

UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
November 04, 2016

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 September 30, 2016

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, or a non-accelerated filer. See the definitions of "large accelerated filer" and "accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,038,483 shares of common stock, par value \$0.01 per share, outstanding on October 31, 2016.

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 September 30, 2016 and the related condensed consolidated statements of income and comprehensive income for the three and nine-month periods ended September 30, 2016 and 2015 and the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and 2015. 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, 2015 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 24, 2016. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2015, 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

November 4, 2016

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 September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$205,241	\$197,014
Restricted cash and cash equivalents	2,635	2,635
Fixed maturities, at fair value	584,274	416,083
Equity securities, at fair value	44,240	42,214
Short-term investments, at fair value	5,003	25,021
Investment real estate, net	10,384	6,117
Prepaid reinsurance premiums	198,910	114,673
Reinsurance recoverable	—	22,853
Premiums receivable, net	60,570	50,980
Other receivables	5,863	4,979
Property and equipment, net	30,845	27,065
Deferred policy acquisition costs, net	68,300	60,019
Income taxes recoverable	10,643	5,420
Deferred income tax asset, net	1,877	13,912
Other assets	5,437	4,563
Total assets	\$1,234,222	\$993,548
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	\$54,209	\$98,840
Unearned premiums	501,577	442,366
Advance premium	28,721	24,813
Accounts payable	2,294	378
Reinsurance payable, net	211,863	73,585
Dividends payable	4,903	—
Other liabilities and accrued expenses	41,995	36,424
Long-term debt	15,396	24,050
Total liabilities	860,958	700,456
Commitments and Contingencies (Note 12)		
STOCKHOLDERS' EQUITY:		
Cumulative convertible preferred stock, \$.01 par value	—	—

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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	453	455
Authorized shares - 55,000		
Issued shares - 45,292 and 45,525		
Outstanding shares - 35,024 and 35,110		
Treasury shares, at cost - 10,268 and 10,415	(86,887)	(80,802)
Additional paid-in capital	80,399	70,789
Accumulated other comprehensive income (loss), net of taxes	1,625	(4,006)
Retained earnings	377,674	306,656
Total stockholders' equity	373,264	293,092
Total liabilities and stockholders' equity	\$1,234,222	\$993,548

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	\$241,888	\$222,572	\$741,782	\$684,147
Change in unearned premium	(7,388)	(7,769)	(59,211)	(67,903)
Direct premium earned	234,500	214,803	682,571	616,244
Ceded premium earned	(74,966)	(68,650)	(214,128)	(262,843)
Premiums earned, net	159,534	146,153	468,443	353,401
Net investment income (expense)	2,304	1,307	6,051	3,376
Net realized gains (losses) on investments	101	11	1,344	292
Commission revenue	4,603	4,115	12,927	10,757
Policy fees	4,226	3,820	13,093	12,003
Other revenue	1,668	1,637	4,827	4,614
Total premiums earned and other revenues	172,436	157,043	506,685	384,443
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	73,548	53,854	199,749	127,148
General and administrative expenses	54,725	55,289	166,780	130,152
Total operating costs and expenses	128,273	109,143	366,529	257,300
INCOME BEFORE INCOME TAXES	44,163	47,900	140,156	127,143
Income tax expense	17,281	17,602	54,400	49,811
NET INCOME	\$26,882	\$30,298	\$85,756	\$77,332
Basic earnings per common share	\$0.77	\$0.87	\$2.46	\$2.22
Weighted average common shares outstanding - Basic	35,042	34,911	34,878	34,837
Fully diluted earnings per common share	\$0.75	\$0.84	\$2.41	\$2.15
Weighted average common shares outstanding - Diluted	35,723	35,999	35,594	35,918
Cash dividend declared per common share	\$0.14	\$0.12	\$0.42	\$0.36

CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$26,882	\$30,298	\$85,756	\$77,332

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Other comprehensive income (loss)	(491)	(794)	5,631	(680)
Comprehensive income	\$26,391	\$29,504	\$91,387	\$76,652

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities	\$ 178,637	\$ 241,182
Cash flows from investing activities:		
Proceeds from sale of property and equipment	31	55
Purchases of property and equipment	(6,041)	(10,310)
Payments to acquire a business	—	(1,000)
Purchases of equity securities	(46,414)	(46,668)
Purchases of fixed maturities	(278,961)	(145,118)
Purchases of short-term investments	—	(87,538)
Purchases of investment real estate, net	(4,400)	(5,888)
Proceeds from sales of equity securities	46,819	17,412
Proceeds from sales of fixed maturities	78,966	26,154
Proceeds from sales of short-term investments	—	12,500
Maturities of fixed maturities	38,111	63,201
Maturities of short-term investments	25,000	50,000
Net cash provided by (used in) investing activities	(146,889)	(127,200)
Cash flows from financing activities:		
Preferred stock dividend	(7)	(7)
Common stock dividend	(9,828)	(8,520)
Issuance of common stock	—	511
Purchase of treasury stock	(8,415)	(7,665)
Sale of treasury stock	2,965	—
Purchase of preferred stock	—	(257)
Payments related to tax withholding for share-based compensation	(4,905)	(10,195)
Excess tax benefits (shortfall) from share-based compensation	(1,563)	5,241
Borrowings under promissory note	—	1,390
Repayment of debt	(1,768)	(8,103)
Net cash provided by (used in) financing activities	(23,521)	(27,605)
Net increase (decrease) in cash and cash equivalents	8,227	86,377
Cash and cash equivalents at beginning of period	197,014	115,397
Cash and cash equivalents at end of period	\$ 205,241	\$ 201,774
Supplemental cash and non-cash flow disclosures:		
Interest paid	\$ 362	\$ 767
Income taxes paid	\$ 58,268	\$ 51,554
Income tax refund	\$ 5,694	\$ —

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 thirteen states as of September 30, 2016, 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, 2015, filed with the SEC on February 24, 2016. The condensed consolidated balance sheet at December 31, 2015, 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.

Condensed Consolidated Statement of Cash Flows – Additional Disclosure

As discussed in “—Note 7 (Stockholders' Equity)”, in April 2016 the Company entered into a Purchase and Exchange Agreement with RenaissanceRe Ventures Ltd. pursuant to which the Company sold an aggregate of 583,771 shares of UVE common stock at a price of \$17.13 per share for a total consideration of \$10 million of which \$7.035 million represents cancellation of indebtedness, non-cash portion, and the balance of \$2.965 million was received in cash. The non-cash portion of the transaction has been excluded from the statement of cash flows.

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2015. Below are revised disclosures required to be reported on a quarterly basis.

Reinsurance. Ceded written premium is recorded upon the effective date of the reinsurance contracts and earned over the contract period. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreements and consistent with the establishment of the liability of the Company. Allowances are established for amounts deemed uncollectible if any.

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):

	September 30, 2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities:				
U.S. government obligations and agencies	\$77,076	\$ 618	\$ (63)	\$77,631
Corporate bonds	191,342	2,485	(125)	193,702
Mortgage-backed and asset-backed securities	224,423	1,830	(182)	226,071
Municipal bonds	77,135	270	(224)	77,181
Redeemable preferred stock	9,095	607	(13)	9,689
Equity Securities:				
Common stock	11,210	—	(374)	10,836
Mutual funds	35,644	266	(2,506)	33,404
Short-term investments	5,000	3	—	5,003
Total	\$630,925	\$ 6,079	\$ (3,487)	\$633,517

	December 31, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities:				
U.S. government obligations and agencies	\$126,209	\$ —	\$ (867)	\$125,342
Corporate bonds	126,421	137	(1,041)	125,517
Mortgage-backed and asset-backed securities	151,328	97	(1,265)	150,160
Redeemable preferred stock	9,665	429	(29)	10,065
Other	5,000	—	(1)	4,999
Equity Securities:				
Common stock	10,991	15	(244)	10,762
Mutual funds	35,221	5	(3,774)	31,452
Short-term investments	25,011	10	—	25,021
Total	\$489,846	\$ 693	\$ (7,221)	\$483,318

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):

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Comparable Ratings	September 30, 2016		December 31, 2015	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
AAA	\$129,018	21.9 %	\$103,097	23.4 %
AA	278,611	47.3 %	189,600	43.0 %
A	110,310	18.7 %	83,850	19.0 %
BBB	66,025	11.2 %	41,408	9.4 %
BB+ and Below	3,817	0.6 %	4,261	1.0 %
No Rating Available	1,496	0.3 %	18,888	4.2 %
Total	\$589,277	100.0 %	\$441,104	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.

