

UNIVERSAL INSURANCE HOLDINGS, INC.  
Form 10-Q  
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

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

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

65-0231984  
(I.R.S. Employer  
Identification No.)

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

(Address of principal executive offices)

(954) 958-1200

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 34,846,561 shares of common stock, par value \$0.01 per share, outstanding on July 31, 2017.

UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Universal Insurance Holdings, Inc. and Subsidiaries

Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the "Company") as of June 30, 2017 and the related condensed consolidated statements of income, comprehensive income for the three and six-month periods ended June 30, 2017 and 2016 and related condensed consolidated statements of cash flows for the six-month periods ended June 30, 2017 and 2016. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of December 31, 2016 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 23, 2017. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Plante & Moran, PLLC  
Chicago, Illinois

August 3, 2017

## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

	As of June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Fixed maturities, at fair value	\$609,909	\$584,361
Equity securities, at fair value	9,927	50,803
Short-term investments, at fair value	—	5,002
Investment real estate, net	15,104	11,435
Total invested assets	634,940	651,601
Cash and cash equivalents	245,495	105,730
Restricted cash and cash equivalents	2,635	2,635
Prepaid reinsurance premiums	285,480	124,385
Reinsurance recoverable	2,711	106
Premiums receivable, net	64,004	53,833
Other receivables	7,830	5,824
Property and equipment, net	33,066	32,162
Deferred policy acquisition costs	73,591	64,912
Income taxes recoverable	14,820	3,262
Deferred income tax asset, net	—	10,674
Other assets	5,487	4,883
Total assets	\$1,370,059	\$1,060,007
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Unpaid losses and loss adjustment expenses	\$22,645	\$58,494
Unearned premiums	536,363	475,756
Advance premium	24,808	17,796
Accounts payable	3,735	3,187
Reinsurance payable, net	311,897	80,891
Deferred income tax liability, net	2,044	—
Other liabilities and accrued expenses	33,896	37,665
Long-term debt	13,603	15,028
Total liabilities	948,991	688,817
<b>Commitments and Contingencies (Note 12)</b>		

## STOCKHOLDERS' EQUITY:

Cumulative convertible preferred stock, \$.01 par value	—	—
Authorized shares - 1,000		
Issued shares - 10 and 10		
Outstanding shares - 10 and 10		
Minimum liquidation preference, \$9.99 and \$9.99 per share		
Common stock, \$.01 par value	454	453
Authorized shares - 55,000		
Issued shares - 45,447 and 45,324		
Outstanding shares - 34,821 and 35,052		
Treasury shares, at cost - 10,626 and 10,272	(95,901 )	(86,982 )
Additional paid-in capital	86,358	82,263
Accumulated other comprehensive income (loss), net of taxes	(2,458 )	(6,408 )
Retained earnings	432,615	381,864
Total stockholders' equity	421,068	371,190
Total liabilities and stockholders' equity	\$1,370,059	\$1,060,007

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

## UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>PREMIUMS EARNED AND OTHER REVENUES</b>				
Direct premiums written	\$296,191	\$271,921	\$541,606	\$499,894
Change in unearned premium	(51,568 )	(45,102 )	(60,608 )	(51,823 )
Direct premium earned	244,623	226,819	480,998	448,071
Ceded premium earned	(75,614 )	(70,358 )	(150,430)	(139,162)
Premiums earned, net	169,009	156,461	330,568	308,909
Net investment income (expense)	3,223	2,142	5,927	3,747
Net realized gains (losses) on investments	1,710	576	1,647	1,243
Commission revenue	4,644	4,210	9,242	8,323
Policy fees	5,250	4,753	9,733	8,867
Other revenue	1,651	1,660	3,244	3,159
Total premiums earned and other revenues	185,487	169,802	360,361	334,248
<b>OPERATING COSTS AND EXPENSES</b>				
Losses and loss adjustment expenses	80,184	60,083	150,754	126,200
General and administrative expenses	57,380	54,825	114,313	112,055
Total operating costs and expenses	137,564	114,908	265,067	238,255
<b>INCOME BEFORE INCOME TAXES</b>	<b>47,923</b>	<b>54,894</b>	<b>95,294</b>	<b>95,993</b>
Income tax expense	18,547	21,247	34,719	37,120
<b>NET INCOME</b>	<b>\$29,376</b>	<b>\$33,647</b>	<b>\$60,575</b>	<b>\$58,873</b>
Basic earnings per common share	\$0.84	\$0.96	\$1.73	\$1.69
Weighted average common shares outstanding - Basic	34,959	35,062	35,049	34,795
Diluted earnings per common share	\$0.82	\$0.94	\$1.68	\$1.65
Weighted average common shares outstanding - Diluted	35,958	35,649	36,061	35,575
Cash dividend declared per common share	\$0.14	\$0.14	\$0.28	\$0.28

