

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

(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 ☒ 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 ☒ 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 ☐

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 ☒

As of November 5, 2015; 21,527,817 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 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.

UNITED INSURANCE HOLDINGS CORP.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
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.

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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.

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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.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Consolidated Financial Statements

September 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 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.

UNITED INSURANCE HOLDINGS CORP.
Notes to Unaudited Consolidated Financial Statements
September 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 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.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Consolidated Financial Statements

September 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 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

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Consolidated Financial Statements

September 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 nine month periods ended September 30, 2015 and 2014:

	2015		2014	
	Gains	Fair Value at	Gains	Fair Value at
	(Losses)	Sale	(Losses)	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	Percent of	Fair Value	Percent of	
	Amortized	Total		Total	
	Cost				
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	%

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Consolidated Financial Statements

September 30, 2015

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.

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

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.

UNITED INSURANCE HOLDINGS CORP.

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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.

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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

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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.

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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.

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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

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 its subsidiaries. The contingent consideration will be paid ⁽¹⁾ 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

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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.

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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 2nd 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 2nd event retention in Florida to \$10,000,000 and 3rd 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.

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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	% —	\$—	— %
Less than \$1 million ⁽³⁾	12	1,388	1.7	% 3	714	1.1 %
Total	13	\$3,808	4.5	% 3	\$714	1.1 %

Nine Months Ended September 30,						
Current period catastrophe losses incurred						
\$ 5 million to \$10 million ⁽⁴⁾	2	\$11,342	4.7	% —	\$—	— %
\$ 1 million to \$5 million ⁽⁵⁾	6	12,275	5.1	% —	—	— %
Less than \$1 million ⁽³⁾	5	1,968	0.8	% 3	974	0.5 %
Total	13	\$25,585	10.6	% 3	\$974	0.5 %

(1) Incurred loss and LAE is equal to losses and LAE paid plus the change in case and incurred but not reported reserves.

(2) Reflects losses from a wind storm in 2015.

(3) Reflects losses from winter storms, hail storms, Texas flooding, Hurricane Anna and Tropical Storm Bill in 2015 and losses from the Richland hail storm, Hurricane Arthur and the Revere Tornado in 2014.

(4) Reflects losses from winter storms in 2015.

(5) Reflects losses from winter storms, hail storms and wind storms in 2015.

We collected cash recoveries under our reinsurance agreements totaling \$7,608,000 and \$100,000 for the three month periods ended September 30, 2015 and 2014, respectively, and \$8,535,000 and \$1,181,000 for the nine month periods ended September 30, 2015 and 2014, respectively.

Effective January 1, 2015, we entered into two new reinsurance agreements, that will expire on December 31, 2015. The first reinsurance agreement provides excess-of-loss coverage for losses arising out of property business up to \$3,000,000 in excess of \$1,000,000 per risk. Should a loss recovery, or series of loss recoveries, exhaust the coverage provided under the

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agreement for losses arising out of property-only business, excluding named windstorms, two reinstatements of coverage are included at no additional premium, with a third reinstatement subject to additional premium. We also entered into a second property catastrophe excess-of-loss reinsurance agreement that provides coverage up to \$25,000,000 in excess of \$3,000,000. This agreement provides coverage for events during any period of 168 consecutive hours that are not named hurricanes or tropical storms. Should losses for one event exceed \$25,000,000, our catastrophe reinsurance agreements would provide reinsurance for the remaining losses. Reinstatements of the second property catastrophe agreement are subject to an additional premium.

We write flood insurance under an agreement with the National Flood Insurance Program. We cede 100% of the premiums written and the related risk of loss to the federal government. We earn commissions for the issuance of flood policies based upon a fixed percentage of net written premiums and the processing of flood claims based upon a fixed percentage of incurred losses, and we can earn additional commissions by meeting certain growth targets for the number of in-force policies. We recognized commission revenue from our flood program of \$239,000 and \$168,000 for the three month periods ended September 30, 2015 and 2014, respectively, and \$721,000 and \$748,000 for the nine month periods ended September 30, 2015 and 2014, respectively.

8) LONG-TERM DEBT

Our long-term debt at September 30, 2015 consisted of a note payable to the Florida State Board of Administration. At September 30, 2015 and December 31, 2014, we owed \$12,647,000 and \$13,529,000, respectively, on the note and the interest rate was 2.33% and 2.50%, respectively. All other terms and conditions of the note remain as described in our 2014 Form 10-K.

The \$12,647,000 note payable to the Florida State Board of Administration (SBA note) requires United Property & Casualty Insurance Company to maintain surplus as regards policyholders at or above a calculated level, which was \$29,909,000 at September 30, 2015. Each quarter, we monitor the surplus as regards policyholders for both of our insurance affiliates and, for various reasons, we occasionally provide additional capital to our insurance affiliates. During the three and nine month periods ended September 30, 2015 and 2014, we contributed no capital to our insurance affiliates. We currently do not foresee a need for any material contributions of capital to our insurance affiliates; however, any future contributions of capital will depend on circumstances at the time.

Our SBA note requires that United Property & Casualty Insurance Company maintain either a 2:1 ratio of net written premium to surplus, or net writing ratio, or a 6:1 ratio of gross written premium to surplus, or gross writing ratio, to avoid additional interest penalties. The SBA note agreement defines surplus for the purpose of calculating the required ratios as the \$20,000,000 of capital contributed to United Property & Casualty Insurance Company under the agreement plus the outstanding balance of the note. At September 30, 2015, United Property & Casualty Insurance Company's net written premium to surplus ratio was 7.3:1, which is well above the 2:1 required ratio. United Property & Casualty Insurance Company's gross written premium to surplus ratio was 10.1:1, which exceeds the required ratio of 6:1. Should United Property & Casualty Insurance Company fail to exceed either a net writing ratio of 1.5:1 or a gross writing ratio of 4.5:1, United Property & Casualty Insurance Company's interest rate will increase by 450 basis points above the 10-year Constant Maturity Treasury rate which was 2.06% at the end of September 2015. Any other writing ratio deficiencies result in an interest rate penalty of 25 basis points above the stated rate of the note, which is 2.33% at the end of September 2015. Our SBA note further provides that the SBA may, among other things, declare its loan immediately due and payable for all defaults existing under the SBA note; however, any payment is subject to approval by the insurance regulatory authority. At September 30, 2015, we were in compliance with the covenants of

the SBA note.