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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):

	September 30, 2016		December 31, 2015	
	Cost or Amortized		Cost or Amortized	
	Cost	Fair Value	Cost	Fair Value
Mortgage-backed securities:				
Agency	\$116,085	\$116,947	\$74,353	\$73,854
Non-agency	19,614	19,779	10,430	10,183
Asset-backed securities:				
Auto loan receivables	38,886	39,187	29,883	29,712
Credit card receivables	38,663	38,880	32,225	31,985
Other receivables	11,175	11,278	4,437	4,426
Total	\$224,423	\$226,071	\$151,328	\$150,160

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

	September 30, 2016					
	Less Than 12 Months			12 Months or Longer		
	Number of	Fair Value	Unrealized Losses	Number of	Fair Value	Unrealized Losses
Fixed maturities:						
U.S. government obligations and agencies	1	\$922	\$ (6)	2	\$3,518	\$ (57)
Corporate bonds	18	13,627	(23)	6	5,362	(102)
Mortgage-backed and asset-backed securities	12	25,089	(96)	4	6,858	(86)
Municipal bonds	25	32,976	(224)	—	—	—
Redeemable preferred stock	5	479	(13)	—	—	—
Equity securities:						
Common stock	3	10,754	(265)	2	81	(109)
Mutual funds	1	9,991	(49)	2	11,895	(2,457)
Total	65	\$93,838	\$ (676)	16	\$27,714	\$ (2,811)

	December 31, 2015			
	Less Than 12 Months		12 Months or Longer	
	Number of	Unrealized Losses	Number of	Unrealized Losses
	Issues		Issues	

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		Fair Value			Fair Value	
Fixed maturities:						
U.S. government obligations and agencies	10	\$ 121,912	\$ (690)	2	\$ 3,429	\$ (177)
Corporate bonds	101	90,717	(927)	6	4,789	(114)
Mortgage-backed and asset-backed securities	51	118,743	(974)	6	13,902	(291)
Redeemable preferred stock	5	764	(29)	—	—	—
Other	1	4,999	(1)	—	—	—
Equity securities:						
Common stock	3	8,690	(148)	2	93	(96)
Mutual funds	3	13,192	(374)	1	7,867	(3,400)
Total	174	\$ 359,017	\$ (3,143)	17	\$ 30,080	\$ (4,078)

Evaluating Investments for OTTI

At September 30, 2016, the Company held fixed maturity, equity securities and short-term investments 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, equity securities and short-term investments, 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, our fixed income portfolio is of high quality and we believe 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 September 30, 2016 are other than temporary.

As of September 30, 2016, we held approximately \$12 million equity securities that were in an unrealized loss position twelve months or longer. The unrealized loss on these securities was \$2.6 million. Based on our analysis, we believe each security will recover in a reasonable period of time and we have 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):

	September 30, 2016	
	Cost or	Fair
	Amortized Cost	Value
Due in one year or less	\$48,716	\$48,738
Due after one year through five years	225,404	228,062
Due after five years through ten years	22,056	22,408
Due after ten years	54,377	54,309
Mortgage-backed and asset-backed securities	224,423	226,071
Perpetual maturity securities	9,095	9,689
Total	\$584,071	\$589,277

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Sales proceeds (fair value)	\$8,111	\$12,014	\$125,785	\$56,066
Gross realized gains	\$107	\$12	\$1,369	\$308
Gross realized losses	\$(6)	\$(1)	\$(25)	\$(16)

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 September 30, 2016		Nine Months Ended September 30, 2015	
Fixed maturities	\$2,456	\$1,479	\$6,447	\$4,001
Equity securities	223	277	666	540
Short-term investments	15	89	60	194
Other (1)	166	102	603	247
Total investment income	2,860	1,947	7,776	4,982
Less: Investment expenses (2)	(556)	(640)	(1,725)	(1,606)
Net investment (expense) income	\$2,304	\$1,307	\$6,051	\$3,376

(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 bank fees, 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):

	September 30, 2016	December 31, 2015
Investment real estate	\$ 10,620	\$ 6,220
Less: Accumulated depreciation	(236)	(103)
Investment real estate, net	\$ 10,384	\$ 6,117

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 failure of any of its reinsurers to make payments otherwise due to the Company.

The Company eliminated the quota share ceded by UPCIC to its reinsurers beginning with the reinsurance program effective June 1, 2015. Under the quota share contracts that were effective June 1, 2014 through May 31, 2015, the quota share ceded by UPCIC to its reinsurers was 30%. By eliminating the quota share, the Company now retains all premiums. The elimination of the quota share also decreases the amount of losses and loss adjustment expenses ("LAE") that may be ceded by UPCIC and effectively increases the amount of risk retained by UPCIC and the Company. The elimination of the quota share also eliminates ceding commissions earned from the Company's quota share reinsurer during the contract term and eliminates deferred ceding commissions, netted against deferred policy acquisition costs.

Amounts recoverable from reinsurers are estimated in a manner consistent with the terms of the respective reinsurance contracts. Reinsurance premiums, losses and LAE are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the respective reinsurance contracts. Ceding commissions received in connection with quota share reinsurance are deferred and netted against deferred policy acquisition costs and amortized over the effective period of the related insurance policies.

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

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

Reinsurer	Ratings as of December 31, 2015			Due from
	AM Best Company	Rating Services	Investors Service, Inc.	as of December 31, 2015
Florida Hurricane Catastrophe Fund	n/a	n/a	n/a	\$ 42,086
Odyssey Reinsurance Company	A	A-	A3	18,742
Total (1)				\$ 60,828

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

n/a No rating available, because this state trust fund, which is under the direction of the Florida State Board of Administration, is not rated.

There were no amounts due from the Company's reinsurers whose aggregate balance exceeded 3% of stockholders' equity as of September 30, 2016.

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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 September 30, 2016			2015			
	Premiums Written *	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
Direct	\$241,888	\$234,500	\$ 73,487	\$222,572	\$214,803	\$ 53,560
Ceded	(151,432)	(74,966)	61	(71,148)	(68,650)	294
Net	\$90,456	\$159,534	\$ 73,548	\$151,424	\$146,153	\$ 53,854

Nine Months Ended September 30, 2016			2015			
	Premiums Written *	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
Direct	\$741,782	\$682,571	\$ 198,069	\$684,147	\$616,244	\$ 152,551
Ceded	(298,365)	(214,128)	1,680	(185,578)	(262,843)	(25,403)
Net	\$443,417	\$468,443	\$ 199,749	\$498,569	\$353,401	\$ 127,148

*Ceded premiums written include the effect of an out-of-period adjustment reflected in the three and nine month periods ended September 30, 2016 as discussed in “—Note 15 (Out-of-Period Adjustment)”.

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

	September 30, 2016	December 31, 2015
Prepaid reinsurance premiums	\$ 198,910	\$ 114,673
Reinsurance recoverable on unpaid losses and LAE	\$ 1,904	\$ 13,540
Reinsurance recoverable (payable) on paid losses	(2,776)	9,313
Reinsurance receivable, net	186	353
Reinsurance recoverable and receivable	\$(686)	\$23,206

5. Insurance Operations

Deferred Policy Acquisition Costs, net

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

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

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
DPAC, beginning of period	\$67,190	\$62,181	\$60,019	\$54,603
Capitalized Costs	33,227	30,846	100,444	91,135
Amortization of DPAC	(32,117)	(30,024)	(92,163)	(82,735)
DPAC, end of period	\$68,300	\$63,003	\$68,300	\$63,003
DRCC, beginning of period	\$—	\$-	\$—	\$28,943
Ceding Commissions Written	—	—	—	(5,276)
Earned Ceding Commissions	—	—	—	(23,667)
DRCC, end of period	\$—	\$—	\$—	\$—
DPAC (DRCC), net, beginning of period	\$67,190	\$62,181	\$60,019	\$25,660
Capitalized Costs, net	33,227	30,846	100,444	96,411
Amortization of DPAC (DRCC), net	(32,117)	(30,024)	(92,163)	(59,068)
DPAC (DRCC), net, end of period	\$68,300	\$63,003	\$68,300	\$63,003

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		Nine Months Ended	
	Ended		September 30,	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Balance at beginning of period	\$60,144	\$112,117	\$98,840	\$134,353
Less: Reinsurance recoverable	(2,958)	(31,777)	(13,540)	(47,350)
Net balance at beginning of period	57,186	80,340	85,300	87,003
Incurred (recovered) related to:				
Current year	73,701	54,014	199,886	127,211
Prior years	(173)	(160)	(158)	(66)
Total incurred	73,528	53,854	199,728	127,145

Paid related to:

Current year	73,332	41,818	145,991	72,438
Prior years	5,077	10,777	86,732	60,111
Total paid	78,409	52,595	232,723	132,549
Net balance at end of period	52,305	81,599	52,305	81,599
Plus: Reinsurance recoverable	1,904	19,460	1,904	19,460
Balance at end of period	\$54,209	\$101,059	\$54,209	\$101,059

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 the 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, 2015, UPCIC has the capacity to pay ordinary dividends of \$52.9 million during 2016. APPCIC does not have the capacity to pay ordinary dividends during 2016. For the nine months ended September 30, 2016, no dividends were paid from UPCIC or APPCIC to UVECF. Dividends paid to the shareholders of UVE in 2016 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):

	September 30, 2016	December 31, 2015
Ten percent of total liabilities		
UPCIC	\$ 65,976	\$ 55,928
APPCIC	\$ 512	\$ 463
Statutory capital and surplus		
UPCIC	\$ 311,202	\$ 256,987
APPCIC	\$ 14,967	\$ 14,777

As of the dates in the table above, both UPCIC and APPCIC met the capitalization requirement. UPCIC also met the capitalization requirements of the other states in which it is licensed as of September 30, 2016. 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):

	September 30, 2016	December 31, 2015
Restricted cash and cash equivalents	\$ 2,635	\$ 2,635
Investments	\$ 3,977	\$ 3,876

6. Long-Term Debt

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

	September 30, 2016	December 31, 2015
Surplus note	\$ 14,706	\$ 15,809
Term loan	—	6,851
Promissory note	690	1,390
Total	\$ 15,396	\$ 24,050

See “—Note 7 (Stockholders’ Equity)” for details of the cancellation of the Term Loan.