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$29,376	\$33,647	\$60,575	\$58,873
Other comprehensive income (loss), net of taxes	1,486	2,841	3,950	6,122
Comprehensive income	\$30,862	\$36,488	\$64,525	\$64,995

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



## UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$ 140,965	\$ 152,639
Cash flows from investing activities:		
Proceeds from sale of property and equipment	15	—
Purchases of property and equipment	(2,757 )	(3,637 )
Purchases of equity securities	(13,275 )	(35,267 )
Purchases of fixed maturities	(67,517 )	(241,613 )
Purchases of investment real estate, net	(3,759 )	(2,074 )
Proceeds from sales of equity securities	56,971	43,766
Proceeds from sales of fixed maturities	6,507	73,907
Maturities of fixed maturities	39,144	22,479
Maturities of short-term investments	5,000	25,000
Net cash provided by (used in) investing activities	20,329	(117,439)
Cash flows from financing activities:		
Preferred stock dividend	(5 )	(5 )
Common stock dividend	(9,803 )	(4,915 )
Purchase of treasury stock	(8,919 )	(6,927 )
Sale of treasury stock	—	2,965
Payments related to tax withholding for share-based compensation	(1,367 )	(4,831 )
Excess tax benefits (shortfall) from share-based compensation	—	(1,818 )
Repayment of debt	(1,435 )	(1,400 )
Net cash provided by (used in) financing activities	(21,529 )	(16,931 )
Net increase (decrease) in cash and cash equivalents	139,765	18,269
Cash and cash equivalents at beginning of period	105,730	197,014
Cash and cash equivalents at end of period	\$ 245,495	\$ 215,283

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc. (“UVE”) is a Delaware corporation incorporated in 1990. UVE with its wholly-owned subsidiaries (the “Company”) is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned subsidiaries, Universal Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC”), together referred to as the “Insurance Entities,” the Company is principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company’s primary product is homeowners’ insurance currently offered in fifteen states as of June 30, 2017, including Florida, which comprises the vast majority of the Company’s in-force policies. See “—Note 5 (Insurance Operations)” for more information regarding the Company’s insurance operations.

The Company generates revenues primarily from the collection of premiums and invests funds in excess of those retained for claims-paying obligations and insurance operations. Other significant sources of revenue include brokerage commissions collected from reinsurers on reinsurance programs placed by the Insurance Entities, policy fees collected from policyholders by our wholly-owned managing general agency subsidiary and payment plan fees charged to policyholders who choose to pay their premiums in installments.

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements (“Financial Statements”) in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, the Financial Statements do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (“GAAP”) for annual financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC on February 24, 2017. The condensed consolidated balance sheet at December 31, 2016, was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

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

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

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

## 2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2016. The following are new or revised disclosures or disclosures required on a quarterly basis.

### Recently Adopted Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued guidance which simplifies several aspects of the accounting for share-based payment transactions. The new guidance requires excess income tax benefits (windfalls) and deficiencies (shortfalls) to be recognized in the income statement as income tax benefits or charges when the awards vest or are settled. The former guidance required the recognition of excess tax benefits or deficiencies in stockholders’ equity. In addition, all income tax-related cash flows resulting from share-based payments will be reported as operating activities in the statement of cash flows under the new guidance. The guidance also allows us to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting; clarifies that all cash payments for tax withholdings made on an employee’s behalf should be presented as a financing activity on the Company’s statement of cash flows; and provides an accounting policy election to account for forfeitures as they occur. The guidance is effective for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The Company adopted this guidance effective January 1, 2017.

The adoption of the new standard resulted in the recognition of excess tax benefit of \$0.8 million reflected in the Company’s Condensed Consolidated Statements of Income as an income tax benefit for the six months ended June 30, 2017. Additionally, excess tax benefits on the Company’s Condensed Consolidated Statement of Cash Flows are presented as an operating activity on a prospective basis. The presentation requirement for cash flows related to employee taxes paid for withheld shares did not impact any of the periods presented in the Company’s Condensed Consolidated Statement of Cash Flows since these cash flows have historically been presented as a financing activity. The Company will continue to account for forfeitures as they occur. The standard also modifies the calculation of dilutive earnings per share to no longer use proceeds from tax benefits or deficiencies.