9) COMMITMENTS AND CONTINGENCIES

We are involved in claims-related legal actions arising in the ordinary course of business. We accrue amounts resulting from claims-related legal actions in unpaid losses and loss adjustment expenses during the period that we determine an unfavorable outcome becomes probable and we can estimate the amounts. Management makes revisions to our estimates based on its analysis of subsequent information that we receive regarding various factors, including: (i) per claim information; (ii)

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company and industry historical loss experience; (iii) judicial decisions and legal developments in the awarding of damages, and (iv) trends in general economic conditions, including the effects of inflation.

See Note 8 for information regarding commitments related to long-term debt, and Note 10 for commitments related to regulatory actions.

10) STATUTORY ACCOUNTING AND REGULATION

The insurance industry is heavily regulated. State laws and regulations, as well as national regulatory agency requirements, govern the operations of all insurers such as our insurance affiliates. The various laws and regulations require that insurers maintain minimum amounts of statutory surplus and risk-based capital, they restrict insurers' ability to pay dividends, they specify allowable investment types and investment mixes, and they subject insurers to assessments. At September 30, 2015, and during the three and nine months then ended, our insurance affiliates met all regulatory requirements of the states in which they operate, and they did not incur any material assessments.

The National Association of Insurance Commissioners published Risk-Based Capital (RBC) guidelines for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policy holders. Most states, including Florida and Hawaii, have enacted statutory requirements adopting the NAIC RBC guidelines, and insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. State insurance regulatory authorities could require an insurer to cease operations in the event the insurer fails to maintain the required statutory capital.

The state laws of Florida and Hawaii permit an insurer to pay dividends or make distributions out of that part of statutory surplus derived from net operating profit and net realized capital gains. The state laws further provide calculations to determine the amount of dividends or distributions that can be made without the prior approval of the insurance regulatory authorities in those states and the amount of dividends or distributions that would require prior approval of the insurance regulatory authorities in those states. Statutory risk-based capital requirements may further restrict our insurance affiliates' ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause statutory surplus to fall below minimum risk-based capital requirements.

The note payable to the SBA is considered a surplus note pursuant to statutory accounting principles. As a result, United Property & Casualty Insurance Company is subject to the authority of the Insurance Commissioner of the State of Florida with regard to its ability to repay principal and interest on the surplus note. Any payment of principal or interest requires permission from the insurance regulatory authority.

We have reported our insurance affiliates' assets, liabilities and results of operations in accordance with GAAP, which varies from statutory accounting principles prescribed or permitted by state laws and regulations, as well as by general industry practices. The following items are principal differences between statutory accounting and GAAP:

Statutory accounting requires that we exclude certain assets, called non-admitted assets, from the balance sheet.

- Statutory accounting requires us to expense policy acquisition costs when incurred, while GAAP allows us to defer to the extent realizable, and amortize policy acquisition costs over the estimated life of the policies.

Statutory accounting requires that surplus notes, also known as surplus debentures, be recorded in statutory surplus, while GAAP requires us to record surplus notes as a liability.

Statutory accounting allows certain investments to be carried at amortized cost or fair value based on the rating received from the Securities Valuation Office of the National Association of Insurance Commissioners, while they are recorded at fair value for GAAP because the investments are held as available for sale.

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Statutory accounting allows ceding commission income to be recognized when written if the cost of acquiring and renewing the associated business exceeds the ceding commissions, but under GAAP such income is deferred and recognized over the coverage period.

Statutory accounting requires that unearned premiums and loss reserves are presented net of related reinsurance rather than on a gross basis under GAAP.

Statutory accounting requires a provision for reinsurance liability be established for reinsurance recoverable on paid losses aged over ninety days and for unsecured amounts recoverable from unauthorized reinsurers. Under GAAP there is no charge for uncollateralized amounts ceded to a company not licensed in the insurance affiliate's domiciliary state and a reserve for uncollectable reinsurance is charged through earnings rather than surplus or equity.

Statutory accounting requires an additional admissibility test outlined in Statements on Statutory Accounting Principles, No. 101 and the change in deferred income tax is reported directly in capital and surplus, rather than being reported as a component of income tax expense under GAAP.

Our insurance affiliates must file with the various insurance regulatory authorities an "Annual Statement" which reports, among other items, net income (loss) and surplus as regards policyholders, which is called stockholder's equity under GAAP. For the three month and nine month periods ended September 30, 2015 and 2014, United Property & Casualty Insurance Company (UPC), Family Security Insurance Company, Inc. (FSIC) and UPC Re (our reinsurance affiliate) recorded statutory net income (loss).

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
UPC	\$2,537	\$4,720	\$(174	) \$15,981
UPC Re	\$169	\$1,605	\$249	\$2,225
FSIC	\$1,567	N/A ⁽¹⁾	\$1,633	N/A ⁽¹⁾

⁽¹⁾There is not a reportable value for FSIC as of September 30, 2014 as we did not own the company until February 2015.

Our insurance affiliates must maintain capital and surplus ratios or balances as determined by the regulatory authority of the states in which they are domiciled. UPC is required to maintain capital and surplus equal to the greater of 10% of its total liabilities or \$5,000,000. Our reinsurance affiliate is required to maintain a minimum surplus of \$200,000. Family Security Insurance Company, Inc. is required to maintain capital and surplus of \$3,250,000. The table below shows the amount of surplus as regards policyholders for our regulated entities at September 30, 2015 and December 31, 2014, respectively.