UPCIC was in compliance with the terms of the surplus note as of September 30, 2016.

In addition to the long-term debt listed above, UVE has an unsecured line of credit which contains certain covenants and restrictions applicable while amounts are outstanding thereunder. Although UVE has not borrowed any amounts under this line of credit, if UVE were to do so and it were to be in default of any covenants or restrictions, then UVE would be prohibited from paying dividends to its shareholders.

7. Stockholders' Equity

Common Stock

The following table summarizes the activity relating to shares of the Company's common stock during the nine months ended September 30, 2016 (in thousands):

	Issued Shares	Treasury Shares	Outstanding Shares
Balance, as of December 31, 2015	45,525	(10,415)	35,110
Shares repurchased	—	(437)	(437)
Shares reissued	—	584	584
Options exercised	56	—	56
Shares acquired through cashless exercise (1)	—	(289)	(289)
Shares cancelled	(289)	289	—
Balance, as of September 30, 2016	45,292	(10,268)	35,024

(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 restricted stock vested. These shares have been cancelled by the Company.

In November 2015, 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 \$10 million of its outstanding shares of common stock through December 31, 2016. In June 2016, UVE completed the repurchase program and repurchased a total of 342,107 shares, at an aggregate price of \$6.4 million, pursuant to such repurchase program.

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. UVE repurchased 95,000 shares, at an aggregate price of approximately \$2.0 million, pursuant to such repurchase program through September 2016.

In April 2016, the Company sold 583,771 shares of UVE common stock in a private placement to RenaissanceRe Ventures Ltd. ("RenRe") at a price of \$17.13 per share for total consideration of \$10 million, which was comprised of \$2.965 million in cash and \$7.035 million in cancellation of outstanding indebtedness. See "—Note 6 (Long-Term Debt)" for details of the Company's debt structure.

Dividends

On January 14, 2016, UVE declared a cash dividend of \$0.14 per share on its outstanding common stock paid on March 2, 2016, to the shareholders of record at the close of business on February 18, 2016.

On April 13, 2016, UVE declared a cash dividend of \$0.14 per share on its outstanding common stock paid on July 5, 2016, to the shareholders of record at the close of business on June 15, 2016.

On August 31, 2016, UVE declared a cash dividend of \$0.14 per share on its outstanding common stock payable on October 24, 2016, to the shareholders of record at the close of business on September 12, 2016.

8. Related Party Transactions

Scott P. Callahan, a director of the Company, provided the Company with consulting services and advice with respect to the Company's reinsurance and related matters through SPC Global RE Advisors LLC, an entity affiliated with Mr. Callahan. The Company entered into the consulting agreement with SPC Global RE Advisors LLC effective June 6, 2013. The Company and SPC Global RE Advisors LLC terminated the consulting agreement on September 18, 2015 by mutual consent.

The following table provides payments made by the Company for the periods presented (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015
SPC Global RE Advisors LLC	\$ —\$ 30	\$ —\$ 90

9. Income Taxes

During the three months ended September 30, 2016 and 2015, the Company recorded approximately \$17.3 million and \$17.6 million of income taxes, respectively. The effective tax rate for the three months ended September 30, 2016 is 39.1% compared to a 36.7% effective tax rate for the same period in the prior year.

During the nine months ended September 30, 2016 and 2015, the Company recorded approximately \$54.4 million and \$49.8 million of income taxes, respectively. The effective tax rate for the nine months ended September 30, 2016 is 38.8% compared to a 39.2% effective tax rate for the same period in the prior year.

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, the apportionment of taxable income among state tax jurisdictions and the extent of non-deductible expenses in relation to pre-tax income.

Factors giving rise to the difference in the Company's effective tax rates for the three and nine month ended September 30, 2016 compared to the same periods in 2015 include:

- a reduction in the amount of non-deductible executive compensation,
- an increase in the amount of tax-exempt interest income,
 - current year expansion outside of Florida into non-income taxing state jurisdictions, and

• discrete items recorded during the three months ended September 30, 2016 and 2015 based on the filing of the Company's income tax returns in the third quarters of those periods.

Tax years that remain open for purposes of examination of the Company's income tax liability due to taxing authorities include the years ended December 31, 2015, 2014 and 2013.

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 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator for EPS:				
Net income	\$26,882	\$30,298	\$85,756	\$77,332
Less: Preferred stock dividends	(3)	(3)	(8)	(8)
Income available to common stockholders	\$26,879	\$30,295	\$85,748	\$77,324
Denominator for EPS:				
Weighted average common shares outstanding	35,042	34,911	34,878	34,837
Plus: Assumed conversion of stock-based compensation (1)	656	1,063	691	1,050
Assumed conversion of preferred stock	25	25	25	31
Weighted average diluted common shares outstanding	35,723	35,999	35,594	35,918
Basic earnings per common share	\$0.77	\$0.87	\$2.46	\$2.22
Diluted earnings per common share	\$0.75	\$0.84	\$2.41	\$2.15

(1) Represents the dilutive effect of unvested restricted stock 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):

	For the Three Months Ended September 30,					
	2016			2015		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net unrealized gains (losses) on investments available for sale						
arising during the period	\$(694)	\$(265)	\$(429)	\$(1,282)	\$(495)	\$(787)
Less: Amounts reclassified from accumulated other						
comprehensive income (loss)	(101)	(39)	(62)	(11)	(4)	(7)
Net current period other comprehensive income (loss)	\$(795)	\$(304)	\$(491)	\$(1,293)	\$(499)	\$(794)

	For the Nine Months Ended September 30,					
	2016			2015		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net unrealized gains (losses) on investments available for sale						
arising during the period	\$10,460	\$3,998	\$6,462	\$(815)	\$(314)	\$(501)
Less: Amounts reclassified from accumulated other						
comprehensive income (loss)	(1,344)	(513)	(831)	(292)	(113)	(179)
Net current period other comprehensive income (loss)	\$9,116	\$3,485	\$5,631	\$(1,107)	\$(427)	\$(680)

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

Details about Accumulated Other	Amounts Reclassified from Accumulated Other Comprehensive Income			Affected Line Item in the Statement
	Three Months Ended	Nine Months Ended	September 30,	

	September 30,				
Comprehensive Income Components	2016	2015	2016	2015	Where Net Income is Presented
Unrealized gains (losses) on					
investments available for sale					
	\$101	\$11	\$1,344	\$292	Net realized gains (losses) on investments
	(39)	(4)	(513)	(113)	Income taxes
	\$62	\$7	\$831	\$179	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.

Other: Comprise investment securities subject to remeasurement with original maturities beyond one year. 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			Total
	September 30, 2016			
	Level 1	Level 2	Level 3	
Fixed maturities:				
U.S. government obligations and agencies	\$—	\$77,631	\$ —	\$77,631
Corporate bonds	—	193,702	—	193,702
Mortgage-backed and asset-backed securities	—	226,071	—	226,071
Municipal bonds	—	77,181	—	77,181
Redeemable preferred stock	—	9,689	—	9,689
Equity securities:				
Common stock	10,836	—	—	10,836
Mutual funds	33,404	—	—	33,404
Short-term investments	—	5,003	—	5,003
Total assets accounted for at fair value	\$44,240	\$589,277	\$ —	\$633,517

	Fair Value Measurements			Total
	December 31, 2015			
	Level 1	Level 2	Level 3	
Fixed maturities:				
U.S. government obligations and agencies	\$—	\$125,342	\$ —	\$125,342
Corporate bonds	—	125,517	—	125,517
Mortgage-backed and asset-backed securities	—	150,160	—	150,160
Redeemable preferred stock	—	10,065	—	10,065
Other	—	4,999	—	4,999
Equity securities:				
Common stock	10,762	—	—	10,762
Mutual funds	31,452	—	—	31,452
Short-term investments	—	25,021	—	25,021
Total assets accounted for at fair value	\$42,214	\$441,104	\$ —	\$483,318

The Company utilizes third-party independent pricing services that provide a price quote for each fixed maturity, equity security and short-term investment. Management reviews the methodology used by the pricing services. If management believes that the price used by the pricing service does not reflect an orderly transaction between participants, management will use an alternative valuation methodology. There were no adjustments made by the Company to the prices obtained from the independent pricing source for any fixed maturities or equity securities included in the tables above.

The following table summarizes the carrying value and estimated fair values of the Company's financial instruments that are not carried at fair value as of the dates presented (in thousands):

	September 30, 2016 (Level 3) Estimated Fair Carrying Value		December 31, 2015 (Level 3) Estimated Fair Carrying Value	
Liabilities (debt):				
Surplus note	\$ 14,706	\$ 13,637	\$ 15,809	\$ 14,166
Term loan	\$ —	\$ —	\$ 6,851	\$ 6,851
Promissory note	\$ 690	\$ 690	\$ 1,390	\$ 1,390

Level 3

Long-term debt: The fair value of the surplus note was determined by management from the expected cash flows discounted using the interest rate quoted by the holder. The State Board of Administration of Florida (“SBA”) is the holder of the surplus note and the quoted interest rate is below prevailing rates quoted by private lending institutions. However, as the Company’s use of funds from the surplus note is limited by the terms of the agreement, the Company has determined the interest rate quoted by the SBA to be appropriate for purposes of establishing the fair value of the note.

The fair value of the term loan approximates the carrying value given the original issue discount which was calculated based on the present value of future cash flows using the Company’s effective borrowing rate. The fair value of the promissory note is not materially different than its carrying value.

