

UNITED INSURANCE HOLDINGS CORP.
Form 10-Q
August 06, 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 June 30, 2015
Commission File Number 001-35761

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

Delaware
(State of Incorporation)

75-3241967
(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 August 6, 2015; 21,528,973 shares of common stock, par value \$0.0001 per share, were outstanding.

UNITED INSURANCE HOLDINGS CORP.

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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.

UNITED INSURANCE HOLDINGS CORP.

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q as of June 30, 2015, and for the three and six months ended June 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 comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the regulatory, economic and weather conditions present in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost and 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.

UNITED INSURANCE HOLDINGS CORP.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Investments available for sale, at fair value:		
Fixed maturities (amortized cost of \$367,348 and \$350,063, respectively)	\$368,258	\$352,630
Equity securities (adjusted cost of \$24,917 and \$22,278, respectively)	27,901	25,987
Other investments (amortized cost of \$2,840 and \$2,749, respectively)	3,131	3,010
Total investments	\$399,290	\$381,627
Cash and cash equivalents	105,752	61,391
Accrued investment income	2,584	2,239
Property and equipment, net	12,276	8,022
Premiums receivable, net	45,223	31,369
Reinsurance recoverable on paid and unpaid losses	8,558	2,068
Prepaid reinsurance premiums	161,057	63,827
Goodwill	4,196	—
Deferred policy acquisition costs	43,163	31,925
Other assets	7,602	1,701
Total Assets	\$789,701	\$584,169
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$67,638	\$54,436
Unearned premiums	272,167	229,486
Reinsurance payable	164,970	45,254
Other liabilities	52,528	37,701
Notes payable	12,941	13,529
Total Liabilities	\$570,244	\$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; 21,741,056 and 21,116,497 issued; 21,528,973 and 20,904,414 outstanding for 2015 and 2014, respectively	2	2
Additional paid-in capital	96,194	82,380
Treasury shares, at cost; 212,083 shares	(431	) (431
Accumulated other comprehensive income	2,568	4,011
Retained earnings	121,124	117,801
Total Stockholders' Equity	\$219,457	\$203,763
Total Liabilities and Stockholders' Equity	\$789,701	\$584,169

See accompanying Notes to Unaudited Consolidated Financial Statements.

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UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
REVENUE:				
Gross premiums written	\$ 162,582	\$ 128,920	\$ 269,198	\$ 217,921
Increase in gross unearned premiums	(41,600)	(31,697)	(33,034)	(25,687)
Gross premiums earned	120,982	97,223	236,164	192,234
Ceded premiums earned	(40,530)	(33,039)	(77,664)	(64,016)
Net premiums earned	80,452	64,184	158,500	128,218
Investment income	2,239	1,617	4,312	3,084
Net realized gains (losses)	(133)	31	(11)	45
Other revenue	2,782	1,872	4,935	3,864
Total revenue	85,340	67,704	167,736	135,211
EXPENSES:				
Losses and loss adjustment expenses	44,627	28,792	96,598	56,465
Policy acquisition costs	21,198	16,197	40,384	31,377
Operating expenses	4,809	2,858	8,350	5,367
General and administrative expenses	6,512	4,335	13,913	8,685
Interest expense	68	112	151	227
Total expenses	77,214	52,294	159,396	102,121
Income before other income	8,126	15,410	8,340	33,090
Other income	61	—	185	16
Income before income taxes	8,187	15,410	8,525	33,106
Provision for income taxes	2,912	5,820	3,052	12,127
Net income	\$5,275	\$9,590	\$5,473	\$20,979
OTHER COMPREHENSIVE INCOME:				
Change in net unrealized gains (losses) on investments	(4,892)	3,323	(2,363)	5,650
Reclassification adjustment for net realized investment (gains) losses	133	(31)	11	(45)
Income tax benefit (expense) related to items of other comprehensive income	1,839	(1,272)	909	(2,166)
Total comprehensive income	\$2,355	\$11,610	\$4,030	\$24,418
Weighted average shares outstanding				
Basic	21,255,496	20,735,135	21,145,624	19,105,666
Diluted	21,508,511	20,845,694	21,376,540	19,203,805
Earnings per share				
Basic	\$0.25	\$0.46	\$0.26	\$1.10
Diluted	\$0.25	\$0.46	\$0.26	\$1.09
Dividends declared per share	\$0.05	\$0.04	\$0.10	\$0.08

See accompanying Notes to Unaudited Consolidated Financial Statements.