	September 30, 2015	December 31, 2014
UPC	\$126,594	\$126,249
UPC Re ⁽²⁾	\$(1,445	) \$19,048
FSIC	\$9,678	N/A ⁽¹⁾

⁽¹⁾There is not a reportable value for FSIC at December 31, 2014 as we did not own the company until February 2015.

⁽²⁾UPC Re is currently in a negative statutory position due to dividends being paid during Q3 2015.

This negative statutory position will be corrected prior to year end to meet the minimum surplus requirements.

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11) RELATED PARTY TRANSACTIONS

One of our executive officers, Ms. Salmon, is a former partner at the law firm of Groelle & Salmon, PA, where her spouse remains partner and co-owner. Groelle & Salmon, PA provides legal representation to us related to our claims litigation, and also provided representation to us for several years prior to Ms. Salmon joining UPC Insurance. During the three months ended September 30, 2015 and 2014, Groelle & Salmon, PA billed us approximately \$394,000 and \$288,000, respectively, and \$918,000 and \$587,000 for the nine months ended September 30, 2015 and 2014, respectively. Ms. Salmon's spouse has a 50% interest in these billings, or approximately \$197,000 and \$144,000, for the three months ended September 30, 2015 and 2014, respectively, and \$459,000 and \$293,500 for the nine months ended September 30, 2015 and 2014, respectively.

12) ACCUMULATED OTHER COMPREHENSIVE INCOME

We report changes in other comprehensive income items within comprehensive income on the Unaudited Consolidated Statements of Comprehensive Income, and we include accumulated other comprehensive income as a component of stockholders' equity on our Consolidated Balance Sheets.

The table below details the components of accumulated other comprehensive income at period end:

	Pre-Tax Amount	Tax (Expense)Benefit	Net-of-Tax Amount
December 31, 2014	\$6,537	\$ (2,526)	\$4,011
Changes in net unrealized gains on investments	(1,722)	666	(1,056)
Reclassification adjustment for realized gains	(312)	120	(192)
September 30, 2015	\$4,503	\$ (1,740)	\$2,763

13) STOCKHOLDERS' EQUITY

Our Board declared dividends on our outstanding shares of common stock to shareholders of record as follows for the periods presented:

	Nine Months Ended September 30, 2015		2014	
	Per Share Amount	Aggregate Amount	Per Share Amount	Aggregate Amount
First Quarter	\$0.05	\$1,073	\$0.04	\$832
Second Quarter	\$0.05	\$1,077	\$0.04	\$834
Third Quarter	\$0.05	\$1,076	\$0.04	\$834

On February 3, 2015, we completed the acquisition of FSH and its subsidiaries by issuing 503,857 shares of our common stock as payment of the initial purchase price. See [Note 4](#) for additional information on this acquisition.

On March 5, 2014, we closed an underwritten public offering of 4,600,000 shares of our common stock. Our total net proceeds from the offering were approximately \$54,041,000.

We are authorized to issue 875,000 shares of "blank check" preferred stock, which may be issued from time to time in one or more series upon authorization by our Board of Directors (Board). Our Board, without further approval of the stockholders, is authorized to fix the designations, powers, including voting powers, preferences and the relative, participating optional or

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other special rights of the shares of each series and any qualifications, limitations and restrictions thereof. As of September 30, 2015, we had not issued any shares of preferred stock.

14) STOCK-BASED COMPENSATION

We account for stock-based compensation under the fair value recognition provisions of ASC Topic 718 - Compensation - Stock Compensation.

Stock-based compensation cost for restricted stock grants is measured based on the closing fair market value of our common stock on the date of grant. We recognize stock-based compensation cost over the award's requisite service period on a straight-line basis for time-based restricted stock grants.

We granted zero shares of restricted common stock during the three month period ended September 30, 2015 and September 30, 2014. We granted 130,442, shares of restricted common stock during the nine month period ended September 30, 2015, which had a weighted-average grant date fair value of \$20.38 per share. We granted 38,156 shares of restricted stock during the nine month periods ended September 30, 2014, which had weighted-average grant date fair values of \$15.24.

The following table presents certain information related to the activity of our non-vested common stock grants:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2014	153,383	\$10.91
Granted	130,442	20.38
Forfeited	10,896	10.50
Vested	89,774	12.67
Outstanding as of September 30, 2015	183,155	\$16.82

We had approximately \$1,606,000 and \$700,000 of unrecognized stock compensation expense on September 30, 2015 and 2014, respectively, related to non-vested stock-based compensation granted, that we expect to recognize over the next three years. We recognized \$275,000 and \$88,000 of stock-based compensation expense during the three months ended September 30, 2015 and 2014, respectively, and \$624,000 and \$209,000 of stock-based compensation expense during the nine months ended September 30, 2015 and 2014, respectively.

We had approximately \$625,000 of unrecognized director stock-based compensation expense at September 30, 2015, related to non-vested director stock-based compensation granted, that we expect to recognize ratably until the 2016 Annual Meeting of Stockholders. We recognized \$265,000 and \$901,000 of director stock-based compensation expense during the three and nine months ended September 30, 2015, respectively. We recognized \$23,000 of director stock-based compensation expense during the three and nine months ended September 30, 2014.

15) SUBSEQUENT EVENTS

We evaluate all subsequent events and transactions for potential recognition or disclosure in our financial statements.

On November 5, 2015, our Board of Directors declared a \$0.05 per share quarterly cash dividend payable on November 27, 2015, to stockholders of record on November 20, 2015.

No additional events required disclosure.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Unaudited Consolidated Financial Statements and related notes appearing elsewhere in this Form 10-Q.

OUR BUSINESS

United Insurance Holdings Corp. serves as the holding company for United Property & Casualty Insurance Company and its affiliated companies. Our business is conducted principally through six wholly-owned subsidiaries: United Property & Casualty Insurance Company, United Insurance Management, L.C., Family Security Insurance Company, Inc., Family Security Underwriters, LLC, Skyway Claims Services, LLC (our claims adjusting affiliate) and UPC Re (our reinsurance affiliate). Collectively, including United Insurance Holdings Corp., we refer to these entities as "UPC Insurance," which is the preferred brand identification we are establishing for our Company.