14. Subsequent Events

The Company performed an evaluation of subsequent events through the date the Financial Statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the Financial Statements as of September 30, 2016.

During October 2016, Hurricane Matthew impacted several states along the U.S. Southern and Mid Atlantic coast. As of November 2, 2016, our customers have reported approximately 5,657 claims for Hurricane Matthew. We believe the after-tax charges from this event will be between \$14 million and \$18 million in the fourth quarter of 2016.

15. Out-of-Period Adjustment

The Company recorded an out-of-period adjustment in the third quarter of 2016 to prepaid reinsurance (ceded unearned premiums) and reinsurance payable accounts to correct for a misapplication of GAAP related to amounts of ceded premiums written recognized and reported during interim periods only for its annual catastrophe reinsurance program. This adjustment, which management deems to be immaterial, increases both assets and liabilities equally with no effect on prior period earnings, equity or cash flows.

The Company is adopting an accounting method that recognizes the full amount of annual ceded premiums written on the effective date of the reinsurance contracts, which is generally June 1 of each year. The Company's former method allocated annual ceded premiums written over each of the four quarters during the same calendar year in which the contracts became effective. Under both methods, the recognition of ceded premiums written establishes an asset and an equal and offsetting liability with no initial effect on ceded premiums earned which are earned over the contract period. Ceded premiums earned was reported correctly by the Company in the income statement.

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

Unless the context otherwise requires, all references to "we," "us," "our," and "Company" refer to Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries. You should read the following discussion together with our condensed consolidated financial statements ("Financial Statements") and the related notes thereto included in Part I, Item 1 "Financial Statements." Operating results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for the year.

Forward-Looking Statements

In addition to historical information, the following discussion may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act. Forward-looking statements are based on various factors and assumptions that include known and unknown risks and uncertainties, some of which are beyond our control and cannot be predicted or quantified. Certain statements made in this report reflect management's expectations regarding future events, and the words "expect," "estimate," "anticipate," "believe," "intend," "project," "plan" and similar expressions and variations thereof, speak only as of the date the statement was made and are intended to identify forward-looking statements. Such statements may include, but not be limited to, projections of revenues, income or loss, expenses, plans, as well as assumptions relating to the foregoing. Future results could differ materially from those in the following discussion and those described in forward-looking statements as a result of the risks set forth below which are a summary of those set forth in our Annual Report on Form 10-K for the year ended December 31, 2015.

Risks Relating to our Business

- As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events
- Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition
- Our success depends in part on our ability to accurately price the risks we underwrite
- Unanticipated increases in the severity or frequency of claims may adversely affect our profitability and financial condition
- The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations
- Because we rely on independent insurance agents, the loss of these independent agent relationships and the business they control or our ability to attract new independent agents could have an adverse impact on our business
- The inherent uncertainty of models and our reliance on such models as a tool to evaluate risks may have an adverse effect on our financial results
- Reinsurance may be unavailable in the future at current levels and prices, which may limit our ability to write new business or to adequately mitigate our exposure to loss
- Reinsurance subjects us to the credit risk of our reinsurers, which could have a material adverse effect on our operating results and financial condition
- Our financial condition and operating results and the financial condition and operating results of our Insurance Entities may be adversely affected by the cyclical nature of the property and casualty business
- Because we conduct the substantial majority of our business in Florida, our financial results depend on the regulatory, economic and weather conditions in Florida
- Changing climate conditions may adversely affect our financial condition, profitability or cash flows
- We have entered and in the future may enter new markets, but there can be no assurance that our diversification and growth strategy will be effective
- Loss of key executives or our inability to otherwise attract and retain talent could affect our operations

We could be adversely affected if our controls designed to ensure compliance with guidelines, policies and legal regulatory standards are not effective

•The failure of our claims department to effectively manage claims could adversely affect our insurance business, financial results and capital requirements

•Litigation or regulatory actions could have a material adverse impact on us

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Our future results are dependent in part on our ability to successfully operate in a highly competitive insurance industry

A downgrade in our Financial Stability Rating® may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition

Breaches of our information systems or denial of service on our website could have an adverse impact on our business and reputation

- Lack of effectiveness of exclusions and other loss limitation methods in the insurance policies we write could have a material adverse effect on our financial condition or our results of operations

Risks Relating to Investments

We are subject to market risk which may adversely affect investment income

Our overall financial performance is dependent in part on the returns on our investment portfolio, which may have a material adverse effect on our financial condition or results of operations or cause such results to be volatile

Risks Relating to the Insurance Industry

We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth

UVE is a holding company and, consequently, its cash flow is dependent on dividends and other permissible payments from its subsidiaries

Regulations limiting rate changes and requiring us to participate in loss sharing or assessments may decrease our profitability

The amount of statutory capital that each of the Insurance Entities has and the amount of statutory capital it must hold can vary and are sensitive to a number of factors outside of our control, including market conditions and the regulatory environment and rules

Our Insurance Entities are subject to examination and actions by state insurance departments

Risks Relating to Debt Obligations

Our revolving line of credit and term loan have restrictive terms, and our failure to comply with any of these terms could have an adverse effect on our business and prospects

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms

Risks Relating to Ownership of Our Common Stock

The price of our common stock may fluctuate significantly, and you could lose all or part of your investment.

Any issuance of preferred stock could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Future sales of our common stock may depress our stock price.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of operations and financial condition of Universal Insurance Holdings, Inc. and its wholly-owned consolidated subsidiaries. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and accompanying notes in Item 1 above.

Overview

Universal Insurance Holdings, Inc. ("UVE," and together with its wholly-owned subsidiaries, "we," "our," "us," or "the Company") is the largest private personal residential insurance company in Florida by direct written premium in-force, with approximately 9.8% market share as of June 30, 2016, according to the most recent data reported by the Florida Office of Insurance Regulation ("FLOIR"). We perform substantially all aspects of insurance underwriting, policy issuance, general administration and claims processing and settlement internally through our vertically integrated

operations. Our wholly-owned licensed insurance subsidiaries, Universal

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Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC”), currently write personal residential insurance policies, predominantly in Florida with \$672.5 million in direct written premium for the nine months ended September 30, 2016. UPCIC also writes homeowners insurance policies in Alabama, Delaware, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Michigan, Minnesota, North Carolina, Pennsylvania and South Carolina, with \$69.3 million in direct written premium in those states for the nine months ended September 30, 2016, and is licensed to issue policies in New Hampshire, New Jersey, New York, Virginia and West Virginia. We believe that our longevity in the Florida market and our resulting depth of experience will enable us to continue to successfully grow our business in both hard and soft markets.

We generate revenues primarily from the collection of premiums. The nature of our business tends to be seasonal, reflecting consumer behaviors in connection with the Florida residential real estate market and the hurricane season. The amount of direct written premium tends to increase just prior to the second quarter of our fiscal year and tends to decrease approaching the fourth quarter. Other sources of revenue include: commissions paid by our reinsurers to our reinsurance intermediary subsidiary Blue Atlantic Reinsurance on reinsurance it places for the Insurance Entities, policy fees collected from policyholders by our managing general agency subsidiary Universal Risk Advisors and financing fees charged to policyholders who choose to finance premium payments. We also generate income by investing our assets.

Over the past several years, we have grown our business both within Florida and elsewhere in the United States through our distribution network of approximately 7,800 licensed independent agents. Our goals are to profitably grow our business, invest in our vertically integrated business, expand our independent agent network, and return value to shareholders. Some of our key strategies include increasing our policies in force in Florida through continued profitable and organic growth; expanding into other states to diversify our revenue and risk; optimizing our reinsurance program; and continuing to provide high quality service through our vertically integrated business. We believe each of these strategies has contributed towards an increase in earnings and earnings per share as well as an improvement in our overall financial condition. See “—Results of Operations” below for a discussion of our results for the three and nine months ended September 30, 2016 compared to the same periods in 2015.

Our overall organic growth strategy emphasizes taking prudent measures to increase our policy count and improving the quality of our business rather than merely increasing our policy count. Our focus on long-term capital strength and organic growth causes us to be selective in the risks we accept. Our goal is to write risks that are priced adequately and meet our underwriting standards. We believe that our strategy of organically expanding our premium growth through our independent agent distribution network, streamlining claims management and balancing appropriate pricing with disciplined underwriting standards will maximize our profitable growth. We also intend to continue our expansion outside of Florida in markets that allow us to write profitable business and to diversify our revenue and risk. Upon entering new markets, we leverage our existing independent agent network to generate new local relationships and business and take the time to learn about each new market and any of its unique characteristics and risks in order to carefully develop our own policy forms, rates and informed underwriting standards. Our expansion efforts differ from our competitors that have grown in recent years primarily through assumption of policies from Citizens Property Insurance Corporation, Florida’s statutory residual property insurance market.