## 3. Investments

## Securities Available for Sale

The following table provides the cost or amortized cost and fair value of securities available for sale as of the dates presented (in thousands):

	June 30, 2017			
	Cost or Amortized	Gross Unrealized	Gross Unrealized	Fair Value
	Cost	Gains	Losses	
<b>Fixed Maturities:</b>				
U.S. government obligations and agencies	\$78,049	\$ 35	\$ (545 )	\$77,539
Corporate bonds	203,843	1,018	(658 )	204,203
Mortgage-backed and asset-backed securities	211,044	116	(1,392 )	209,768
Municipal bonds	105,110	638	(1,836 )	103,912
Redeemable preferred stock	13,727	769	(9 )	14,487
<b>Equity Securities:</b>				
Mutual funds	12,078	59	(2,210 )	9,927
<b>Total</b>	<b>\$623,851</b>	<b>\$ 2,635</b>	<b>\$ (6,650 )</b>	<b>\$619,836</b>

	December 31, 2016			
	Cost or Amortized	Gross Unrealized	Gross Unrealized	Fair Value
	Cost	Gains	Losses	
<b>Fixed Maturities:</b>				
U.S. government obligations and agencies	\$74,937	\$ —	\$ (670 )	\$74,267
Corporate bonds	192,328	402	(1,300 )	191,430
Mortgage-backed and asset-backed securities	216,679	135	(2,038 )	214,776
Municipal bonds	94,794	130	(3,727 )	91,197
Redeemable preferred stock	12,723	125	(157 )	12,691
<b>Equity Securities:</b>				
Common stock	214	—	(121 )	93
Mutual funds	53,900	407	(3,597 )	50,710
Short-term investments	5,000	2	—	5,002
<b>Total</b>	<b>\$650,575</b>	<b>\$ 1,201</b>	<b>\$ (11,610 )</b>	<b>\$640,166</b>

The following table provides the credit quality of investment securities with contractual maturities or the issuer of such securities as of the dates presented (in thousands):

June 30, 2017

Comparable Ratings	December 31, 2016					
	Fair Value	% of Total Fair Value		Fair Value	% of Total Fair Value	
AAA	\$133,486	21.8 %		\$131,260	22.3 %	
AA	275,041	45.1 %		275,480	46.7 %	
A	118,716	19.5 %		107,418	18.2 %	
BBB	73,979	12.1 %		67,263	11.4 %	
BB+ and Below	3,982	0.7 %		3,444	0.6 %	
No Rating Available	4,705	0.8 %		4,498	0.8 %	
Total	\$609,909	100.0 %		\$589,363	100.0 %	

The tables above include comparable credit quality ratings by Standard and Poor's Rating Services, Inc., Moody's Investors Service, Inc. and Fitch Ratings, Inc.

The following table summarizes the cost or amortized cost and fair value of mortgage-backed and asset-backed securities as of the dates presented (in thousands):

	June 30, 2017		December 31, 2016	
	Cost or Amortized		Cost or Amortized	
	Cost	Fair Value	Cost	Fair Value
<b>Mortgage-backed Securities:</b>				
Agency	\$106,015	\$104,863	\$110,724	\$109,022
Non-agency	16,752	16,682	19,408	19,265
<b>Asset-backed Securities:</b>				
Auto loan receivables	37,216	37,195	37,390	37,429
Credit card receivables	39,894	39,872	38,640	38,568
Other receivables	11,167	11,156	10,517	10,492
Total	\$211,044	\$209,768	\$216,679	\$214,776

The following table summarizes the fair value and gross unrealized losses on securities available for sale, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position as of the dates presented (dollars in thousands):

	June 30, 2017			December 31, 2016		
	Less Than 12 Months			12 Months or Longer		
	Number of	Fair Value	Unrealized Losses	Number of	Fair Value	Unrealized Losses
<b>Fixed Maturities:</b>						
U.S. government obligations and agencies	13	\$55,479	\$ (458 )	2	\$3,471	\$ (87 )
Corporate bonds	107	79,838	(640 )	2	312	(18 )
Mortgage-backed and asset-backed securities	94	141,724	(1,295 )	7	10,462	(97 )
Municipal bonds	61	72,065	(1,836 )	—	—	—
Redeemable preferred stock	8	979	(9 )	—	—	—
<b>Equity Securities:</b>						
Mutual funds	—	—	—	3	9,142	(2,210 )
Total	283	\$350,085	\$ (4,238 )	14	\$23,387	\$ (2,412 )

