

UNITED INSURANCE HOLDINGS CORP.

Form 10-Q

November 07, 2018

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, 2018

Commission File Number 001-35761

United Insurance Holdings Corp.

(Exact name of Registrant as specified in its charter)

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

800 2nd Avenue S

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 2, 2018, 42,984,578 shares of common stock, par value \$0.0001 per share, were outstanding.

UNITED INSURANCE HOLDINGS CORP.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	<u>4</u>
Unaudited Condensed Consolidated Balance Sheets	<u>4</u>
Unaudited Condensed Consolidated Statements of Comprehensive Income	<u>5</u>
Unaudited Condensed Consolidated Statements of Stockholders' Equity	<u>6</u>
Unaudited Condensed Consolidated Statements of Cash Flows	<u>7</u>
Notes to Unaudited Condensed Consolidated Financial Statements	<u>8</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>31</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>45</u>
Item 4. Controls and Procedures	<u>45</u>

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	<u>46</u>
Item 1A. Risk Factors	<u>46</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>46</u>
Item 3. Defaults Upon Senior Securities	<u>46</u>
Item 4. Mine Safety Disclosures	<u>46</u>
Item 5. Other Information	<u>46</u>
Item 6. Exhibits	<u>47</u>
Signatures	<u>48</u>

Throughout this Quarterly Report on Form 10-Q (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 Form 10-Q, we show full values rounded to the nearest thousand.

UNITED INSURANCE HOLDINGS CORP.

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-Q contain “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, gross written premium, earnings per share, estimated unpaid losses on insurance policies, investment returns, and diversification and expectations about our liquidity, our ability to meet our investment objectives and to manage and mitigate market risk with respect to our investments. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “endeavor,” “project,” “believe,” “plan,” “anticipate,” “intend,” “could,” “would,” “estimate” or the negative variations thereof or comparable terminology are intended to identify forward-looking statements. 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. 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:

- our exposure to catastrophic events and severe weather conditions;
- the regulatory, economic and weather conditions present in Florida, the state in which we are most concentrated;
- the effectiveness of our diversification strategy;
- our ability to cultivate and maintain agent relationships, particularly our relationship with AmRisc, LLC (AmRisc);
- the possibility that actual claims incurred may exceed our loss reserves for claims;
- assessments charged by various governmental agencies;
- our ability to implement and maintain adequate internal controls over financial reporting;
- our ability to maintain adequate technology, data security, and outsourcing relationships;
- our reliance on key vendor relationships, and the ability of our vendors to protect the personal information of our customers;
- our ability to attract and retain the services of senior management;
- risks and uncertainties relating to our acquisitions, including our ability to successfully integrate the acquired companies;
- our ability to increase or maintain our market share;
- changes in the regulatory environment 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, variability and availability of reinsurance;
- our ability to collect from our reinsurers on our reinsurance claims;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- the possibility of the pricing and terms for our products to decline due to the historically cyclical nature of the property and casualty insurance and reinsurance industry;
- the outcome of litigation pending against us, including the terms of any settlements;
- downgrades in our financial strength ratings;
- the impact of future sales of substantial amounts of our common stock by us to our existing stockholders on our stock price;
- our ability to pay dividends in the future;
- the ability of R. Daniel Peed and his affiliates to exert significant control over us due to substantial ownership of our common stock, subject to certain restrictive covenants that may restrict our ability to pursue certain opportunities;
- the ability of others to obtain control of us due to provisions in our charter documents; 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, 2017.

We caution you not to place reliance on these forward-looking statements, which are valid only as of the date they were made. Except as may be required by applicable law, we undertake no obligation to update or revise any forward-looking statements to reflect new information, the occurrence of unanticipated events or otherwise.