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

Overview

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of UPC Insurance. This discussion should be read in conjunction with the Consolidated Financial Statements and related notes found under Part II. Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2014 (2014 Form 10-K).

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

For Results of Operations: premiums written, policies in-force, premiums earned, retention, price changes, claim frequency (rate of claim occurrence per policies in-force), severity (average cost per claim), catastrophes, loss ratio, expenses, combined ratio, underwriting results, reinsurance costs, premium to probable maximum loss, and geographic concentration;

- For Investments: credit quality, maximizing total return, investment income, cash flows, realized gains and losses, unrealized gains and losses, asset diversification, and portfolio duration; and

For Financial Condition: liquidity, reserve strength, financial strength, ratings, operating leverage, book value per share, capital preservation, return on investment, and return on equity.

Recent Events

On November 5, 2015, our Board of Directors declared a \$0.05 per share quarterly cash dividend payable on November 27, 2015, to stockholders of record on November 20, 2015.

On September 26, 2015, we entered into a Stock Purchase Agreement with Interboro LLC to acquire Interboro Insurance Company (Interboro), a New-York domiciled property and casualty insurer authorized in New York, South Carolina, Alabama, Louisiana, and Washington, D.C. Under the terms of the agreement, we will acquire all of the outstanding common stock of Interboro for \$57,000,000. We will pay \$48,500,000 of cash at closing and issue an \$8,500,000 promissory note to Interboro LLC, which will mature in 18 months and bear interest at an annual rate of 6%. The purchase price is subject to adjustment if Interboro's GAAP net book value is less than or greater than \$40,700,000 as of the closing of the purchase transaction.

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2015 Highlights

Consolidated net income was \$8,083,000 and \$13,556,000 for the three and nine months ended September 30, 2015, respectively, compared to \$8,640,000 and \$29,619,000 for the three and nine months ended September 30, 2014, respectively.

Net income per diluted share was \$0.38 and \$0.63 for the three and nine months ended September 30, 2015, respectively, compared to \$0.41 and \$1.50 for the three and nine months ended September 30, 2014, respectively.

Our combined ratio (calculated as operating expenses less interest expense relative to net premiums earned)

- was 91.5% and 97.4% for the three and nine months ended September 30, 2015, respectively, compared to 84.8% and 81.3% for the three and nine months ended September 30, 2014, respectively.

Total revenues were \$89,806,000 and \$257,542,000 for the three and nine months ended September 30, 2015, respectively, compared to \$68,847,000 and \$204,058,000 for the three and nine months ended September 30, 2014, respectively.

Investment and cash holdings were \$530,079,000 at September 30, 2015, compared to \$443,018,000 at December 31, 2014.

Investment income was \$2,413,000 and \$6,725,000 for the three and nine months ended September 30, 2015, respectively, compared to \$1,807,000 and \$4,891,000 for the three and nine months ended September 30, 2014, respectively.

Net realized gains were \$323,000 and \$312,000 for the three and nine months ended September 30, 2015, respectively, compared to net realized losses of \$(69,000) and \$(24,000) for the three and nine months ended September 30, 2014, respectively.

Book value per share was \$10.55 at September 30, 2015, a 8.2% increase from \$9.75 at December 31, 2014.

Return on average equity for the trailing twelve months ended September 30, 2015 was 11.9% compared to 27.4% for the trailing twelve months ended September 30, 2014.

Policies in-force were 307,748 at September 30, 2015, a 37.2% increase from 224,304 at September 30, 2014.

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Consolidated Net Income

	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
Net income per diluted share	\$ 0.38	\$ 0.41	\$ 0.63	\$ 1.50
Book value per share			\$ 10.55	\$ 9.16
Return on average equity, ttm			11.9	% 27.4
Loss ratio, net ¹	48.1	% 46.3	% 56.5	% 44.8
Expense ratio ²	43.4	% 38.5	% 40.9	% 36.5
Combined ratio (CR) ³	91.5	% 84.8	% 97.4	% 81.3
Effect of current year catastrophe losses on CR	4.5	% 1.1	% 10.6	% 0.5
Effect of prior year (favorable) development on CR	(1.3)	% (2.4)	(0.6)	% (1.4)
Underlying combined ratio ⁴	88.3	% 86.1	% 87.4	% 82.2

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

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

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

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

Definitions of Non-GAAP Measures

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

companies and therefore comparability may be limited.

Combined ratio excluding the effects of current year catastrophe losses and reserve development (underlying combined ratio) is a non-GAAP ratio, which is computed as the difference between four GAAP operating ratios: the combined ratio, the effect of current year catastrophe losses on the combined ratio and the effect of prior year development on the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our business that may be obscured by current year catastrophe losses and prior year development. Current year catastrophe losses

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

When we prepare our consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles (GAAP), we must make estimates and assumptions about future events that affect the amounts we report. Certain of these estimates result from judgments that can be subjective and complex. As a result of that subjectivity and complexity, and because we continuously evaluate these estimates and assumptions based on a variety of factors, actual results could materially differ from our estimates and assumptions if changes in one or more factors require us to make accounting adjustments. During the three and nine months ended September 30, 2015, we reassessed our critical accounting policies and estimates as disclosed within our 2014 Form 10-K; we have made no material changes or additions with regard to such policies and estimates.

RECENT ACCOUNTING STANDARDS

Please refer to Note 2 in the Notes to Unaudited Consolidated Financial Statements for a discussion of recent accounting standards that may affect us.

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ANALYSIS OF FINANCIAL CONDITION - SEPTEMBER 30, 2015 COMPARED TO DECEMBER 31, 2014

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying unaudited consolidated interim financial statements and related notes, and in conjunction with the section entitled MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS included within our 2014 Form 10-K.

Investments

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

An outside asset management company, which has authority and discretion to buy and sell securities for us, manages our investments subject to (i) the guidelines established by our Board of Directors, and (ii) the direction of management. We direct our asset manager to make changes and to hold, buy or sell securities in our portfolio.