December 31, 2016				
Less Than 12 Months			12 Months or Longer	
Number of	Fair Value	Unrealized Losses	Number of	Unrealized Losses
Issues	Value		Issues	Value

Fixed Maturities:							
U.S. government obligations and agencies	11	\$70,453	\$ (608 )	2	\$3,504	\$ (62 )	
Corporate bonds	116	96,379	(1,219 )	4	3,250	(80 )	
Mortgage-backed and asset-backed securities	73	149,928	(1,923 )	5	9,660	(115 )	
Municipal bonds	69	79,402	(3,726 )	—	—	—	
Redeemable preferred stock	50	6,340	(158 )	—	—	—	
Equity Securities:							
Common stock	1	18	(7 )	2	75	(115 )	
Mutual funds	3	28,020	(774 )	2	11,529	(2,823 )	
Total	323	\$430,540	\$ (8,415 )	15	\$28,018	\$ (3,195 )	

## Evaluating Investments for Other Than Temporary Impairment (“OTTI”)

At June 30, 2017, the Company held fixed maturity and equity securities that were in an unrealized loss position as presented in the table above. For fixed maturity securities with significant declines in value, the Company performs quarterly fundamental credit analysis on a security-by-security basis, which includes consideration of credit quality and credit ratings, review of relevant industry analyst reports and other available market data. For fixed maturity and equity securities the Company considers whether it has the intent and ability to hold the securities for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the security’s decline in fair value is considered other than temporary and is recorded in earnings. Based on our analysis, we believe that our fixed income portfolio is of high quality and that we will recover the amortized cost basis of our fixed income securities. We continually monitor the credit quality of our fixed income



investments to assess if it is probable that we will receive our contractual or estimated cash flows in the form of principal and interest. Additionally, the Company considers management's intent and ability to hold the securities until recovery and its credit analysis of the individual issuers of the securities. Based on this process and analysis, management has no reason to believe the unrealized losses for securities available for sale at June 30, 2017 are other than temporary.

As of June 30, 2017, the Company held approximately \$9.1 million equity securities that were in an unrealized loss position twelve months or longer. The unrealized loss on these equity securities was \$2.2 million. Based on our analysis, the Company believes each equity security will recover in a reasonable period of time and the Company has the intent and ability to hold them until recovery. There were no OTTI losses recognized in the periods presented on the equity portfolio.

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

	June 30, 2017	
	Cost or	Fair
	Amortized	Value
Due in one year or less	\$55,635	\$55,622
Due after one year through five years	233,199	233,244
Due after five years through ten years	41,299	41,295
Due after ten years	56,869	55,493
Mortgage-backed and asset-backed securities	211,044	209,768
Perpetual maturity securities	13,727	14,487
Total	\$611,773	\$609,909

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay with or without penalty.

The following table provides certain information related to securities available for sale during the periods presented (in thousands):

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	2016	June 30,	2016
	2017	2016	2017	2016
Proceeds from sales and maturities (fair value)	\$85,293	\$112,786	\$107,622	\$165,152
Gross realized gains	\$1,813	\$576	\$1,813	\$1,261
Gross realized losses	\$(103)	\$—	\$(166)	\$(18)

The following table presents the components of net investment income, comprised primarily of interest and dividends, for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Fixed maturities	\$3,206	\$2,160	\$5,916	\$3,992
Equity securities	338	239	720	442
Short-term investments	7	14	22	45
Other (1)	188	281	332	437
Total investment income	3,739	2,694	6,990	4,916
Less: Investment expenses (2)	(516 )	(552 )	(1,063 )	(1,169 )
Net investment (expense) income	\$3,223	\$2,142	\$5,927	\$3,747

(1) Includes interest earned on cash and cash equivalents and restricted cash and cash equivalents. Also includes investment income earned on real estate investments.

(2) Includes investment accounting and advisory fees, and expenses associated with real estate investments.

