

UNIVERSAL INSURANCE HOLDINGS, INC.  
Form 10-Q  
April 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization) 65-0231984  
(I.R.S. Employer  
Identification No.)

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

(Address of principal executive offices)

(954) 958-1200

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,847,410 shares of common stock, par value \$0.01 per share, outstanding on April 23, 2015.

UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Universal Insurance Holdings, Inc. and Subsidiaries

Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the "Company") as of March 31 2015 and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three-month periods ended March 31, 2015 and 2014. These interim financial statements are the responsibility of the Company's management.

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

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

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

/s/ Plante & Moran, PLLC

Chicago, Illinois

April 30, 2015

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

	As of March 31, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$182,311	\$115,397
Restricted cash and cash equivalents	2,635	2,635
Fixed maturities, at fair value	347,912	353,949
Equity securities, at fair value	21,396	19,642
Short-term investments, at fair value	37,506	49,990
Prepaid reinsurance premiums	194,691	190,505
Reinsurance recoverable	51,366	55,187
Reinsurance receivable, net	4,297	7,468
Premiums receivable, net	55,033	50,987
Other receivables	3,284	2,763
Property and equipment, net	21,153	17,254
Deferred policy acquisition costs, net	26,195	25,660
Income taxes recoverable	—	5,675
Deferred income tax asset, net	11,717	11,850
Other assets	7,661	2,812
<b>Total assets</b>	<b>\$967,157</b>	<b>\$911,774</b>
<b>LIABILITIES, CONTINGENTLY REDEEMABLE COMMON STOCK AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Unpaid losses and loss adjustment expenses	\$125,161	\$134,353
Unearned premiums	410,683	395,748
Advance premium	22,185	17,919
Accounts payable	2,472	4,121
Book overdraft	7,478	5,924
Reinsurance payable, net	91,258	66,066
Income taxes payable	6,681	1,799
Other liabilities and accrued expenses	27,505	36,318
Long-term debt	31,813	30,610
<b>Total liabilities</b>	<b>725,236</b>	<b>692,858</b>

Commitments and Contingencies (Note 12)

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Contingently redeemable common stock	—	19,000
Issued shares - 0 and 1,000		
Outstanding shares - 0 and 1,000		
<b>STOCKHOLDERS' EQUITY:</b>		
Cumulative convertible preferred stock, \$.01 par value	—	—
Authorized shares - 1,000		
Issued shares - 12 and 12		
Outstanding shares - 12 and 12		
Minimum liquidation preference, \$8.49 and \$8.49 per share		
Common stock, \$.01 par value	452	448
Authorized shares - 55,000		
Issued shares - 45,224 and 43,769		
Outstanding shares - 35,557 and 34,102		
Treasury shares, at cost - 9,667 and 9,667	(62,153 )	(62,153 )
Additional paid-in capital	63,700	40,987
Accumulated other comprehensive income (loss), net of taxes	(638 )	(1,835 )
Retained earnings	240,560	222,469
Total stockholders' equity	241,921	199,916
Total liabilities, contingently redeemable common stock and stockholders' equity	\$967,157	\$911,774

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

## UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended March 31,	
	2015	2014
<b>PREMIUMS EARNED AND OTHER REVENUES</b>		
Direct premiums written	\$211,605	\$191,917
Ceded premiums written	(106,497)	(121,649)
Net premiums written	105,108	70,268
Change in net unearned premium	(10,748 )	(6,461 )
Premiums earned, net	94,360	63,807
Net investment income (expense)	862	518
Net realized gains (losses) on investments	171	902
Commission revenue	3,168	4,089
Policy fees	3,832	3,512
Other revenue	1,417	1,477
Total premiums earned and other revenues	103,810	74,305
<b>OPERATING COSTS AND EXPENSES</b>		
Losses and loss adjustment expenses	33,590	26,825
General and administrative expenses	32,197	24,363
Total operating costs and expenses	65,787	51,188
<b>INCOME BEFORE INCOME TAXES</b>	<b>38,023</b>	<b>23,117</b>
Income tax expense	15,693	9,568
<b>NET INCOME</b>	<b>\$22,330</b>	<b>\$13,549</b>
Basic earnings per common share	\$0.65	\$0.41
Weighted average common shares outstanding - Basic	34,578	33,422
Fully diluted earnings per common share	\$0.62	\$0.38
Weighted average common shares outstanding - Diluted	36,081	35,641
Cash dividend declared per common share	\$0.12	\$0.10

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Three Months  
Ended  
March 31,  
2015 2014