The Investment Committee of our Board of Directors reviews and approves our investment policy on a regular basis. Our cash, cash equivalents and investment portfolio totaled \$530,079,000 at September 30, 2015.

The following table summarizes our investments, by type:

	September 30, 2015			December 31, 2014		
	Estimated Fair Value	Percent of Total		Estimated Fair Value	Percent of Total	
U.S. government and agency securities	\$ 118,730	22.4	%	\$ 134,434	30.4	%
Foreign government	3,391	0.7		3,354	0.8	
States, municipalities and political subdivisions	137,555	25.9		91,911	20.7	
Public utilities	9,107	1.7		9,222	2.1	
Corporate securities	147,805	27.9		112,616	25.4	
Redeemable preferred stocks	1,811	0.3		1,093	0.2	
Total fixed maturities	418,399	78.9		352,630	79.6	
Public utilities	1,711	0.4		1,433	0.3	
Other common stocks	20,248	3.8		23,048	5.2	
Non-redeemable preferred stocks	2,344	0.4		1,506	0.3	
Total equity securities	24,303	4.6		25,987	5.8	
Other long-term investments	3,036	0.6		3,010	0.7	
Total investments	445,738	84.1		381,627	86.1	
Cash and cash equivalents	84,341	15.9		61,391	13.9	
Total cash, cash equivalents and investments	\$ 530,079	100.0	%	\$ 443,018	100.0	%

We classify all of our investments as available-for-sale. Our investments at September 30, 2015 and December 31, 2014 consisted mainly of U.S. government and agency securities, states, municipalities and political subdivisions and

securities of investment-grade corporate issuers. Our equity holdings consisted mainly of securities issued by companies in the energy, consumer products, financial, technology and industrial sectors. Most of the corporate bonds we held reflected a similar diversification. At September 30, 2015, approximately 84% of our fixed maturities were U.S. Treasuries or corporate bonds rated “A” or better, and 16% were corporate bonds rated “BBB”.

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At September 30, 2015, securities in an unrealized loss position for a period of twelve months or longer reflected unrealized losses of \$426,000; approximately \$366,000 of the total related to thirty-five fixed maturities, while three equity securities reflected an unrealized loss of \$60,000. We currently have no plans to sell these thirty-eight securities, and we expect to fully recover our cost basis. We reviewed all of our securities and determined that we did not need to record any impairment charges at September 30, 2015. Similarly, we did not record impairment charges at December 31, 2014.

Reinsurance Payable

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

During the second quarter of 2015, we placed our reinsurance program for the 2015 hurricane season. We purchased catastrophe excess of loss reinsurance protection of \$1,243,122,000. The contracts reinsure for personal lines property excess catastrophe losses caused by multiple perils including hurricanes, tropical storms, and tornadoes. The agreements are effective June 1, 2015, for a one-year term and incorporate the mandatory coverage required by and placed with the Florida Hurricane Catastrophe Fund (FHCF). The FHCF is a Florida State-sponsored trust fund that provides reimbursement to Florida property insurers for covered hurricane losses. The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes. Effective January 1, 2015, we placed two new reinsurance agreements, that will expire on December 31, 2015.

See Note 7 in our Notes to Unaudited Consolidated Financial Statements for additional information regarding our reinsurance program.

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RESULTS OF OPERATIONS - COMPARISON OF THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

Revenue

Net income for the quarter was \$8,083,000, compared to \$8,640,000 for the third quarter of 2014. The decrease in net income was primarily due to increases in losses and loss adjustment expenses (LAE) resulting from multiple catastrophe events totaling \$3,808,000, and higher operating expenses which were partially offset by strong revenue growth of 30.4% and favorable reserve development of \$1,059,000.

Our gross written premiums increased by \$50,920,000, or 48.5%, primarily due to the strong organic growth in new and renewal business generated in all states outside of Florida. Our growth in gross written premium in Louisiana continued to benefit from the acquisition of Family Security Holdings, LLC and its subsidiaries, which closed during the first quarter of 2015. The breakdown of the quarter-over-quarter changes in both written and assumed premiums by state is shown in the table below.

Direct and Assumed Premium By State	Three Months Ended September 30,		
	2015	2014	Change
Florida	\$77,732	\$71,270	\$6,462
Texas	20,725	4,802	15,923
Louisiana	11,472	—	11,472
Massachusetts	11,150	8,759	2,391
South Carolina	11,129	8,969	2,160
North Carolina	8,372	4,493	3,879
Rhode Island	7,207	5,589	1,618
New Jersey	3,309	1,316	1,993
Georgia	83	—	83
Total direct written premium by state	151,179	105,198	45,981
Assumed premium ⁽¹⁾	4,806	(133)	4,939
Total gross written premium	\$155,985	\$105,065	\$50,920

⁽¹⁾ All assumed premiums are written in Florida due to policy assumptions from Citizens Property Insurance Corporation (Citizens) that are written in Florida and are shown net of opt-outs.

New and Renewal Policies* By State	Three Months Ended September 30,		
	2015	2014	Change
Florida	43,631	38,742	4,889
Texas	14,584	3,544	11,040
South Carolina	7,478	5,560	1,918
Massachusetts	7,360	5,930	1,430
North Carolina	7,336	3,635	3,701
Louisiana	5,985	—	5,985
Rhode Island	5,745	4,490	1,255
New Jersey	2,944	1,190	1,754
Georgia	81	—	81
Total	95,144	63,091	32,053

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

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

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Expenses

Loss and LAE increased \$10,292,000, or 34.1%, to \$40,432,000 for the third quarter of 2015 from \$30,140,000 for the third quarter of 2014. Loss and LAE expense as a percentage of net earned premiums increased 1.8 points resulting in a net loss ratio of 48.1% for the quarter, compared to a net loss ratio of 46.3% for the same period last year. Excluding catastrophe losses and reserve development, our gross underlying loss and LAE ratio for the quarter was 29.3%, a decrease of 1.4 points from 30.7% during the third quarter of 2014.