As a result of our organic growth strategy and initiatives, we have seen increases in policy count and insured value in all states for over two years. The following table provides direct written premium for Florida and other states for the three and nine months ended September 30, 2016 and 2015 (dollars in thousands):

For the Three Months Ended

Growth

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	September 30, 2016		September 30, 2015		year over year	
State	Direct Written		Direct Written		\$	%
	Premium	%	Premium	%		
Florida	\$215,634	89.1 %	\$204,121	91.7 %	\$11,513	5.6 %
Other states	26,254	10.9 %	18,451	8.3 %	7,803	42.3 %
Grand total	\$241,888	100.0 %	\$222,572	100.0 %	\$19,316	8.7 %

For the Nine Months Ended

	September 30, 2016		September 30, 2015		Growth year over year	
State	Direct Written		Direct Written		\$	%
	Premium	%	Premium	%		
Florida	\$672,477	90.7 %	\$636,114	93.0 %	\$36,363	5.7 %
Other states	69,305	9.3 %	48,033	7.0 %	21,272	44.3 %
Grand total	\$741,782	100.0 %	\$684,147	100.0 %	\$57,635	8.4 %

We believe our ability to achieve rate adequacy relative to the risks written improves our underwriting profit. This, together with our improved financial strength, was a key factor in our decision to retain a greater share of our profitable business by reducing our quota share cession rate in our 2014-2015 reinsurance program and eliminating the use of quota share reinsurance in our 2015-2016 reinsurance program.

Third-Quarter 2016 Highlights

- Gross direct premiums overall grew by \$19.3 million, or 8.7%, to \$241.9 million compared to the third quarter of 2015.
- Net earned premiums grew by \$13.4 million, or 9.2%, to \$159.5 million compared to the third quarter of 2015.
- Total revenues increased by \$15.4 million, or 9.8%, to \$172.4 million compared to the third quarter of 2015.
- Net income decreased by \$3.4 million, or 11.3%, to 26.9 million.
- Diluted EPS decreased by \$0.09, or 10.7%, to \$0.75 per share.
- Declared dividends of \$0.14 per share.
- Repurchased approximately 70 thousand shares during the quarter at an aggregate cost of \$1.5 million.
- APCIC received authorization from the FLOIR to amend its Certificate of Authority to add Fire, Commercial Multi-Peril, and Other Liability (collectively "Commercial Residential") lines of business in Florida.
- Universal DirectSM was offered in 10 states as of the third quarter 2016.

UPCIC's 2016-2017 Reinsurance Program

Third-Party Reinsurance

Our annual reinsurance program, which is segmented into layers of coverage, as is industry practice, protects us against excess property catastrophe losses. Our 2016-2017 reinsurance program includes the mandatory coverage required by law to be placed with the Florida Hurricane Catastrophe Fund ("FHCF"), in which we have elected to participate at 90%, or the highest level, and also includes private reinsurance below, alongside and above the FHCF layer. In placing our 2016-2017 reinsurance program, we obtained multiple years of coverage for an additional portion of the program. We believe this multi-year arrangement will allow us to capitalize on favorable pricing and contract terms and conditions and allow us to mitigate uncertainty with respect to the price of future reinsurance coverage, our single largest cost.

The total cost of UPCIC's private catastrophe reinsurance program for all states as described below, effective June 1, 2016 through May 31, 2017, is \$150 million. In addition, UPCIC has purchased reinstatement premium protection as described below, the cost of which is \$28.4 million. The largest private participants in UPCIC's reinsurance program include leading reinsurance companies and providers such as Nephila Capital, Everest Re, RenaissanceRe, Chubb Tempest Re and Lloyd's of London syndicates.

UPCIC's Retention

UPCIC has a net retention of \$35 million per catastrophe event for losses incurred, in all states, up to a first event loss of \$2.461 billion. UPCIC also purchases a separate underlying catastrophe program to further reduce its retention for

all losses occurring in any state other than Florida (the “Other States Reinsurance Program”). UPCIC retains only \$5 million under its Other States Reinsurance Program. These retention amounts are gross of any potential tax benefit we would receive in paying such losses.

First Layer

Immediately above UPCIC’s net retention, we have \$55 million of reinsurance coverage from third-party reinsurers for up to four separate catastrophic events, for all states. Specifically, we have purchased reinsurance coverage for the first and third catastrophic events, and each such coverage allows for one reinstatement upon the payment of reinstatement premiums, which would cover the second and fourth catastrophic events. This coverage has been obtained from three contracts as follows:

• 68.33% of \$55 million in excess of \$35 million provides coverage on a multi-year basis through May 31, 2019;

• 31.67% of \$55 million in excess of \$35 million provides coverage for the 2016-2017 period; and

• 100% of \$55 million in excess of \$35 million and in excess of \$110 million otherwise recoverable (from the first and second events) provides the third and fourth event coverage for the 2016-2017 period.

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For the first two contracts above, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages.

Second Layer

Above the first layer, for losses exceeding \$90 million, we have purchased a second layer of coverage for losses up to \$445 million – in other words, for the next \$355 million of losses. This coverage has been obtained from two contracts as follows:

- 58% of \$355 million in excess of \$90 million (originally effective June 1, 2015) continues to provide coverage through May 31, 2018; and

- 42% of \$355 million in excess of \$90 million provides coverage for the 2016-2017 period

In this layer, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages. Both of these contracts extend coverage to all states.

Third Layer

Above the first and second layers, we have purchased a third layer of coverage for losses up to \$540 million – in other words, for the next \$95 million of losses. This coverage was obtained from two contracts as follows:

- 68.33% of \$95 million in excess of \$445 million provides coverage on a multi-year basis through May 31, 2019; and

- 31.67% of \$95 million in excess of \$445 million provides coverage for the 2016-2017 period.

In this layer, to the extent that all of our coverage or a portion thereof is exhausted in a catastrophic event, we have purchased reinstatement premium protection to pay the required premium necessary for the reinstatement of these coverages. Both of these contracts extend coverage to all states.

Fourth and Fifth Layers

In the fourth and fifth layers, we have purchased reinsurance for \$173 million of coverage in excess of \$540 million in losses incurred by us (net of the FHCF layer) and \$130 million of coverage in excess of \$713 million in losses incurred by us (net of the FHCF layer), respectively, for a total of \$808 million of coverage (net of the FHCF layer) by third-party reinsurers. Both layers' coverage extends to all states.

UPCIC structures its reinsurance coverage into layers and utilizes a cascading feature such that the second, third, fourth and fifth reinsurance layers all attach at \$90 million. Any layers above the \$90 million attachment point are excess of loss over the immediately preceding layer. If the aggregate limit of the preceding layer is exhausted, the next layer cascades down in its place for future events. This means that, unless losses exhaust the top layer of our coverage, we are exposed to only \$35 million in losses, pre-tax, per catastrophe for each of the first four events. In addition to tax benefits that could reduce our ultimate loss, we would expect fees paid to our subsidiary service providers by our Insurance Entities and, indirectly, our reinsurers, would also increase during an active hurricane season, which could also offset claim-related losses we would have to pay on our insurance policies.

Other States Reinsurance Program

The total cost of UPCIC's private catastrophe reinsurance program for other states as described below, effective June 1, 2016 through May 31, 2017, is \$5.5 million. In addition, UPCIC has purchased reinstatement premium protection as described below, the cost of which is \$1.6 million.

Effective June 1, 2016 through June 1, 2017, under an excess catastrophe contract specifically covering risks located outside the state of Florida and intended to further reduce UPCIC's \$35 million net retention, as noted above, UPCIC has obtained catastrophe coverage of \$30 million in excess of \$5 million covering certain loss occurrences, including hurricanes, in states outside of Florida. This catastrophe coverage has a second full limit available with additional premium calculated pro rata as to amount and 100% as to time, as applicable. All catastrophe layers are placed with a cascading feature so that all capacity could be made available in excess of \$5 million under certain loss scenarios.

In certain circumstances involving a catastrophic event impacting both Florida and other states, UPCIC's retention could result in pre-tax net liability as low as \$5,000,000 – the \$35 million net retention under the all states reinsurance program could be offset by as

much as \$30 million in coverage under the Other States Reinsurance Program – or 1.8% of UPCIC’s statutory policyholders’ surplus as of March 31, 2016.

FHCF

UPCIC’s third-party reinsurance program supplements the FHCF coverage we are required to purchase every year. The limit and retention of the FHCF coverage we receive each year is subject to upward or downward adjustment based on, among other things, submitted exposures to the FHCF by all participants. As of June 1, 2016, we estimate our FHCF coverage includes a maximum provisional limit of 90% of \$1,797 million, or \$1,617 million, in excess of \$562 million. The estimated premium that UPCIC plans to cede to the FHCF for the 2016 hurricane season is \$110.1 million.

Coverage purchased from third-party reinsurers, as described above, adjusts to fill in gaps in FHCF coverage. The FHCF coverage cannot be reinstated once exhausted, but it does provide coverage for multiple events. The FHCF coverage extends only to losses to our Florida portfolio due to the peril of hurricanes.

The third-party reinsurance we purchase for UPCIC is therefore net of FHCF recovery. When our FHCF and third-party reinsurance coverages are taken together, UPCIC has reinsurance coverage of up to \$2,461 million for the first event, as illustrated by the graphic below. Should a catastrophic event occur, we would retain up to \$35 million pre-tax for each catastrophic event, and would also be responsible for any additional losses that exceed our top layer of coverage.

APPCIC's 2016-2017 Reinsurance Program

Third-Party Reinsurance

The total cost of APPCIC's private catastrophe and multiple line excess reinsurance program, effective June 1, 2016 through May 31, 2017, is \$1.7 million. In addition, APPCIC has purchased reinstatement premium protection as described below, the cost of which is \$52,300. The largest private participants in APPCIC's reinsurance program include leading reinsurance companies such as Everest Re, Chubb Tempest Re, Hiscox, Hannover Ruck, and Lloyd's of London syndicates.