UNITED INSURANCE HOLDINGS CORP.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Investments, at fair value:		
Fixed maturities, available-for-sale (amortized cost of \$854,640 and \$763,434, respectively)	\$ 836,390	\$ 762,855
Equity securities	93,092	63,295
Other investments (amortized cost of \$8,069 and \$8,057, respectively)	8,330	8,381
Portfolio loans	—	20,000
Total investments	\$ 937,812	\$ 854,531
Cash and cash equivalents	240,950	229,556
Restricted cash	65,131	46,719
Total cash, cash equivalents and restricted cash	\$ 306,081	\$ 276,275
Accrued investment income	5,771	5,577
Property and equipment, net	16,583	17,291
Premiums receivable, net	78,417	75,275
Reinsurance recoverable on paid and unpaid losses	433,554	395,774
Prepaid reinsurance premiums	319,916	201,904
Goodwill	73,045	73,045
Deferred policy acquisition costs	105,764	103,882
Intangible assets	32,716	45,271
Other assets	12,570	11,096
Total Assets	\$ 2,322,229	\$ 2,059,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 528,842	\$ 482,232
Unearned premiums	643,540	555,873
Reinsurance payable	297,173	149,117
Payments outstanding	50,789	41,786
Accounts payable and accrued expenses	52,100	46,594
Other liabilities	40,199	85,830
Notes payable	160,708	161,364
Total Liabilities	\$ 1,773,351	\$ 1,522,796
Commitments and contingencies (Note 11)		
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; 43,034,270 and 42,965,137 issued, respectively; 42,910,579 and 42,753,054 outstanding, respectively	4	4
Additional paid-in capital	388,820	387,145
Treasury shares, at cost: 212,083 shares	(431)	(431)
Accumulated other comprehensive income (loss)	(13,702)	9,221
Retained earnings	154,186	141,186
Total shareholders' equity attributable to United Insurance Holdings Corp. (UIHC) shareholders	\$ 528,877	\$ 537,125

Edgar Filing: UNITED INSURANCE HOLDINGS CORP. - Form 10-Q

Noncontrolling interests (NCI)	20,001	—
Total Stockholders' Equity	\$ 548,878	\$ 537,125
Total Liabilities and Stockholders' Equity	\$ 2,322,229	\$ 2,059,921
See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.		

UNITED INSURANCE HOLDINGS CORP.

Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUE:				
Gross premiums written	\$295,935	\$267,219	\$960,214	\$788,408
Change in gross unearned premiums	8,021	782	(87,667)	(76,758)
Gross premiums earned	303,956	268,001	872,547	711,650
Ceded premiums earned	(132,626)	(115,507)	(365,011)	(292,355)
Net premiums earned	171,330	152,494	507,536	419,295
Investment income	6,888	4,901	19,665	12,489
Net realized investment losses	(447)	(71)	(674)	(554)
Net unrealized gains on equity securities	6,109	—	5,046	—
Other revenue	3,772	13,804	11,280	40,604
Total revenue	187,652	171,128	542,853	471,834
EXPENSES:				
Losses and loss adjustment expenses	120,552	143,127	286,393	293,398
Policy acquisition costs	54,200	46,546	153,716	125,302
Operating expenses	10,976	6,891	28,976	19,020
General and administrative expenses	15,358	19,316	51,326	58,825
Interest expense	2,455	771	7,371	2,282
Total expenses	203,541	216,651	527,782	498,827
Income (loss) before other income	(15,889)	(45,523)	15,071	(26,993)
Other income	19	36	106	94
Income (loss) before income taxes	(15,870)	(45,487)	15,177	(26,899)
Provision for income taxes	(4,163)	(17,475)	3,815	(10,043)
Net income (loss)	\$(11,707)	\$(28,012)	\$11,362	\$(16,856)
Less: Net income attributable to noncontrolling interests	\$1	\$—	\$1	\$—
Net income (loss) attributable to UIHC	\$(11,708)	\$(28,012)	\$11,361	\$(16,856)
OTHER COMPREHENSIVE INCOME:				
Change in net unrealized gains (losses) on investments	(3,354)	2,672	(30,706)	10,509
Reclassification adjustment for net realized investment losses	447	71	674	554
Income tax benefit (expense) related to items of other comprehensive income	699	(1,050)	7,110	(4,207)
Total comprehensive loss	\$(13,915)	\$(26,319)	\$(11,560)	\$(10,000)
Less: Comprehensive income attributable to NCI	1	—	1	—
Comprehensive loss attributable to UIHC	\$(13,916)	\$(26,319)	\$(11,561)	\$(10,000)
Weighted average shares outstanding				
Basic	42,677,893	42,524,400	42,636,515	35,341,994
Diluted	42,677,893	42,741,004	42,791,208	35,563,032
Earnings available to UIHC common shareholders per share				
Basic	\$(0.27)	\$(0.66)	\$0.27	\$(0.48)
Diluted	\$(0.27)	\$(0.66)	\$0.27	\$(0.47)
Dividends declared per share				
	\$0.06	\$0.06	\$0.18	\$0.18