## Investment Real Estate

Investment real estate consisted of the following as of the dates presented (in thousands):

	June 30, 2017	December 31, 2016
<b>Income Producing:</b>		
Investment real estate	\$6,918	\$ 6,918
Less: Accumulated depreciation	(371 )	(281 )
	6,547	6,637
<b>Non-Income Producing:</b>		
Properties under development	8,557	4,798
Investment real estate, net	\$15,104	\$ 11,435

#### 4. Reinsurance

The Company seeks to reduce its risk of loss by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers, generally as of the beginning of the hurricane season on June 1st of each year. The Company's current reinsurance program consists of catastrophe excess of loss reinsurance, subject to the terms and conditions of the applicable agreements. The Company is responsible for insured losses related to catastrophes and other events in excess of coverage provided by its reinsurance program. The Company remains responsible for the settlement of insured losses irrespective of the ability of any of its reinsurers to make payments otherwise due to the Company.

Amounts recoverable from reinsurers are estimated in a manner consistent with the terms of the reinsurance contracts. Reinsurance premiums, losses and loss adjustment expenses ("LAE") are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

In order to reduce credit risk for amounts due from reinsurers, the Insurance Entities seek to do business with financially sound reinsurance companies and regularly evaluate the financial strength of all reinsurers used.

The following table presents ratings from rating agencies and the unsecured amounts due from the Company's reinsurers whose aggregate balance exceeded 3% of the Company's stockholders' equity as of the dates presented (in thousands):

Reinsurer	Ratings as of June 30, 2017			Due from as of	
	AM Best	Rating	Investors	June 30, 2017	December 31, 2016
	Company	Services	Service, Inc.		
Florida Hurricane Catastrophe Fund (1)	n/a	n/a	n/a	\$—	\$ 46,364
Total (2)				\$—	\$ 46,364

(1) No rating is available, because the fund is not rated.

(2) Amounts represent prepaid reinsurance premiums.

The Company's reinsurance arrangements had the following effect on certain items in the Condensed Consolidated Statements of Income for the periods presented (in thousands):

Three Months Ended June 30, 2017			2016		
Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses

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Direct	\$296,191	\$244,623	\$ 85,656	\$271,921	\$226,819	\$ 58,434
Ceded	(311,338)	(75,614 )	(5,472 )	(72,874 )	(70,358 )	1,649
Net	\$(15,147 )	\$169,009	\$ 80,184	\$199,047	\$156,461	\$ 60,083

Six Months Ended June 30, 2017			2016			
		Losses and Loss			Losses and Loss	
	Premiums Written	Premiums Earned	Adjustment Expenses	Premiums Written	Premiums Earned	Adjustment Expenses
Direct	\$541,606	\$480,998	\$ 156,439	\$499,894	\$448,071	\$ 124,581
Ceded	(311,524)	(150,430)	(5,685 )	(146,933)	(139,162)	1,619
Net	\$230,082	\$330,568	\$ 150,754	\$352,961	\$308,909	\$ 126,200

The following prepaid reinsurance premiums and reinsurance recoverable (payable) and receivable are reflected in the Condensed Consolidated Balance Sheets as of the dates presented (in thousands):

	June 30, 2017	December 31, 2016
Prepaid reinsurance premiums	\$285,480	\$124,385
Reinsurance recoverable on unpaid losses and LAE	\$1,393	\$106
Reinsurance recoverable (payable) on paid losses	1,318	(1,532 )
Reinsurance receivable, net	—	186
Reinsurance recoverable (payable) and receivable	\$2,711	\$(1,240 )

## 5. Insurance Operations

### Deferred Policy Acquisition Costs

The Company defers certain costs in connection with written policies, called Deferred Policy Acquisition Costs (“DPAC”). DPAC is amortized over the effective period of the related insurance policies.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
DPAC, beginning of period	\$66,524	\$61,158	\$64,912	\$60,019
Capitalized Costs	39,898	36,825	73,654	67,411
Amortization of DPAC	(32,831)	(30,793)	(64,975)	(60,240)
DPAC, end of period	\$73,591	\$67,190	\$73,591	\$67,190