APPCIC's Retention

APPCIC has a net retention of \$2 million for all losses per catastrophe event for losses incurred up to a first event loss of \$30.7 million. This retention amount is gross of any potential tax benefit we would receive in paying such losses.

First Layer

Immediately above APPCIC's net retention we have \$3.3 million of reinsurance coverage from third-party reinsurers. Specifically, we have purchased reinsurance coverage for the first event, and such coverage allows for one reinstatement upon the payment of reinstatement premiums, which would cover the second and potentially more catastrophic events. We have purchased reinstatement premium protection to pay the required premium necessary for the initial reinstatement of this coverage for a second catastrophic event.

Second and Third Layers

In the second and third layers, we have purchased reinsurance for \$1.7 million of coverage in excess of \$5.3 million in losses incurred by us (net of the FHCF layer) and \$7 million of coverage in excess of \$7 million in losses incurred by us (net of the FHCF layer), respectively.

APPCIC structures its reinsurance coverage into layers and utilizes a cascading feature such that the second and third reinsurance layers all attach at \$2 million. Any layers above the \$2 million attachment point are excess of loss over the immediately preceding layer. If the aggregate limit of the preceding layer is exhausted, the next layer cascades down in its place for future events. This means that, unless losses exhaust the top layer of our coverage, we are only exposed to \$2 million in losses, pre-tax, per catastrophe for each of the first two events. In addition to tax benefits that could reduce our ultimate loss, we would expect fees paid to our subsidiary service providers by our Insurance Entities and, indirectly, our reinsurers would also increase during an active hurricane season, which could also offset losses we would have to pay on our insurance policies.

FHCF

APPCIC's third-party reinsurance program is used to supplement the FHCF reinsurance we are required to purchase every year. The limit and retention of the FHCF coverage we receive each year is subject to upward or downward adjustment based on, among other things, submitted exposures to the FHCF by all participants. As of June 1, 2016, we estimate our FHCF coverage includes a maximum provisional limit of 90% of \$18.5 million, or \$16.7 million, in excess of \$5.8 million. The estimated premium that APPCIC plans to cede to the FHCF for the 2016 hurricane season is \$1.1 million. Factoring in our estimated coverage under the FHCF, we purchase coverage alongside our FHCF coverage from third-party reinsurers as described above, which adjusts to fill in gaps in FHCF coverage. The FHCF coverage cannot be reinstated once exhausted, but it does provide coverage for multiple events. The FHCF coverage extends only to losses to our portfolio impacted by the peril of hurricanes.

The third-party reinsurance we purchase for APPCIC is therefore net of FHCF recovery. When our FHCF and third-party reinsurance coverages are taken together, APPCIC has reinsurance coverage of up to \$30.7 million, as illustrated by the graphic below. Should a catastrophic event occur, we would retain \$2 million pre-tax for each catastrophic event, and would also be responsible for any additional losses that exceed our top layer of coverage.

Multiple Line Excess of Loss

APPCIC also purchases extensive multiple line excess per risk reinsurance with various reinsurers due to the high valued risks it insures. Under this multiple line excess per risk contract, APPCIC has coverage of \$8.5 million in excess of \$0.5 million ultimate net loss for each risk and each property loss, and \$1 million in excess of \$0.3 million for each casualty loss. A \$19.5 million aggregate limit applies to the term of the contract for property related losses and a \$2.0 million aggregate limit applies to the term of the contract for casualty-related losses. This contract also contains a profit sharing feature available to APPCIC if the contract meets specific performance measures.

UVE Insurance Risk-Linked Contract

Separately from the Insurance Entities' reinsurance programs, UIH protects its own assets against diminution in value due to catastrophe events by purchasing insurance coverage that would provide \$10 million in the form of insurance proceeds through a catastrophe risk-linked transaction contract, effective August 10, 2016 through December 31, 2016. The contract provides for recovery by UIH in the event of certain catastrophe event criteria occurring in Florida in the contract period. The total cost to UIH is \$900 thousand.

Results of Operations—Three Months Ended September 30, 2016, Compared to Three Months Ended September 30, 2015

Net income decreased by \$3.4 million, or 11.3%, to \$26.9 million for the three months ended September 30, 2016, compared to \$30.3 million for the three months ended September 30, 2015. This \$3.4 million decrease reflects an increase in every category of revenue offset by an increase in losses and loss adjustment expenses (LAE) including \$11 million of incremental severe weather events occurring in 2016 that was recorded in the third quarter of 2016. Organic growth is the primary factor behind our 2016 top line quarterly results and comparison to prior periods while the \$11 million incremental losses and LAE related to severe weather resulted in a reduction in pre-tax and net income. Diluted earnings per common share decreased by \$0.09, or 10.7%, to \$0.75 for the three months ended September 30, 2016, compared to \$0.84 for the three months ended September 30, 2015, as a result of the decrease in net income. A more detailed discussion of this and other factors follows the table below.

	(in thousands)			
	Three Months Ended		Change	
	September 30,	September 30,	\$	%
	2016	2015		
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	\$241,888	\$222,572	\$19,316	8.7 %
Change in unearned premium	(7,388)	(7,769)	381	-4.9 %
Direct premium earned	234,500	214,803	19,697	9.2 %
Ceded premium earned	(74,966)	(68,650)	(6,316)	9.2 %
Premiums earned, net	159,534	146,153	13,381	9.2 %
Net investment income (expense)	2,304	1,307	997	76.3 %
Net realized gains (losses) on investments	101	11	90	818.2 %
Commission revenue	4,603	4,115	488	11.9 %
Policy fees	4,226	3,820	406	10.6 %
Other revenue	1,668	1,637	31	1.9 %
Total premiums earned and other revenues	172,436	157,043	15,393	9.8 %
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	73,548	53,854	19,694	36.6 %
General and administrative expenses	54,725	55,289	(564)	-1.0 %
Total operating costs and expenses	128,273	109,143	19,130	17.5 %
INCOME BEFORE INCOME TAXES	44,163	47,900	(3,737)	-7.8 %
Income tax expense	17,281	17,602	(321)	-1.8 %
NET INCOME	\$26,882	\$30,298	\$(3,416)	-11.3 %
Other comprehensive income (loss), net of taxes	(491)	(794)	303	-38.2 %
COMPREHENSIVE INCOME	\$26,391	\$29,504	\$(3,113)	-10.6 %

Premiums earned in the current period reflect premiums written over the past 12 months and any changes in rates or policy count during that time. Net premiums earned were \$159.5 million for the three months ended September 30, 2016, compared to \$146.2 million for the three months ended September 30, 2015. The increase in net earned premiums of \$13.4 million, or 9.2%, reflects an increase in direct earned premiums of \$19.7 million and a net increase in ceded earned premiums of \$6.3 million. The increase in direct earned premiums reflects organic growth in all states and the increase in ceded earned premiums reflects the cost of our 2016-2017 reinsurance program.

Our reinsurance programs run from June 1 to May 31 of the following year. The net increase in ceded earned premiums of \$6.3 million is attributable to the costs associated with our 2016-2017 reinsurance program which took effect June 1, 2016. Ceded premiums earned were higher due to increases to our reinsurance limits and our new costs associated with lower reinsurance attachment points for our organic growth business outside of Florida.

Net investment income was \$2.3 million for the three months ended September 30, 2016, compared to \$1.3 million for the same three months in 2015. The increase in net investment income of \$997 thousand is the result of an increase in our investment portfolio fueled by cash flows generated from operations and actions taken to increase yield by investing these new funds along with maturities in higher yielding securities while maintaining high credit quality. Total average investments were \$838.1 million during the three months ended September 30, 2016 compared to \$733.0 million for the same period in 2015.

Management sells investment securities from its portfolio of securities available for sale from time to time when opportunities arise. We sold investment securities available for sale during the three months ended September 30, 2016 generating net realized gains of \$101 thousand compared to net realized gains of \$11 thousand for the three months ended September 30, 2015.

Commission revenue is comprised principally of brokerage commissions we earn from reinsurers on reinsurance placed for the Insurance Entities. For the three months ended September 30, 2016 commission revenue was \$4.6 million, compared to \$4.1 million for the three months ended September 30, 2015. The increase in commission revenue of \$488 thousand, or 11.9%, was the result of overall changes in the structure of the reinsurance programs in effect and earned during the three months ended September 30, 2016, compared to the three months ended September 30, 2015, including the amount of premiums paid for reinsurance on our exposures and the types of reinsurance contracts used in each program.

Policy fees for the three months ended September 30, 2016, were \$4.2 million compared to \$3.8 million for the same period in 2015. The increase of \$406 thousand, or 10.6%, was the result of an increase in the number of policies written during the three months ended September 30, 2016 compared to the same period in 2015.

Other revenue for the three months ended September 30, 2016 was \$1.7 million compared to \$1.6 million for the same period in 2015. Other revenue represents revenue from premium financing and other miscellaneous income. The increase of \$31 thousand, or 1.9% was the result of an increase in the number of policies written during the three months ended September 30, 2016 compared to the same period in 2015 partially offset by reductions in premium financing income from consumer behavior underlying the composition of our insurance portfolio.