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Net income	\$22,330	\$13,549
Other comprehensive income (loss), net of taxes	1,197	112
Comprehensive income (loss)	\$23,527	\$13,661

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)

	March 31,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net Income	\$22,330	\$13,549
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Bad debt expense	141	71
Depreciation and amortization	389	280
Amortization of share-based compensation	2,752	1,685
Amortization of original issue discount on debt	181	250
Accretion of deferred credit	(181 )	(250 )
Book overdraft increase (decrease)	1,554	(11,962 )
Net realized (gains) losses on investments	(171 )	(902 )
Amortization of premium/accretion of discount, net	430	499
Deferred income taxes	(620 )	509
Excess tax (benefits) shortfall from share-based compensation	(4,136 )	(6,342 )
Other	61	(12 )
<b>Net change in assets and liabilities relating to operating activities:</b>		
Restricted cash and cash equivalents	—	(35 )
Prepaid reinsurance premiums	(4,186 )	5,188
Reinsurance recoverable	3,821	31,750
Reinsurance receivable, net	3,171	(6,801 )
Premiums receivable, net	(4,187 )	(1,715 )
Accrued investment income	(90 )	(32 )
Other receivables	(425 )	(636 )
Income taxes recoverable	5,675	1,953
Deferred policy acquisition costs, net	(535 )	6
Other assets	751	350
Unpaid losses and loss adjustment expenses	(9,192 )	(8,665 )
Unearned premiums	14,935	1,273
Accounts payable	(1,649 )	1,058
Reinsurance payable, net	25,192	7,422
Income taxes payable	9,018	4,691
Other liabilities and accrued expenses	(8,633 )	(5,779 )
Advance premium	4,266	2,454
Net cash provided by (used in) operating activities	60,662	29,857
<b>Cash flows from investing activities:</b>		
Proceeds from sale of property and equipment	50	17
Purchases of property and equipment	(7,613 )	(751 )
Payments to acquire a business	(1,000 )	—
Purchases of equity securities	(17,056 )	(4,782 )

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Purchases of fixed maturities	(24,965 )	(20,475 )
Proceeds from sales of equity securities	15,300	10,071
Proceeds from sales of fixed maturities	12,891	4,370
Maturities of fixed maturities	19,786	7,528
Maturities of short-term investments	12,500	—
Net cash provided by (used in) investing activities	9,893	(4,022 )
Cash flows from financing activities:		
Preferred stock dividend	(2 )	(5 )
Common stock dividend	(4,237 )	(3,463 )
Issuance of common stock	503	—
Purchase of treasury stock	—	(14,737 )
Payments related to tax withholding for share-based compensation	(3,673 )	(8,108 )
Excess tax benefits (shortfall) from share-based compensation	4,136	6,342
Repayment of debt	(368 )	(368 )
Net cash provided by (used in) financing activities	(3,641 )	(20,339 )
Net increase (decrease) in cash and cash equivalents	66,914	5,496
Cash and cash equivalents at beginning of period	115,397	117,275
Cash and cash equivalents at end of period	\$ 182,311	\$ 122,771
Supplemental cash and non-cash flow disclosures:		
Interest paid	\$ 310	\$ 433
Income taxes paid	\$ 1,619	\$ 2,404

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc., (“UIH”) is a Delaware corporation originally incorporated as Universal Heights, Inc., in November 1990. UIH with its wholly-owned subsidiaries (the “Company”), is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned subsidiaries, including Universal Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC”), collectively referred to as the “Insurance Entities”, the Company is principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company’s primary product is homeowners insurance offered in nine states as of March 31, 2015, including Florida, which comprises the vast majority of the Company’s in-force policies. See “—Note 5 (Insurance Operations)” for more information regarding the Company’s insurance operations.

The Company generates revenues primarily from the collection of premiums and invests funds in excess of those retained for claims-paying obligations and insurance operations. Other significant sources of revenue include commissions collected from reinsurers, policy fees collected from policyholders through 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, they do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (“GAAP”) for complete financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on February 25, 2015. The condensed consolidated balance sheet at December 31, 2014, was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

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

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

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

## 2. Significant Accounting Policies

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

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

### Recently Issued Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (“FASB”) issued accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. Under this guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should generally be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. This guidance is effective for fiscal years and interim periods beginning after December 15, 2013, but earlier adoption is permitted. The Company adopted this guidance effective January 1, 2014. The adoption did not have an impact on the presentation of the Company’s financial statements and notes herein.