We experienced \$3,808,000 of net catastrophe losses during the quarter, which included \$2,420,000 of new losses from an August windstorm event in the Northeastern U.S. that was fully retained by us, as well as \$1,388,000 of development, net of all reinsurance recoveries, on catastrophe losses previously incurred and reported during 2015.

Our GAAP net combined ratio increased 6.7 points to 91.5% for the three months ended September 30, 2015 compared to 84.8% for the same period in 2014. The net combined ratio increase was caused by 4.5 points, or \$3,808,000, of non-recurring catastrophe losses and higher operating expenses which were partially offset by lower non-catastrophe loss costs. Our underlying net combined ratio, which excludes losses from catastrophes and all effects of reserve development, increased 2.2 points to 88.3% for the third quarter of 2015 compared to 86.1% for the same period in 2014. Operating expenses contributed 4.9 points of the increase which was offset by the lower underlying loss and LAE of 2.7 points. Approximately 68% of the \$11,330,000 operating expense increase was driven by policy acquisition costs and underwriting expenses that mostly vary directly with premiums which also grew proportionally from the same period in 2014.

The calculation of our underlying loss and combined ratios is shown below:

	Three Months Ended September 30,		
	2015	2014	Change
Net Loss and LAE	\$40,432	\$30,140	\$10,292
% of Gross earned premiums	31.4	% 29.9	% 1.5 pts
% of Net earned premiums	48.1	% 46.3	% 1.8 pts
Less:			
Current year catastrophe losses	\$3,808	\$714	\$3,094
Prior year reserve development (favorable)	(1,059)	) (1,543)	484
Underlying loss and LAE*	\$37,683	\$30,969	\$6,714
% of Gross earned premiums	29.3	% 30.7	% (1.4) pts
% of Net earned premiums	44.9	% 47.6	% (2.7) pts
Policy acquisition costs	\$23,756	\$17,291	\$6,465
Operating and underwriting	4,329	3,086	1,243
General and administrative	8,331	4,709	3,622
Total Operating Expenses	\$36,416	\$25,086	\$11,330
% of Gross earned premiums	28.3	% 24.9	% 3.4 pts
% of Net earned premiums	43.4	% 38.5	% 4.9 pts
Combined Ratio - as % of gross earned premiums	59.7	% 54.8	% 4.9 pts
Underlying Combined Ratio - as % of gross earned premiums	57.6	% 55.6	% 2.0 pts
Combined Ratio - as % of net earned premiums	91.5	% 84.8	% 6.7 pts
Underlying Combined Ratio - as % of net earned premiums	88.3	% 86.1	% 2.2 pts

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

Our gross underlying loss ratio for the third quarter of 2015 decreased to 29.3% from 30.7% in the third quarter of 2014. This decrease was driven primarily by continued improvement in severity across most states and causes of loss as well as lower

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frequency of water and fire losses compared to the same period in 2014. Our net underlying loss ratio also improved from 47.6% for 2014 to 44.9% for 2015.

Policy acquisition costs increased \$6,465,000, to \$23,756,000 for the third quarter of 2015 from \$17,291,000 for the third quarter of 2014. These costs vary directly with the growth in gross premiums earned and were generally consistent with our growth in premium production and higher average commission rates outside of Florida.

Operating expenses increased to \$4,329,000 for the third quarter of 2015, from \$3,086,000 during the same period of last year due to increases in underwriting report costs, licensing costs and systems costs resulting from our continued growth of policies in-force and expansion into new states.

General and administrative expenses increased to \$8,331,000 for the third quarter of 2015, from \$4,709,000 for the third quarter of 2014 primarily due to increases in personnel costs, information technology investments and professional services related to our continued growth. Approximately \$1,104,000 of general and administrative expense for the third quarter of 2015 was driven by non-recurring charges for legal fees.

RESULTS OF OPERATIONS - COMPARISON OF THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

Revenue

Net income for the nine months ended September 30, 2015 was \$13,556,000, compared to \$29,619,000 for the nine months ended September 30, 2014. The decrease in net income was primarily due to increases in losses and LAE resulting from multiple catastrophe events totaling \$25,585,000, and higher operating expenses which were partially offset by strong revenue growth of 26.2% and favorable reserve development of \$1,365,000.

Our gross written premiums increased by \$102,197,000, or 31.6%, primarily due to the strong organic growth in new and renewal business generated in all states outside of Florida. Our growth in gross written premium in Louisiana continued to benefit from the acquisition of Family Security Holdings, LLC and its subsidiaries, which closed in the first quarter of 2015. The breakdown of the period-over-period changes in both written and assumed premiums by state is shown in the table below.

Direct and Assumed Premium By State	Nine Months Ended September 30,		
	2015	2014	Change
Florida	\$252,435	\$245,005	\$7,430
Texas	36,970	8,098	28,872
South Carolina	30,905	24,301	6,604
Massachusetts	28,297	22,379	5,918
Louisiana	26,700	—	26,700
North Carolina	20,684	9,764	10,920
Rhode Island	17,248	13,229	4,019
New Jersey	7,643	2,849	4,794
Georgia	83	—	83
Total direct written premium by state	420,965	325,625	95,340
Assumed premium ⁽¹⁾	4,218	(2,639)	6,857
Total gross written premium	\$425,183	\$322,986	\$102,197

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

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New and Renewal Policies* By State	Nine Months Ended September 30,		
	2015	2014	Change
Florida	139,296	134,134	5,162
Texas	26,661	6,081	20,580
South Carolina	20,472	15,194	5,278
Massachusetts	18,785	15,284	3,501
North Carolina	17,687	7,906	9,781
Rhode Island	13,897	10,905	2,992
Louisiana	13,804	—	13,804
New Jersey	6,713	2,542	4,171
Georgia	81	—	81
Total	257,396	192,046	65,350

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

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

Expenses

Loss and LAE increased \$50,425,000, or 58.2%, to \$137,030,000 for the first nine months of 2015 from \$86,605,000 for the first nine months of 2014. Loss and LAE expense as a percentage of net earned premiums increased 11.7 points resulting in a net loss ratio of 56.5% for the first nine months of 2015, compared to a net loss ratio of 44.8% for the same period last year. Excluding catastrophe losses and reserve development, our gross underlying loss and LAE ratio for the first nine months of 2015 was 30.9%, an increase of 0.8 points from 30.1% during the first nine months of 2014.