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UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2015	2014
OPERATING ACTIVITIES		
Net income	\$5,473	\$20,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,254	327
Bond amortization and accretion	(832	) 726
Net realized gains	11	(45
Provision for uncollectible premiums/over and short	212	48
Deferred income taxes, net	3,902	263
Stock based compensation	985	121
Changes in operating assets and liabilities:		
Accrued investment income	(345	) (73
Premiums receivable	(12,570	) (8,498
Reinsurance recoverable on paid and unpaid losses	(6,490	) (580
Prepaid reinsurance premiums	(97,230	) (76,628
Deferred policy acquisition costs, net	(11,238	) (8,395
Other assets	(4,958	) 356
Unpaid losses and loss adjustment expenses	10,812	3,497
Unearned premiums	33,034	25,687
Reinsurance payable	118,718	93,830
Other liabilities	12,616	(3,596
Net cash provided by operating activities	\$53,354	\$48,019
INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments available for sale	65,751	89,956
Purchases of investments available for sale	(79,357	) (143,507
Cash from acquisition	14,467	—
Cost of property, equipment and capitalized software acquired	(4,705	) (1,295
Net cash used in investing activities	\$(3,844	) \$(54,846
FINANCING ACTIVITIES		
Tax withholding payment related to net settlement of equity awards	(165	) (110
Repayments of borrowings	(2,834	) (588
Dividends	(2,150	) (1,666
Proceeds from issuance of common stock	—	54,041
Net cash provided by (used in) financing activities	\$(5,149	) \$51,677
Increase in cash	44,361	44,850
Cash and cash equivalents at beginning of period	61,391	34,888
Cash and cash equivalents at end of period	\$105,752	\$79,738
Supplemental Cash Flows Information		
Interest paid	\$153	\$209
Income taxes paid	\$4,491	\$19,221

See accompanying Notes to Unaudited Consolidated Financial Statements.

UNITED INSURANCE HOLDINGS CORP.
Notes to Unaudited Consolidated Financial Statements
June 30, 2015

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 June 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.

UNITED INSURANCE HOLDINGS CORP.
Notes to Unaudited Consolidated Financial Statements
June 30, 2015

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 June 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 June 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 pending accounting pronouncements and do not believe they would have an impact on the operations or financial reporting of our Company.

UNITED INSURANCE HOLDINGS CORP.
Notes to Unaudited Consolidated Financial Statements
June 30, 2015

3) INVESTMENTS

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

	Cost or Adjusted/Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
U.S. government and agency securities	\$ 99,831	\$388	\$302	\$99,917
Foreign government	3,268	80	—	3,348
States, municipalities and political subdivisions	123,514	1,463	1,349	123,628
Public utilities	8,027	198	36	8,189
Corporate securities	130,748	1,375	868	131,255
Redeemable preferred stocks	1,960	6	45	1,921
Total fixed maturities	367,348	3,510	2,600	368,258
Public utilities	1,632	35	43	1,624
Other common stocks	20,764	3,688	670	23,782
Non-redeemable preferred stocks	2,521	12	38	2,495
Total equity securities	24,917	3,735	751	27,901
Other long-term investments	2,840	291	—	3,131
Total investments	\$ 395,105	\$7,536	\$3,351	\$399,290
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

UNITED INSURANCE HOLDINGS CORP.
Notes to Unaudited Consolidated Financial Statements
June 30, 2015

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 six month periods ended June 30, 2015 and 2014:

	2015	2014
Gains		