### Regulatory Requirements and Restrictions

The Insurance Entities are subject to regulations and standards of the Florida Office of Insurance Regulation (“FLOIR”). UPCIC also is subject to regulations and standards of regulatory authorities in other states where it is licensed, although as a Florida-domiciled insurer its principal regulatory authority is the FLOIR. These standards require the Insurance Entities to maintain specified levels of statutory capital and restrict the timing and amount of dividends and other distributions that may be paid by the Insurance Entities to the parent company. Except in the case of extraordinary dividends, these standards generally permit dividends to be paid from statutory unassigned surplus of the regulated subsidiary and are limited based on the regulated subsidiary’s level of statutory net income and statutory capital and surplus. The maximum dividend that may be paid by UPCIC and APPCIC to their immediate parent company, Universal Insurance Holding Company of Florida (“UVECF”), without prior regulatory approval is limited by the provisions of Florida Statutes. These dividends are referred to as “ordinary dividends.” However, if an ordinary dividend, together with other dividends paid within the preceding twelve months, exceeds this statutory limit or is paid from sources other than earned surplus, the entire dividend is generally considered an “extraordinary dividend” and must receive prior regulatory approval.

In accordance with Florida Statutes, and based on the calculations performed by the Company as of December 31, 2016, UPCIC has the capacity to pay ordinary dividends of \$57.7 million during 2017. APPCIC does not have the capacity to pay ordinary dividends during 2017. For the six months ended June 30, 2017, no dividends were paid from UPCIC or APPCIC to UVECF. Dividends paid to the shareholders of UVE in 2017 have been paid from the earnings of UVE and its non-insurance subsidiaries.

The Florida Insurance Code requires insurance companies to maintain capitalization equivalent to the greater of ten percent of the insurer’s total liabilities or \$10.0 million. The following table presents the amount of capital and surplus calculated in accordance with statutory accounting principles, which differ from U.S. GAAP, and an amount representing ten percent of total liabilities for both UPCIC and APPCIC as of the dates presented (in thousands):

	June 30, 2017	December 31, 2016
Ten percent of total liabilities		
UPCIC	\$67,094	\$57,560
APPCIC	\$534	\$464
Statutory capital and surplus		
UPCIC	\$351,233	\$313,753
APPCIC	\$17,531	\$17,280

As of the dates in the table above, both UPCIC and APPCIC exceeded the minimum capitalization requirement. UPCIC also met the capitalization requirements of the other states in which it is licensed as of June 30, 2017. UPCIC and APPCIC are also required to adhere to prescribed premium-to-capital surplus ratios and have met those requirements at such dates.

The Insurance Entities are required by various state laws and regulations to maintain certain assets in depository accounts. The following table represents assets held by insurance regulators as of the dates presented (in thousands):

	June 30, 2017	December 31, 2016
Restricted cash and cash equivalents	\$2,635	\$ 2,635
Investments	\$3,920	\$ 3,952



## 6. Liability for Unpaid Losses and Loss Adjustment Expenses

Set forth in the following table is the change in liability for unpaid losses and LAE for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	\$31,463	\$84,975	\$58,494	\$98,840
Less: Reinsurance (recoverable) payable	2,353	(7,709 )	(106 )	(13,540 )
Net balance at beginning of period	33,816	77,266	58,388	85,300
Incurred (recovered) related to:				
Current year	79,075	60,084	149,549	126,185
Prior years	1,109	(1 )	1,205	15
Total incurred	80,184	60,083	150,754	126,200
Paid related to:				
Current year	62,141	54,041	85,031	72,659
Prior years	30,607	26,122	102,859	81,655
Total paid	92,748	80,163	187,890	154,314
Net balance at end of period	21,252	57,186	21,252	57,186
Plus: Reinsurance recoverable	1,393	2,958	1,393	2,958
Balance at end of period	\$22,645	\$60,144	\$22,645	\$60,144

## 7. Long-Term Debt

Long-term debt consists of the following as of the dates presented (in thousands):

	June 30, 2017	December 31, 2016
Surplus note	\$ 13,603	\$ 14,338
Promissory note	—	690
Total	\$ 13,603	\$ 15,028

UPCIC was in compliance with the terms of the surplus note as of June 30, 2017.

In addition to the long-term debt listed above, UVE has an unsecured line of credit that contains certain covenants and restrictions applicable while amounts are outstanding thereunder. UVE had not borrowed any amounts under this line of credit as of June 30, 2017.