Losses and LAE, net were \$73.5 million for the three months ended September 30, 2016, compared to \$53.9 million during the same period in 2015. The increase of \$19.6 million in net losses and LAE relates primarily to an \$11 million incremental charge for severe weather events occurring in 2016 that was recorded in the third quarter of 2016. The net increase also includes proportional increase in losses and LAE arising from an increase in our premium exposures from organic growth and also reflects an increase in the underlying gross loss ratio from 2015. Finally, the net losses and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 46.1% and 36.8% during the three-month periods ended September 30, 2016 and 2015, respectively, and were comprised of the following components (in thousands):

	Three Months Ended September 30, 2016		
	Direct	Ceded	Net
Losses and loss adjustment expenses	\$73,487	\$(61)	\$73,548
Premiums earned	\$234,501	\$74,967	\$159,534
Loss & LAE ratios	31.3 %	(0.1 %)	46.1 %

	Three Months Ended September 30, 2015		
	Direct	Ceded	Net
Losses and loss adjustment expenses	\$53,560	\$(294)	\$53,854
Premiums earned	\$214,802	\$68,649	\$146,153
Loss & LAE ratios	24.9 %	(0.4 %)	36.8 %

The \$11 million of incremental losses and LAE was in addition to amounts already provided for in our underlying loss ratios based on historical loss experience for such events and increased our net loss ratio by 6.9%.

See “Item 1 — Note 5 (Insurance Operations)” for change in liability for unpaid losses and LAE.

For the three months ended September 30, 2016, general and administrative expenses were \$54.7 million, compared to \$55.3 million for the same period in 2015. Increases in acquisition costs of \$2.2 million and in other operating costs of \$494 thousand, were more than offset by a decrease in stock-based compensation of \$3.3 million resulting in a net decrease of \$564 thousand in general and administrative expenses. The increase in acquisition and other operating costs was the result of the organic growth in the Company’s business. The expense ratio, or general and administrative expenses as a percentage of net earned premiums, was 34.3% for the three months ended September 30, 2016 compared to 37.8% for the same period in 2015. The decrease in the expense ratio resulted from the reduction in stock-based compensation and economies of scale.

Income taxes decreased by \$321 thousand, or 1.8%, primarily as a result of a decrease in income before income taxes. The effective tax rate increased to 39.1% from 36.7% for the three months ended September 30, 2016 and 2015, respectively. See “Item 1 — Note 9 (Income Taxes)” for an explanation of the change in effective tax rate.

Comprehensive income includes net income and other comprehensive income or loss. Other comprehensive loss for the three months ended September 30, 2016 and 2015, reflects after tax changes in fair value of securities held in our portfolio of securities available for sale and a reclassification out of cumulative other comprehensive income for securities sold. See “Item 1 — Note 11 (Other Comprehensive Income (Loss)).”

Results of Operations – Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Net income increased by \$8.4 million, or 10.9%, to \$85.7 million for the nine months ended September 30, 2016 compared to \$77.3 million for the nine months ended September 30, 2015. This \$8.4 million increase reflects an increase in every category of revenue, partially offset by increases in operating expenses including \$19.5 million of incremental losses and LAE resulting from severe weather events during 2016. Organic growth and the elimination of the cession rate of our quota share reinsurance contracts effective June 1, 2015 are significant factors behind our 2016 results and comparison to prior year periods. Diluted earnings per common share increased by \$0.26, or 12.1%, to \$2.41 per share for the nine months ended September 30, 2016 compared to \$2.15 per share for the nine months ended September 30, 2015, as a result of an increase in net income and a slight decrease in weighted average shares outstanding (diluted). A more detailed discussion of this and other factors follows the table below.

	(in thousands)			
	Nine Months Ended		Change	
	September 30,	September 30,	\$	%
	2016	2015		
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	\$741,782	\$684,147	\$57,635	8.4 %
Change in unearned premium	(59,211)	(67,903)	8,692	-12.8 %
Direct premium earned	682,571	616,244	66,327	10.8 %
Ceded premium earned	(214,128)	(262,843)	48,715	-18.5 %
Premiums earned, net	468,443	353,401	115,042	32.6 %
Net investment income (expense)	6,051	3,376	2,675	79.2 %
Net realized gains (losses) on investments	1,344	292	1,052	360.3 %
Commission revenue	12,927	10,757	2,170	20.2 %
Policy fees	13,093	12,003	1,090	9.1 %
Other revenue	4,827	4,614	213	4.6 %
Total premiums earned and other revenues	506,685	384,443	122,242	31.8 %
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	199,749	127,148	72,601	57.1 %
General and administrative expenses	166,780	130,152	36,628	28.1 %
Total operating costs and expenses	366,529	257,300	109,229	42.5 %
INCOME BEFORE INCOME TAXES	140,156	127,143	13,013	10.2 %
Income tax expense	54,400	49,811	4,589	9.2 %
NET INCOME	\$85,756	\$77,332	\$8,424	10.9 %
Other comprehensive income, net of taxes	5,631	(680)	6,311	NM
COMPREHENSIVE INCOME	\$91,387	\$76,652	\$14,735	19.2 %

NM – Not Meaningful

Premiums earned in the current period reflect premiums written over the past 12 months and any changes in rates or policy count during that time. Net premiums earned were \$468.4 million for the nine months ended September 30, 2016, compared to \$353.4 million for the nine months ended September 30, 2015. The increase in net earned premiums of \$115 million, or 32.6%, reflects an increase in direct earned premiums of \$66.3 million and a net decrease in ceded earned premiums of \$48.7 million. The increase in direct earned premiums reflects organic growth in all states as well as rate changes that took effect over the past twelve months.

Our reinsurance programs run from June 1 to May 31 of the following year. In June 2015, we eliminated quota share reinsurance on a cut off basis taking back \$66 million of previously ceded unearned premium and related balances, the effect of which reduced 2015 ceded written premium in our financial statements. Prior to June 1, 2015, we were ceding premiums to our quota share reinsurers at a rate of 30% in our 2014-2015 reinsurance program which is reflected in the results for the nine months ended September 30, 2015. The net decrease in ceded earned premiums of \$48.7 million is attributable to the elimination of quota share reinsurance which reduced ceded earned premium by \$97.5 million, partially offset by an increase in ceded earned premium of \$48.8 million for excess of loss and catastrophe reinsurance due to organic growth.

Net investment income was \$6.1 million for the nine months ended September 30, 2016, compared to \$3.4 million for the same nine months in 2015. The increase in net investment income of \$2.7 million is the result of an increase in our investment portfolio fueled by cash flows generated from operations and actions taken to increase yield by investing these new funds along with maturities in higher yielding securities while maintaining high credit quality.

We sold investment securities available for sale during the nine months ended September 30, 2016 resulting in a net realized gain of \$1.3 million compared to a net realized gain of \$292 thousand during the nine months ended September 30, 2015.

Commission revenue is comprised principally of brokerage commissions we earn from reinsurers on reinsurance placed for the Insurance Entities. For the nine months ended September 30, 2016, commission revenue was \$12.9 million, compared to \$10.8 million for the nine months ended September 30, 2015. The increase in commission revenue of \$2.1 million, or 20.2%, was the result of overall changes in the structure of the reinsurance programs in effect and earned during the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015 including the amount of premiums paid for reinsurance on our exposures and the types of reinsurance contracts used in each program.

Policy fees for the nine months ended September 30, 2016 were \$13 million compared to \$12 million for the same period in 2015. The increase of \$1 million or 9.1% was the result of an increase in the number of policies written during the nine months ended September 30, 2016 compared to the same period in 2015.

Other revenue for the nine months ended September 30, 2016 was \$4.8 million compared to \$4.6 million for the same period in 2015. Other revenue represents revenue from premium financing and other miscellaneous income. The increase of \$200 thousand, or 4.6% was the result of an increase in the number of policies written during the nine months ended September 30, 2016 compared to the same period in 2015 partially offset by reductions in premium financing income from consumer behavior underlying the composition of our insurance portfolio.

Losses and LAE were \$199.7 million for the nine months ended September 30, 2016 compared to \$127.1 million during the same period in 2015. A significant portion of the increase in net losses and LAE of \$72.6 million was driven by the absence of losses and LAE ceded to quota share reinsurers upon the elimination of our quota share reinsurance contracts in June 2015 as discussed above. During the nine months ended September 30, 2015 we ceded \$25.4 million to quota share reinsurers, and negative \$1.7 million during the nine months ended September 30, 2016. Direct losses and LAE also grew by \$45.5 million which, before the impact of weather events discussed below, was proportionally aligned to our increase in premium exposure. Excluding the effect of the severe weather events in the first quarter of 2016, the underlying gross loss ratio in 2016 is slightly higher but otherwise in line with the indications of the most recent actuarial study performed at the end of 2015. Finally, during the third quarter we recorded \$11 million of incremental losses and LAE for severe weather events occurring in 2016. The \$11 million was in addition to amounts already provided for in our underlying loss ratios based on historical loss experience for such events and in addition to the \$8.5 million of losses for weather events recorded in the first quarter of 2016. To date weather events totaling \$19.5 million in 2016 increased our net loss ratio 4.1%. See “Item 1 — Note 14 (Subsequent Events)” for a discussion on Hurricane Matthew. The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 42.6% and 36% during the nine-month periods ended September 30, 2016 and 2015, respectively, and were comprised of the following components (in thousands):

	Nine Months Ended September 30, 2016		
	Direct	Ceded	Net
Losses and loss adjustment expenses	\$ 198,069	\$(1,680)	\$ 199,749
Premiums earned	\$ 682,571	\$ 214,128	\$ 468,443
Loss & LAE ratios	29.0	% (0.8	%) 42.6 %

	Nine Months Ended September 30, 2015					
	Direct		Ceded		Net	
Losses and loss adjustment expenses	\$152,551		\$25,403		\$127,148	
Premiums earned	\$616,244		\$262,843		\$353,401	
Loss & LAE ratios	24.8	%	9.7	%	36.0	%

See “Item 1 — Note 5 (Insurance Operations)” for change in liability for unpaid losses and LAE.