## 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, 2015			Fair
	Cost or	Gross	Gross	Value
	Amortized	Unrealized	Unrealized	
	Cost	Gains	Losses	
<b>Fixed Maturities:</b>				
U.S. government obligations and agencies	\$105,290	\$ 77	\$ (175 )	\$105,192
Corporate bonds	123,944	744	(114 )	124,574
Mortgage-backed and asset-backed securities	109,529	521	(279 )	109,771
Redeemable preferred stock	8,056	320	(1 )	8,375
<b>Equity Securities:</b>				
Common stock	2,215	—	(226 )	1,989
Mutual funds	21,318	31	(1,942 )	19,407
Short-term investments	37,500	6	—	37,506
<b>Total</b>	<b>\$407,852</b>	<b>\$ 1,699</b>	<b>\$ (2,737 )</b>	<b>\$406,814</b>

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

The following table provides the credit quality of investments with contractual maturities as of the dates presented (in thousands):

March 31, 2015

Standard and Poor's Rating Services	% of Total		
	Fair Value	Fair Value	
AAA	\$31,671	8.2	%
AA	186,057	48.4	%
A	82,613	21.4	%
BBB	45,137	11.7	%
BB+ and Below (1)	3,210	0.8	%
No Rating Available (2)	36,730	9.5	%
Total	\$385,418	100.0	%

(1) As of March 31, 2015, \$675 thousand of these investments were rated either “Baa3” or “Baa2” by Moody’s Investors Service, Inc.

(2) As of March 31, 2015, \$18.9 million of these investments were rated either “Aaa” or “Aa3” by Moody’s Investors Service, Inc.

December 31, 2014			
Standard and Poor's		% of Total	
Rating Services	Fair Value	Fair Value	
AAA	\$31,783	7.9	%
AA	207,953	51.5	%
A	79,675	19.7	%
BBB	45,781	11.3	%
BB+ and Below	2,677	0.7	%
No Rating Available	36,070	8.9	%
<b>Total</b>	<b>\$403,939</b>	<b>100.0</b>	<b>%</b>

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, 2015		December 31, 2014	
	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
<b>Mortgage-backed securities:</b>				
Agency	\$66,366	\$66,526	\$64,905	\$64,619
Non-agency	9,833	9,849	8,053	7,987
<b>Asset-backed securities:</b>				
Auto loan receivables	15,247	15,307	16,551	16,556
Credit card receivables	13,483	13,472	13,481	13,457
Other receivables	4,600	4,617	4,599	4,604
<b>Total</b>	<b>\$109,529</b>	<b>\$109,771</b>	<b>\$107,589</b>	<b>\$107,223</b>

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, 2015		12 Months or Longer			
	Less Than 12 Months Number of Fair Issue/Value	Unrealized Losses	of Fair Issue/Value	Unrealized Losses		
<b>Fixed maturities:</b>						
U.S. government obligations and agencies	3	\$24,001	\$ (33 )	2	\$3,507	\$ (143 )
Corporate bonds	13	14,351	(97 )	3	3,397	(17 )
Mortgage-backed and asset-backed securities	10	23,408	(63 )	5	15,395	(216 )

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Redeemable preferred stock	5	569	(1	)	—	—	—
Equity securities:							
Common stock	3	1,911	(166	)	2	78	(60
Mutual funds	1	525	(56	)	1	8,801	(1,885
Total	35	\$64,765	\$ (416	)	13	\$31,178	\$ (2,321

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	December 31, 2014		12 Months or Longer	
	Less Than 12 Months		Number	Unrealized
	Number	Fair	of	Unrealized
	of	Value	Issues	Losses
	Issues	Value	Value	Losses
<b>Fixed maturities:</b>				
U.S. government obligations and agencies	3	\$27,341	\$ (55 )	4 \$34,050 \$ (572 )
Corporate bonds	67	58,271	(238 )	12 15,105 (126 )
Mortgage-backed and asset-backed securities	20	48,335	(273 )	5 16,842 (229 )
Redeemable preferred stock	12	1,153	(9 )	— — —
<b>Equity securities:</b>				
Common stock	2	87	(20 )	2 117 (45 )
Mutual funds	2	10,514	(97 )	1 8,859 (1,827 )
Short-term investments	2	37,490	(10 )	— — —
<b>Total</b>	<b>108</b>	<b>\$183,191</b>	<b>\$ (702 )</b>	<b>24 \$74,973 \$ (2,799 )</b>

At March 31, 2015, we held fixed maturity and equity securities that were in an unrealized loss position as presented in the table above. For fixed maturity securities with significant declines in value, we perform quarterly fundamental credit analysis on a security-by-security basis, which includes consideration of credit quality and credit ratings, review of relevant industry analyst reports and other available market data. For fixed maturity and equity securities, 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, 2015 are other than temporary.