## 8. Stockholders' Equity

## Common Stock

The following table summarizes the activity relating to shares of the Company's common stock during the six months ended June 30, 2017 (in thousands):

	Issued Shares	Treasury Shares	Outstanding Shares
Balance, as of December 31, 2016	45,324	(10,272 )	35,052
Shares repurchased	—	(354 )	(354 )
Vesting of performance share units	115	—	115
Stock option exercises	71	—	71
Shares acquired through cashless exercise (1)	—	(63 )	(63 )
Shares cancelled	(63 )	63	—
Balance, as of June 30, 2017	45,447	(10,626 )	34,821

(1) All shares acquired represent shares tendered to cover the strike price for options and tax withholdings on the intrinsic value of options exercised or performance share units vested. These shares have been cancelled by the Company.

In June 2016, UVE announced that its Board of Directors authorized a share repurchase program under which UVE may repurchase in the open market in compliance with Exchange Act Rule 10b-18 up to \$20 million of its outstanding shares of common stock through December 31, 2017. During the six months ended June 30, 2017, UVE repurchased 354,293 shares, at an aggregate price of approximately \$8.9 million, pursuant to such repurchase program.

## Dividends

On January 23, 2017, UVE declared a cash dividend of \$0.14 per share on its outstanding common stock paid on March 2, 2017, to the shareholders of record at the close of business on February 17, 2017.

On April 12, 2017, UVE declared a cash dividend of \$0.14 per share on its outstanding common stock payable on July 3, 2017, to the shareholders of record at the close of business on June 14, 2017.

## 9. Income Taxes

During the three months ended June 30, 2017 and 2016, the Company recorded approximately \$18.5 million and \$21.2 million of income tax expense, respectively. The effective tax rate for each of the three months ended June 30, 2017 and 2016 was 38.7%.

During the six months ended June 30, 2017 and 2016, the Company recorded approximately \$34.7 million and \$37.1 million of income tax expense, respectively. The effective tax rate for the six months ended June 30, 2017 was 36.4% compared to a 38.7% effective tax rate for the same period in the prior year.

During the six months ended June 30, 2017, the Company's excess tax benefit of \$0.8 million was reflected as an income tax benefit in the condensed consolidated statements of income as a component of the provision for income taxes as a result of the adoption of the accounting guidance for share-based payment transactions. See "Note 2 – Significant Accounting Policies – Recently Adopted Accounting Pronouncements" for more information. In addition, during the six months ended June 30, 2017, the Company recorded another discrete item as a credit to income tax expense of \$1.2 million resulting from anticipated recoveries of income taxes paid for the 2014-2015 tax years.

In arriving at these rates, the Company considers a variety of factors including the forecasted full year pre-tax results, the U.S. federal tax rate of 35%, expected non-deductible expenses, and estimated state income taxes. The Company's final effective tax rate for the full year will be dependent on the level of pre-tax income, discrete items, the apportionment of taxable income among state tax jurisdictions and the extent of non-deductible expenses in relation to pre-tax income.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Company's 2013 through 2015 tax years are still subject to examination by the Internal Revenue Service and various tax years remain open to examination in certain state jurisdictions.

## 10. 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 the exercise of stock options, vesting of restricted stock, vesting of performance share units, and conversion of preferred stock.

The following table reconciles the numerator (i.e., income) and denominator (i.e., shares) of the basic and diluted earnings per share computations for the periods presented (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Numerator for EPS:</b>				
Net income	\$29,376	\$33,647	\$60,575	\$58,873
Less: Preferred stock dividends	(2 )	(3 )	(5 )	(5 )
Income available to common stockholders	\$29,374	\$33,644	\$60,570	\$58,868
<b>Denominator for EPS:</b>				
Weighted average common shares outstanding	34,959	35,062	35,049	34,795
Plus: Assumed conversion of stock-based				
compensation (1)	974	562	987	755
Assumed conversion of preferred stock	25	25	25	25
<b>Weighted average diluted common shares</b>				
outstanding	35,958	35,649	36,061	35,575
Basic earnings per common share	\$0.84	\$0.96	\$1.73	\$1.69
Diluted earnings per common share	\$0.82	\$0.94	\$1.68	\$1.65

(1) Represents the dilutive effect of unvested Restricted Stock, unvested Performance Share Units and unexercised Stock Options.