We experienced \$25,585,000 of net catastrophe losses from five separate winter weather events in Massachusetts, Rhode Island and New Jersey resulting in over 1,400 claims during the first quarter of 2015, \$5,500,000 of losses from multiple hail and windstorm events in the Southeastern U.S. during the second quarter of 2015, and \$2,420,000 of new losses from a windstorm event that was fully retained by us during the third quarter of 2015. In addition, during the third quarter of 2015, there was \$1,388,000 of development, net of all reinsurance recoveries, on Northeast winter storm catastrophe losses previously incurred and reported during 2015.

Our GAAP net combined ratio increased 16.1 points to 97.4% for the nine months ended September 30, 2015 compared to 81.3% for the same period in 2014. The majority of the net combined ratio increase was caused by 10.6 points, or \$25,585,000 of non-recurring catastrophe losses. Our underlying net combined ratio, which excludes losses from catastrophes and all effects of reserve development, increased 5.2 points to 87.4% for the first nine months of 2015 compared to 82.2% for the same period in 2014. Operating expenses contributed 4.4 points of the increase and higher underlying loss and LAE was responsible for the remaining 0.8 points. Approximately 54.2% of the operating expense increase was driven by policy acquisition costs that mostly vary directly with premiums which also grew proportionally from the same period in 2014.

The calculation of our underlying loss and combined ratios is shown below:

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	Nine Months Ended September 30,		
	2015	2014	Change
Net Loss and LAE	\$ 137,030	\$ 86,605	\$ 50,425
% of Gross earned premiums	37.6	% 29.5	% 8.1 pts
% of Net earned premiums	56.5	% 44.8	% 11.7 pts
Less:			
Current year catastrophe losses	\$ 25,585	\$ 974	\$ 24,611
Prior year reserve development (favorable)	(1,365)	(2,708)	1,343
Underlying loss and LAE*	\$ 112,810	\$ 88,339	\$ 24,471
% of Gross earned premiums	30.9	% 30.1	% 0.8 pts
% of Net earned premiums	46.5	% 45.7	% 0.8 pts
Policy acquisition costs	\$ 64,140	\$ 48,668	\$ 15,472
Operating and underwriting	12,679	8,453	4,226
General and administrative	22,244	13,394	8,850
Total Operating Expenses	\$ 99,063	\$ 70,515	\$ 28,548
% of Gross earned premiums	27.1	% 24.1	% 3.0 pts
% of Net earned premiums	40.9	% 36.5	% 4.4 pts
Combined Ratio - as % of gross earned premiums	64.7	% 53.6	% 11.1 pts
Underlying Combined Ratio - as % of gross earned premiums	58.0	% 54.2	% 3.8 pts
Combined Ratio - as % of net earned premiums	97.4	% 81.3	% 16.1 pts
Underlying Combined Ratio - as % of net earned premiums	87.4	% 82.2	% 5.2 pts

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

Our gross underlying loss ratio for the nine months ended September 30, 2015 increased to 30.9% from 30.1% for the nine months ended September 30, 2014. This increase was driven primarily by our changing exposure mix outside of Florida where we expect higher non-catastrophe loss ratios as well as a minor increase in frequency of loss compared to the same period in 2014. Our net underlying loss ratio also increased from 45.7% for the nine months ended September 30, 2014 to 46.5% for the nine months ended September 30, 2015.

Policy acquisition costs increased \$15,472,000, or 31.8%, to \$64,140,000 for the nine months ended September 30, 2015 from \$48,668,000 for the same period of 2014. These costs vary directly with changes in gross premiums earned and were generally consistent with our growth in premium production and higher average commission rates outside of Florida.

Operating expenses increased to \$12,679,000 for the nine months ended September 30, 2015, from \$8,453,000 during the same period of last year due to increases in underwriting report costs, licensing costs and systems costs resulting from our continued growth of policies in-force and expansion into new states.

General and administrative expenses increased to \$22,244,000 for the nine months ended September 30, 2015, from \$13,394,000 for the nine months ended September 30, 2014 primarily due to increases in personnel costs, information technology investments and professional services related to our continued growth. Approximately \$2,145,000 of general and administrative expense was driven by non-recurring charges for legal and professional services which occurred during the third quarter of 2015.

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LIQUIDITY AND CAPITAL RESOURCES

We generate cash through premium collections, reinsurance recoveries, investment income, the sale or maturity of invested assets and the issuance of additional shares of our stock. We use our cash to pay reinsurance premiums, claims and related costs, policy acquisition costs, salaries and employee benefits, other expenses and stockholder dividends, as well as to purchase investments.

As a holding company, we do not conduct any business operations of our own and as a result, we rely on cash dividends or intercompany loans from our management affiliate to pay our general and administrative expenses. Insurance regulatory authorities in the states in which we operate heavily regulate our insurance affiliates, including restricting any dividends paid by our insurance affiliates and requiring approval of any management fees our insurance affiliates pay to our management affiliates for services rendered; however, nothing restricts our non-insurance company subsidiaries from paying us dividends other than state corporate laws regarding solvency. Our non-insurance company subsidiaries may pay us dividends from any positive net cash flows that they generate. Our management affiliates pay us dividends primarily using cash from the collection of management fees from our insurance affiliates, pursuant to the management agreements in effect between those entities.

On September 26, 2015, we entered into a Stock Purchase Agreement with Interboro LLC to acquire Interboro Insurance Company (Interboro), a New-York domiciled property and casualty insurer authorized in New York, South Carolina, Alabama, Louisiana, and Washington, D.C. Under the terms of the agreement, we will acquire all of the outstanding common stock of Interboro for \$57,000,000. We will pay \$48,500,000 of cash at closing and issue an \$8,500,000 promissory note to Interboro LLC.