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

UNITED INSURANCE HOLDINGS CORP.

Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Stockholders'		Total Stockholders' Equity
	Number of Shares	Dollars					Equity Attributable to UIHC	NCI	
December 31, 2016	21,646,614	2	99,353	(431)	822	141,581	241,327	—	241,327
Net income	—	—	—	—	—	(16,856)	(16,856)	—	(16,856)
Other comprehensive income	—	—	—	—	6,856	—	6,856	—	6,856
Stock Compensation	138,035	—	1,931	—	—	—	1,931	—	1,931
Issuance of common stock	20,956,355	2	274,382	—	—	—	274,384	—	274,384
Cash dividends on common stock	—	—	—	—	—	(6,426)	(6,426)	—	(6,426)
September 30, 2017	42,741,004	\$ 4	\$ 375,666	\$(431)	\$ 7,678	\$ 118,299	\$ 501,216	\$ —	\$ 501,216
	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Stockholders'		Total Stockholders' Equity
	Number of Shares	Dollars					Equity Attributable to UIHC	NCI	
December 31, 2017	42,753,054	4	387,145	(431)	9,221	141,186	537,125	—	537,125
Net income	—	—	—	—	—	11,361	11,361	1	11,362
Other comprehensive income	—	—	—	—	(22,923)	—	(22,923)	—	(22,923)
Reclassification due to adoption of ASU 2016-01	—	—	—	—	—	9,338	9,338	—	9,338
Stock Compensation	157,525	—	1,675	—	—	—	1,675	—	1,675
Cash dividends on common stock	—	—	—	—	—	(7,699)	(7,699)	—	(7,699)
Net increase due to new subsidiary	—	—	—	—	—	—	—	20,000	20,000
September 30, 2018	42,910,579	\$ 4	\$ 388,820	\$(431)	\$(13,702)	\$ 154,186	\$ 528,877	\$ 20,001	\$ 548,878

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

UNITED INSURANCE HOLDINGS CORP.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income (loss)	\$11,362	\$(16,856)
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	16,192	24,206
Bond amortization and accretion	3,822	3,663
Net realized losses on investments	674	554
Net unrealized gains on equity securities	(5,046)	—
Provision for uncollectable premiums	112	205
Deferred income taxes, net	3,232	380
Stock based compensation	1,675	1,931
Changes in operating assets and liabilities:		
Accrued investment income	(194)	(183)
Premiums receivable	(3,254)	98
Reinsurance recoverable on paid and unpaid losses	(37,780)	(445,090)
Prepaid reinsurance premiums	(118,012)	(130,013)
Deferred policy acquisition costs, net	(1,882)	(35,841)
Other assets	(1,473)	(12,354)
Unpaid losses and loss adjustment expenses	46,610	480,777
Unearned premiums	87,667	76,758
Reinsurance payable	148,056	119,471
Payments outstanding	—	165
Accounts payable and accrued expenses	5,506	10,492
Other liabilities	(44,715)	5,974
Net cash provided by operating activities	\$112,552	\$84,337
INVESTING ACTIVITIES		
Proceeds from sales, maturities and repayments of investments	176,019	106,150
Purchases of investments	(276,483)	(136,319)
Proceeds from acquisition	—	95,284
Cost of property, equipment and capitalized software acquired	(2,675)	(4,243)
Net cash provided by (used in) investing activities	\$(103,139)	\$60,872
FINANCING ACTIVITIES		
Investment in subsidiary - NCI	20,000	—
Repayments of borrowings	(849)	(1,142)
Payments of debt issuance costs	(62)	—
Dividends	(7,699)	(6,426)
Outstanding checks in excess of funds on deposit	9,003	(8,061)
Net cash provided by (used in) financing activities	\$20,393	\$(15,629)
Increase in cash, cash equivalents and restricted cash	29,806	129,580
Cash, cash equivalents and restricted cash at beginning of period	276,275	150,688
Cash, cash equivalents and restricted cash at end of period	\$306,081	\$280,268
Supplemental Cash Flows Information		
Interest paid	\$4,990	\$2,001
Income taxes paid	\$4,673	\$4,206
Non-cash transactions		

