estimated to be $161,400,000.

We amortize our prepaid reinsurance premiums over the annual agreement period, and we record that amortization in ceded premiums earned on our Unaudited Consolidated Statements of Comprehensive Income. The table below summarizes the amounts of our ceded premiums written under the various types of agreements, as well as the amortization of prepaid reinsurance premiums:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Excess-of-loss	$ 1,898	$ 4,642	$ (163,221)	$ (126,632)
Equipment & identity theft	(1,723)	(1,221)	(4,521)	(3,138)
Flood	(4,505)	(4,509)	(11,461)	(11,961)
Ceded premiums written	$ (4,330)	$ (1,088)	$ (179,203)	$ (141,731)
Increase (decrease) in ceded unearned premiums	(40,400)	(34,653)	56,809	41,974
Ceded premiums earned	$ (44,730)	$ (35,741)	$ (122,394)	$ (99,757)

Current year catastrophe losses by the event magnitude are shown in the following table for the three and nine months ended September 30, 2015 and 2014.

	2015			2014		
	Number of Events	Incurred Loss and LAE [(1)]	Combined Ratio Impact	Number of Events	Incurred Loss and LAE [(1)]	Combined Ratio Impact
Three Months Ended September 30,						
Current period catastrophe losses incurred						
$ 1 million to $5 million [(2)]	1	$ 2,420	2.8			