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

	March 31, 2015	
	Cost or Amortized Cost	Fair Value
Due in one year or less	\$80,687	\$80,697
Due after one year through five years	183,707	184,223
Due after five years through ten years	1,347	1,368
Due after ten years	3,732	3,889
Mortgage-backed and asset-backed securities	109,528	109,771
Perpetual maturity securities	5,318	5,470
<b>Total</b>	<b>\$384,319</b>	<b>\$385,418</b>

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,	
	2015	2014
Sales proceeds (fair value)	\$40,595	\$14,441
Gross realized gains	\$186	\$999
Gross realized losses	\$(15 )	\$(97 )
Other than temporary losses	\$—	\$—

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,	
	2015	2014
Fixed maturities	1,184	728
Equity securities	57	302
Short-term investments	38	—
Other (1)	66	12
Total investment income	1,345	1,042
Less: Investment expenses (2)	(483 )	(524 )
Net investment (expense) income	\$862	\$518

(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 investment expenses related to cash and cash equivalents, restricted cash and cash equivalents and real estate investments.

## 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 1 of each year. The Company's reinsurance program consists of excess of loss, quota share and catastrophe reinsurance, subject to the terms and conditions of the applicable agreements. The Company is responsible for insured losses related to catastrophes and other events in excess of coverage provided by its reinsurance program. The Company remains responsible for the settlement of insured losses irrespective of the failure of any of its reinsurers to make payments otherwise due to the Company.

The Company reduced the percentage of premiums ceded by UPCIC to its quota share reinsurers to 30% beginning with the reinsurance program effective June 1, 2014, from 45% under the prior year quota share contracts that were effective June 1, 2013 through May 31, 2014. By ceding 15 percentage points less premium to its quota share reinsurers, the Company expects to increase its profitability by retaining more premium. The reduction in cession rate 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 reduction of cession rate also reduces the amount of ceding commissions earned from the Company's quota share reinsurer during the contract term and decreases the amount of deferred ceding commission, which is a component of net deferred policy acquisition costs.

Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance contracts. Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Deferred ceding commissions are netted against 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, 2015			Due from as of	
	AM Best Company	Standard and Poor's Rating Services	Moody's Investors Service, Inc.	March 31, 2015	December 31, 2014
Everest Reinsurance Company	A+	A+	A1	\$ 12,029	\$ 16,780
Florida Hurricane Catastrophe Fund	n/a	n/a	n/a	12,748	31,870
Odyssey Reinsurance Company	A	A-	A3	139,044	136,339
Total (1)				\$ 163,821	\$ 184,989

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

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



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, 2015			2014			
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	\$211,605	\$196,671	\$ 49,290	\$191,917	\$190,644	\$ 50,722
Ceded	(106,497)	(102,311)	(15,700 )	(121,649)	(126,837)	(23,897 )
Net	\$105,108	\$94,360	\$ 33,590	\$70,268	\$63,807	\$ 26,825

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, 2015	December 31, 2014
Prepaid reinsurance premiums	\$194,691	\$190,505
Reinsurance recoverable on unpaid losses and LAE	\$42,713	\$47,350
Reinsurance recoverable on paid losses	8,653	7,837
Reinsurance receivable, net	4,297	7,468
Reinsurance recoverable and receivable	\$55,663	\$62,655

## 5. Insurance Operations

## Deferred Policy Acquisition Costs, net

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

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

	Three Months Ended March 31,	
	2015	2014
DPAC, beginning of period	\$54,603	\$54,099
Capitalized Costs	28,567	26,782
Amortization of DPAC	(26,987)	(26,670)
DPAC, end of period	\$56,183	\$54,211
DRCC, beginning of period	\$28,943	\$38,200
Ceding Commissions Written	17,661	21,880
Earned Ceding Commissions	(16,616)	(21,762)
DRCC, end of period	\$29,988	\$38,318
DPAC (DRCC), net, beginning of period	\$25,660	\$15,899
Capitalized Costs, net	10,906	4,902
Amortization of DPAC (DRCC), net	(10,371)	(4,908)
DPAC (DRCC), net, end of period	\$26,195	\$15,893

## 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,	
	2015	2014
Balance at beginning of period	\$134,353	\$159,222
Less: Reinsurance recoverable	(47,350)	(68,584)
Net balance at beginning of period	87,003	90,638
Incurred (recovered) related to:		
Current year	33,559	26,855
Prior years		