Edgar Filing: UNITED INSURANCE HOLDINGS CORP. - Form 10-Q

Issuance of common stock	\$—	\$274,384
--------------------------	-----	-----------

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

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, four wholly-owned insurance subsidiaries, and one majority-owned insurance subsidiary. Our largest insurance subsidiary is United Property & Casualty Insurance Company (UPC), which was formed in Florida in 1999 and has operated continuously since that time. Our four other insurance subsidiaries are Family Security Insurance Company, Inc. (FSIC), acquired via merger on February 3, 2015, Interboro Insurance Company (IIC), acquired via merger on April 29, 2016, American Coastal Insurance Company (ACIC), acquired via merger on April 3, 2017, and Journey Insurance Company (JIC). See Note 4 in these Notes to Unaudited Condensed Consolidated Financial Statements for additional information regarding acquisitions. JIC was formed in strategic partnership with a subsidiary of Tokio Marine Kiln Group Limited on August 30, 2018. This subsidiary holds a noncontrolling interest in JIC.

Our other subsidiaries include United Insurance Management L.C. (UIM), a managing general agent that manages substantially all aspects of UPC, FSIC and IIC's business; Skyway Claims Services, LLC, which provides claims adjusting services to UPC, FSIC and IIC; AmCo Holding Company (AmCo) and Family Security Holdings (FSH), which are holding company subsidiaries that consolidate their respective insurance companies; BlueLine Cayman Holdings (BlueLine) which reinsures portfolios of excess and surplus policies; UPC Re which provides a portion of the reinsurance protection purchased by our insurance subsidiaries when needed; and Skyway Reinsurance Services which provides reinsurance brokerage services for our insurance companies.

Our primary product is homeowners' insurance, which we currently offer in 12 states, under authorization from the insurance regulatory authorities in each state. In addition, we write commercial residential insurance in the state of Florida. We are also licensed to write property and casualty insurance in an additional six states; however, we have not commenced writing in these states.

We conduct our operations under one business segment.

(b)Consolidation and Presentation

We prepare our unaudited condensed consolidated interim financial statements in conformity with U.S. generally accepted accounting principles (GAAP). We have condensed or omitted certain information and footnote disclosures normally included in annual consolidated financial statements presented in accordance with GAAP. In management's opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring items, considered necessary for a fair presentation of interim periods. All intercompany balances and transactions have been eliminated. Our unaudited condensed consolidated interim financial statements and footnotes should be read in conjunction with our consolidated financial statements and footnotes in our Annual Report on Form 10-K for the year ended December 31, 2017.

While preparing our unaudited condensed consolidated 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 unaudited condensed consolidated 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, investments and goodwill. Except for the captions on our Unaudited Condensed Consolidated Balance Sheets and Unaudited Condensed Consolidated Statements of Comprehensive Income, we generally use the term loss(es) to collectively refer to both loss and loss adjustment expenses.

We reclassified certain amounts in the 2017 financial statements to conform to the 2018 presentation. These reclassifications had no impact on our results of operations or stockholders' equity, as previously reported.

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

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

2) SIGNIFICANT ACCOUNTING POLICIES

(a) Changes to Significant Accounting Policies

We have made no changes to our significant accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2017, except as noted below.