Operating Activities

During the nine months ended September 30, 2015, our operations generated cash of \$83,195,000, compared to generating cash of \$59,199,000 during the same period in 2014. The \$23,996,000 increase in operating cash was primarily driven by a \$95,398,000 increase in premium collections during the first nine months of 2015 compared to the same period in 2014 and by an increase of \$6,964,000 in reinsurance recoveries during the first nine months of 2015 compared to the same period last year. In addition, we paid \$6,920,000 of income taxes during the first nine months of 2015 compared to paying \$21,464,000 of income taxes for the same period last year. Partially offsetting this increase in cash inflows was an increase in cash outflows related to claims payments, operating expenses, reinsurance payments and agent commission expenses. Claims payments increased approximately \$48,561,000, primarily due to the increase in exposures and payments on claims from current and prior accident years. Operating expenses and agents' commission payments increased \$17,883,000 and \$10,791,000, respectively, due to our continuing growth. Reinsurance payments increased \$21,083,000 because we purchased more reinsurance coverage under our 2015-2016 contracts than we purchased under our 2014-2015 contracts.

Investing Activities

During the nine months ended September 30, 2015, our investing activities used \$53,710,000 of cash compared to using \$61,318,000 of cash in the same period of the prior year because we purchased \$173,336,000 of investments during the nine months ended September 30, 2015 compared to purchasing \$204,429,000 of investments during the same period in 2014. Partially offsetting the decrease in net cash used during the nine months was a \$14,467,000 increase in cash acquired from the acquisition of Family Security Holdings, LLC and its subsidiaries and a \$31,682,000 decrease in sales of investments during the nine months ended September 30, 2015 compared to the same

period in 2014. In addition, our investments in property and equipment increased \$6,270,000 primarily due to the purchase of capitalized software as we continue to expand and invest in our internally-developed critical systems and processes for claims and policy administration.

Financing Activities

During the nine months ended September 30, 2015, our financing activities used cash of \$6,535,000 compared to providing cash of \$50,549,000 during the nine months ended September 30, 2014. The decrease in cash provided by financing activities primarily relates to the \$54,041,000 in net proceeds generated during the first quarter of 2014, by the public offering of 4,600,000 shares of our common stock, while no such offering proceeds were generated in the first nine months of 2015. See Note 13 in our Notes to Unaudited Consolidated Financial Statements for additional information. In addition, repayments of borrowings increased \$2,246,000 because we paid off the outstanding loan payable balance acquired in the Family Security Holdings, LLC transaction during the first quarter of 2015.

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Our insurance affiliates are subject to extensive state regulation, including approval of any management fees they pay to our management affiliates for services rendered. In accordance with state laws, our insurance affiliates may pay dividends or make distributions out of that part of their statutory surplus derived from their net operating profit and their net realized capital gains. The RBC guidelines published by the NAIC may further restrict our insurance affiliates' ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause their respective surplus as regards policyholders to fall below minimum RBC guidelines. See Note 10 in our Notes to Unaudited Consolidated Financial Statements for additional information.

We believe our current capital resources, together with cash provided from our operations, will be sufficient to meet currently anticipated working capital requirements. We cannot provide assurance, however, that such will be the case in the future.

OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2015, we had no off-balance-sheet arrangements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, including changes to interest rates, the financial condition of the issuer of our fixed-maturities and equity security prices. These risks were disclosed within our 2014 Form 10-K; we have no material changes or additions to that disclosure.

Item 4. Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that the information we must disclose in reports we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We designed our disclosure controls with the objective of ensuring we accumulate and communicate this information to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act, as of the end of the period covered by this report. Based on our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

During the fiscal quarter ended September 30, 2015, we made no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Part I, Item 1A (Risk Factors) of our 2014 Form 10-K sets forth information relating to various risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Those risk factors continue to be relevant to an understanding of our business, financial condition and operating results. No material changes have occurred with respect to those risk factors.

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

Unregistered Sales of Equity Securities. During the three months ended September 30, 2015, we did not sell any unregistered equity securities.

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

1. the lesser of:

a. ten percent of capital surplus, or

b. net gain from operations, or

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

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

3. the lesser of:

a. ten percent of capital surplus, or

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

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

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

- a. ten percent of the insurer's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains, or

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- b. the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, and:
- i. the insurer will have surplus as to policyholders equal to or exceeding 115% of the minimum required statutory surplus as to policyholders after the dividend or distribution is made, and
- ii. the insurer files a notice of the dividend or distribution with the insurance regulatory authority at least ten business days prior to the dividend payment or distribution, and
- iii. the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115% of required statutory surplus as to policyholders.

Except as provided above, a Florida-domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the insurance regulatory authority, or (ii) 30 days after the insurance regulatory authority has received notice of intent to pay such dividend or distribution and has not disapproved it within such time. At September 30, 2015, we were in compliance with these requirements.

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

1. the lesser of:

- a. ten percent (10%) of Family Security Insurance Company's surplus as of December 31 of the preceding year, or
- b. ten percent (10%) of the net income, not including realized capital gains, for the twelve-month period ending December 31 of the preceding year.

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

Repurchases. During the three months ended September 30, 2015, we did not repurchase equity securities.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

The following exhibits are filed herewith or are incorporated herein by reference:

Exhibit	Description
2.1	Stock Purchase Agreement, dated as of September 26, 2015, by and between United Insurance Holdings Corp. and Interboro LLC (included as exhibit 2.1 to the Form 8-K filed on September 28, 2015, and incorporated herein by reference).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

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

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November 5, 2015	By:	/s/ John Forney John Forney, Chief Executive Officer (principal executive officer and duly authorized officer)
November 5, 2015	By:	/s/ B. Bradford Martz B. Bradford Martz, Chief Financial Officer (principal financial officer and principal accounting officer)