# 11. Other Comprehensive Income (Loss)

The following table provides the components of other comprehensive income (loss) on a pre-tax and after-tax basis for the periods presented (in thousands):

	Three Months Ended June 30,			2016		
	2017			2016		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net unrealized gains (losses) on investments available for sale						
arising during the period	\$4,116	\$1,574	\$2,542	\$5,134	\$1,937	\$3,197
Less: Amounts reclassified from accumulated other						
comprehensive income (loss)	(1,710)	(654 )	(1,056 )	(576 )	(220 )	(356 )
Net current period other comprehensive income (loss)	\$2,406	\$920	\$1,486	\$4,558	\$1,717	\$2,841
	Six Months Ended June 30,			2016		
	2017			2016		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net unrealized gains (losses) on investments available for sale						
arising during the period	\$8,041	\$3,074	\$4,967	\$11,153	\$4,263	\$6,890
Less: Amounts reclassified from accumulated other						
comprehensive income (loss)	(1,647)	(630 )	(1,017 )	(1,243 )	(475 )	(768 )
Net current period other comprehensive income (loss)	\$6,394	\$2,444	\$3,950	\$9,910	\$3,788	\$6,122

The following table provides the reclassifications out of accumulated other comprehensive income for the periods presented (in thousands):

Details about Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended June 30,		Six Months Ended June 30,		
	2017	2016	2017	2016	

Unrealized gains (losses) on

investments available for sale

Net realized gains (losses) on

\$1,710 \$576 \$1,647 \$1,243 investments

(654 ) (220) (630 ) (475 ) Income taxes

\$1,056 \$356 \$1,017 \$768 Net of tax

## 12. Commitments and Contingencies

### Litigation

Lawsuits are filed against the Company from time to time. Many of these lawsuits involve claims under policies that we underwrite and reserve for as an insurer. We believe that the resolution of these claims will not have a material adverse effect on our financial condition or results of operations. We are also involved in various other legal proceedings and litigation unrelated to claims under our policies that arise in the ordinary course of business operations. Management believes that any liabilities that may arise as a result of these legal matters will not have a material adverse effect on our financial condition or results of operations. The Company contests liability and/or the amount of damages as appropriate in each pending matter.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for legal matters when those matters present loss contingencies that are both probable and estimable.

Legal proceedings are subject to many uncertain factors that generally cannot be predicted with assurance, and the Company may be exposed to losses in excess of any amounts accrued. The Company currently estimates that the reasonably possible losses for legal proceedings, whether in excess of a related accrued liability or where there is no accrued liability, and for which the Company is able to estimate a possible loss, are immaterial. This represents management's estimate of possible loss with respect to these matters and is based on currently available information. These estimates of possible loss do not represent our maximum loss exposure, and actual results may vary significantly from current estimates.



### 13. Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAP describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. GAAP does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1 — Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 — Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Summary of significant valuation techniques for assets measured at fair value on a recurring basis

#### Level 1

Common stock: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Mutual funds: Comprise actively traded funds. Valuation is based on daily quoted net asset values for identical assets in active markets that the Company can access.

#### Level 2

U.S. government obligations and agencies: Comprise U.S. Treasury Bills or Notes or U.S. Treasury Inflation Protected Securities. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Corporate bonds: Comprise investment-grade fixed income securities. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Mortgage-backed and asset-backed securities: Comprise securities that are collateralized by mortgage obligations and other assets. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields, collateral performance and credit spreads.

Municipal bonds: Comprise fixed income securities issued by a state, municipality or county. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Redeemable preferred stock: Comprise preferred stock securities that are redeemable. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.

Short-term investments: Comprise investment securities subject to remeasurement with original maturities within one year but more than three months. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active.

As required by GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the placement of the asset or liability within the fair value hierarchy levels.

The following tables set forth by level within the fair value hierarchy the Company's assets that were measured at fair value including those on a recurring basis as of the dates presented (in thousands):

Fair Value Measurements June 30, 2017				
	Level 1	Level 2	Level 3	Total
Fixed Maturities:				
U.S. government obligations and agencies	\$—	\$77,539	\$ —	\$77,539
Corporate bonds	—	204,203	—	204,203
Mortgage-backed and asset-backed securities	—	209,768	—	209,768
Municipal bonds	—	103,912	—	103,912
Redeemable preferred stock	—	14,487	—	14,487
Equity Securities:				
Mutual funds	9,927	—	—	9,927
Total assets accounted for at fair value	\$9,927	\$609,909	\$ —	\$619,836

Fair Value Measurements December 31, 2016				
	Level 1	Level 2	Level 3	Total
Fixed Maturities:				
U.S. government obligations and agencies	\$—	\$74,267	\$ —	\$74,267
Corporate bonds	—	191,430	—	191,430