(b) Income Taxes

As of September 30, 2018, we have not fully completed our accounting for the tax effects of the enactment of the legislation commonly known as the Tax Cuts and Jobs Act of 2017 (Tax Act) with regards to the deductibility of compensation expense for certain covered executives due to uncertainty surrounding the appropriate tax treatment of outstanding performance-based awards and the grandfather rule for existing executive compensation agreements and the uncertainty surrounding the discount factors to be applied for loss reserve discounting. The U.S. Treasury Department and the Internal Revenue Service has recently issued further clarification and guidance on the deductibility of compensation expense that we are currently reviewing for potential impact on our accounting and disclosures. Interpretive guidance of the Tax Act will be received throughout 2018, and we expect to update our estimates and our disclosure on a quarterly basis as interpretive guidance is received within each quarter that it is received.

(c) Reinsurance

We record provisional ceding commissions that we receive in connection with our reinsurance contracts for the 2018 underwriting year as an offset to deferred acquisition costs to the extent that they relate to compensation for acquisition costs that are incurred that are deferrable. The remaining provisional ceding commissions are recorded as unearned reinsurance commission and are recognized as an offset to other acquisition costs based in proportion to the premiums earned or coverage provided by the reinsurance contracts.

(d) Recently Adopted Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting (ASU 2017-09). This standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted for certain requirements. We did not early adopt and the new guidance did not impact the way in which we account for share-based payment transactions. Therefore, the adoption as of January 1, 2018 had no impact on our results of operations.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18). This standard provides guidance on the presentation of restricted cash in the statement of cash flows. We are required to explain the changes during a reporting period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents in the statement of cash flows. We retrospectively adopted this standard on April 1, 2018. The adoption of this new accounting standard impacted the presentation of our Unaudited Condensed Consolidated Statement of Cash Flows but had no effect on our results of operations. The restricted cash on our Condensed Consolidated Balance Sheets at September 30, 2018 and December 31, 2017 represents cash that is held in trust for assumed business and cash held in deposit accounts to satisfy state statutory

deposit requirements.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). This update substantially revises standards for the recognition, measurement and presentation of financial instruments. This standard revised our accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amended certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted for certain requirements. We adopted this standard as of January 1, 2018, which resulted in a reclassification of a \$9,338,000 gain, net of tax, on equity securities from accumulated other comprehensive income to retained earnings on our condensed consolidated financial statements. Refer to Note 14 in these Notes to Unaudited Condensed Consolidated Financial Statements for a reconciliation.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). Insurance contracts are excluded from the scope of this standard. Under the standard, guidance is provided on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The transaction price is attributed to underlying performance obligations in the contract and revenue is recognized as the entity satisfies the performance obligation and transfers control of the good or service to the customer. ASU 2014-09 is effective beginning in the first quarter of 2018. We adopted this standard as of January 1, 2018. The adoption of this new accounting standard did not have an impact on our condensed consolidated financial statements and related disclosures.

(e) 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 August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13). This update modifies the existing disclosure requirements on fair value measurements in Topic 820 by changing requirements regarding Level 1, Level 2 and Level 3 investments. ASU 2018-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption permitted. Entities are permitted to early adopt any removed or modified disclosures of ASU 2018-13 immediately and delay the adoption of the additional disclosures until their effective date. We have early adopted the guidance on removed and modified disclosures. We do not intend to early adopt the additional disclosures and are assessing the impact of retrospectively adopting the additions from this new accounting standard on our fair value disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04). This update simplifies the manner in which an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU 2017-07 is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods, with early adoption permitted for certain requirements. We do not intend to early adopt and are assessing the impact of prospectively adopting this new accounting standard on our condensed consolidated financial statements and related disclosures. Any impact of the standard on our condensed consolidated financial statements and related disclosures will be dependent on market conditions of the reporting units at the time of adoption.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). This update is intended to replace existing lease guidance by requiring a lessee to recognize substantially all leases (whether operating or finance leases) on the balance sheet as a right-of-use asset and an associated lease liability. Short-term leases of 12 months or less are excluded from this amendment. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We do not intend to early adopt and are assessing the impact of adopting this new accounting standard on our condensed consolidated financial statements and related disclosures using a modified retrospective approach upon adoption. We are currently quantifying the expected recognition on our balance sheet for a right to use asset and a lease liability as required by this standard.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

3) INVESTMENTS

The following table details fixed maturity available-for-sale and equity securities, by major investment category, at September 30, 2018 and December 31, 2017:

	Cost or Adjusted/Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
U.S. government and agency securities	\$ 104,822	\$ —	\$ 2,093	\$102,729
Foreign government	2,998	—	32	2,966
States, municipalities and political subdivisions	154,195	389	2,718	151,866
Public utilities	24,898	19	775	24,142
Corporate securities	296,009	197	6,610	289,596
Mortgage-backed securities	211,288	—	6,298	204,990
Asset backed securities	59,145	5	252	58,898
Redeemable preferred stocks	1,285	3	85	1,203
Total fixed maturities	\$ 854,640	\$ 613	\$ 18,863	\$836,390
Mutual funds	\$ 44,589	\$ 6,506	\$ —	\$51,095
Public utilities	2,045	331	19	2,357
Other common stocks	27,016	10,893	341	37,568
Non-redeemable preferred stocks	2,098	8	34	2,072
Total equity securities	\$ 75,748	\$ 17,738	\$ 394	\$93,092
December 31, 2017				
U.S. government and agency securities	\$ 93,827	\$ 40	\$ 1,241	\$92,626
Foreign government	2,022	14	—	2,036
States, municipalities and political subdivisions	200,706	1,929	1,123	201,512
Public utilities	20,215	127	85	20,257
Corporate securities	287,025	1,746	1,209	287,562
Mortgage-backed securities	143,982	235	952	143,265
Asset-backed securities	14,902	23	20	14,905
Redeemable preferred stocks	755	11	74	692
Total fixed maturities	\$ 763,434	\$ 4,125	\$ 4,704	\$762,855
Mutual fund	\$ 29,079	\$ 2,845	\$ —	\$31,924
Public utilities	1,343	359	—	1,702
Other common stocks	18,856	9,093	47	27,902
Non-redeemable preferred stocks	1,718	53	4	1,767
Total equity securities	\$ 50,996	\$ 12,350	\$ 51	\$63,295

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

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 months ended September 30, 2018 and 2017:

	2018		2017	
	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale
Three Months Ended September 30,				
Fixed maturities	\$ 12	\$ 4,864	\$ 123	\$ 11,368
Equity securities	8	411	1	156
Total realized gains	20	5,275	124	11,524
Fixed maturities	(441)	46,268	(195)	10,517
Equity securities	(26)	387	—	—
Total realized losses	(467)	46,655	(195)	10,517
Net realized investment gains (losses)	\$(447)	\$ 51,930	\$(71)	\$ 22,041

Nine Months Ended September 30,				
Fixed maturities	\$ 68	\$ 11,745	\$ 263	\$ 30,264
Equity securities	517	1,593	8	175
Total realized gains	585	13,338	271	30,439
Fixed maturities	(1,233)	116,587	(815)	47,913
Equity securities	(26)	387	(10)	100
Total realized losses	(1,259)	116,974	(825)	48,013
Net realized investment gains (losses)	\$(674)	\$ 130,312	\$(554)	\$ 78,452

The table below summarizes our fixed maturities at September 30, 2018 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 maturities of those obligations.

	September 30, 2018					
	Cost or Amortized Cost	Percent of Total	Fair Value	Percent of Total		
Due in one year or less	\$ 70,131	8.2 %	\$ 69,785	8.3 %		
Due after one year through five years	337,014	39.4 %	331,204	39.6 %		
Due after five years through ten years	164,523	19.3 %	159,481	19.1 %		
Due after ten years	12,539	1.5 %	12,032	1.4 %		
Asset and mortgage backed securities	270,433	31.6 %	263,888	31.6 %		
Total	\$ 854,640	100.0 %	\$ 836,390	100.0 %		

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

September 30, 2018

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

Three Months Ended September 30, 2018	Nine Months Ended September 30,
--	---