For the nine months ended September 30, 2016, general and administrative expenses were \$166.8 million, compared to \$130.2 million for the same period in 2015. The net increase in general and administrative expenses of \$36.6 million, or 28.1%, includes a \$33.4 million increase in acquisition costs, a \$7.4 million increase in other operating costs and a \$4.2 million decrease in stock-based compensation. The increase in acquisition and operating costs both reflect organic growth in the Company’s business. The increase in acquisition costs also reflects the absence, during 2016, of ceding commission subsequent to the elimination of quotas share reinsurance in June 2015. The expense ratio, or general and administrative expenses as a percentage of net earned premiums, was 35.6% for the nine months ended September 30, 2016 compared to 36.8% for the same period in 2015. The decrease in the expense ratio resulted from the economies of scale caused by our higher premium volume as compared to the prior period and a reduction in stock-based compensation, partially offset by an increase in net acquisition costs resulting from the absence of ceding commission in 2016.

Income taxes increased by \$4.6 million, or 9.2%, primarily as a result of an increase in income before income taxes. The effective tax rate decreased to 38.8% from 39.2% for the nine months ended September 30, 2016 and 2015, respectively. See “Item 1 — Note 9 (Income Taxes)” for an explanation of the changes in effective tax rate.

Comprehensive income includes net income and other comprehensive income or loss. The other comprehensive income or loss for the nine months ended September 30, 2016 and September 30, 2015, reflects after tax changes in fair value of securities held in our portfolio of securities available for sale and reclassification out of cumulative other comprehensive income for securities sold. See “Item 1 — Note 11 (Other Comprehensive Income (Loss)).”

Analysis of Financial Condition—As of September 30, 2016 Compared to December 31, 2015

We believe that cash flows generated from operations will be sufficient to meet our working capital requirements for at least the next twelve months. Our policy is to invest amounts considered to be in excess of current working capital requirements.

The following table summarizes, by type, the carrying values of investments as of the dates presented (in thousands):

Type of Investment	September 30, 2016	December 31, 2015
Fixed maturities	\$ 584,274	\$ 416,083
Equity securities	44,240	42,214
Short-term investments	5,003	25,021
Investment real estate, net	10,384	6,117
Total	\$ 643,901	\$ 489,435

See “Item 1 — Condensed Consolidated Statements of Cash Flows” for explanations of changes in investments.

Prepaid reinsurance premiums represent the portion of unearned ceded written premiums that will be earned pro-rata in the future. The increase of \$84.2 million to \$198.9 million includes the effect of an out-of-period adjustment reflected in the three and nine month periods ended September 30, 2016 as discussed “Item 1 — Note 15 (Out-of-period Adjustment)”.

Reinsurance recoverable represents the estimated amount of losses and LAE that are recoverable from reinsurers. The decrease of \$22.9 million to \$0.0 million was primarily due to the general wind down of the quota share since it was terminated in June 2015 and the commutation and settlement of amounts previously ceded to one of the Company’s quota share reinsurers which was finalized on the third quarter.

Premiums receivable represents amounts receivable from policyholders. The increase in premiums receivable of \$9.6 million to \$60.6 million relates to the growth in the Company’s business.

Income taxes recoverable represent amounts due from Federal and state tax jurisdictions and arise when tax payments exceed taxable income. The tax amount due from Federal income taxes of \$5.4 million as of December 31, 2015 was settled with a refund received from the Department of Treasury during 2016. The amount of \$10.6 million due from both Federal and State tax jurisdictions as of September 30, 2016 will be applied against fourth quarter estimated taxes due in December 2016.

Deferred tax assets and liabilities represent temporary differences between U.S. GAAP and tax basis of a company's assets and liabilities. During the nine months ended September 30, 2016 deferred tax assets decreased by \$12.0 million primarily due to fluctuations in unrealized gains and losses, deferred policy acquisition costs, and equity based compensation.

See “Item 1 — Note 5 (Insurance Operations)” for a roll-forward in the balance of our deferred policy acquisition costs, net.

See “Item 1 — Note 5 (Insurance Operations)” for a roll-forward in the balance of our unpaid losses and LAE. Unpaid losses and loss adjustment expenses decreased \$44.6 million to \$54.2 million during the nine months ended September 30, 2016. This reduction was the result of continuing initiatives to expedite claims payments including the ability of our mobile claims teams to rapidly settle certain claims, which we refer to as “Fast Track”.

Unearned premiums represent the portion of direct written premiums that will be earned pro rata in the future. The increase of \$59.2 million to \$501.6 million as of September 30, 2016 reflects both organic growth and seasonality of our business as described under “– Overview”.

Advance premium represents premium payments made by policyholders ahead of the effective date of the policies. The increase of \$3.9 million to \$28.7 million as of September 30, 2016 reflects both organic growth and seasonality of our business as described under “– Overview”.

Reinsurance payable increased to \$211.9 million as a result of amounts accrued during 2016 in connection with the Company’s 2016 –2017 reinsurance treaties which we entered into as of June 1, 2016 and includes the effect of an out-of-period adjustment reflected in the three and nine month periods ended September 30, 2016 as discussed “Item 1 — Note 15 (Out-of-Period Adjustment)”.

Other liabilities and accrued expense increased by \$5.6 million primarily due to payables relating to security purchases settled after September 30, 2016.

Long-term debt was reduced by \$8.7 million primarily as a result of the cancellation of the Renaissance Re Ventures Ltd. Term Loan. See “– Liquidity and Capital Resources” for further discussion.

See “– Liquidity and Capital Resources” for explanation of changes in treasury shares.

Additional paid-in-capital increased \$9.6 million resulting from the reissuance of treasury shares pursuant to the RenaissanceRe Ventures Ltd. (“RenRe”) sale of UVE common stock of \$7.7 million and share-based compensation expense for the nine months ended September 30, 2016 of \$8.4 million. This was offset by tax withholdings for share-based compensation of \$4.9 million and a tax shortfall for share-based compensation of \$1.6 million.

Accumulated other comprehensive income (loss), net of taxes increased to \$1.6 million, an increase of \$5.6 million from year end. This improvement reflects the overall improvement in unrealized gains in the investment portfolio since year end.

Liquidity and Capital Resources

Liquidity

Liquidity is a measure of a company’s ability to generate sufficient cash flows to meet its short and long-term obligations. Funds generated from operations have been sufficient to meet our liquidity requirements and we expect that in the future funds from operations will continue to meet such requirements.

The balance of cash and cash equivalents as of September 30, 2016, was \$205.2 million compared to \$197.0 million at December 31, 2015. See “Item 1 — Condensed Consolidated Statements of Cash Flows” for a reconciliation of the balance of cash and cash equivalents between September 30, 2016, and December 31, 2015. The increase in cash and cash equivalents was driven by cash flows generated from profits and operations in excess of those used for investing and financing activities. Most of the balance of cash and cash equivalents maintained is available to pay claims in the event of a catastrophic event in addition to any amounts recovered under our reinsurance agreements.

The balance of restricted cash and cash equivalents as of September 30, 2016, and December 31, 2015 includes cash equivalents on deposit with regulatory agencies in the various states in which our Insurance Entities do business.

As discussed in “Item 1 — Note 6 (Long-Term Debt),” UVE entered into a revolving loan agreement and related revolving note (“DB Loan”) with Deutsche Bank Trust Company Americas (“Deutsche Bank”) in March 2013, which was most recently amended in July 2015. The DB Loan makes available to UVE an unsecured line of credit in an aggregate amount not to exceed \$15 million. Draws under the DB Loan have a maturity date of July 31, 2017 and carry an interest rate of LIBOR plus a margin of 5.50% or Deutsche Bank’s prime rate plus a margin of 3.50%, at the election of UVE. The DB Loan contains certain covenants and restrictions applicable while amounts are outstanding thereunder, including limitations with respect to our indebtedness, liens, distributions, mergers or dispositions of assets, organizational structure, transactions with affiliates and business activities. As of September 30, 2016, UVE was in compliance with all such covenants, and no amounts have been drawn under this unsecured line of credit.

In May 2013, UVE also entered into a \$20 million unsecured term loan agreement and related term note (“Term Loan”) with RenRe also discussed in “Item 1 — Note 6 (Long-Term Debt).” The Term Loan bears interest at the rate of 50 basis points per annum and matures on the earlier of May 23, 2016, or the date that all principal under the Term Loan is prepaid or deemed paid in full. The Term Loan is amortized over the three-year term and UVE may prepay the loan without penalty. The Term loan contains certain covenants and restrictions applicable while amounts are outstanding thereunder, including limitations with respect to our indebtedness, liens, distributions, mergers or dispositions of assets, organizational structure, transactions with affiliates and business activities. On April 28, 2016, the Company repaid the Term Loan in connection with the sale of \$10 million of UVE common stock to RenRe. Refer to “Item 1 — Note 6 (Long-Term Debt) and Note 7 (Stockholders’ Equity)” for details on the cancellation of the Term Loan.

Liquidity for UVE and its non-insurance subsidiaries is required to cover the payment of general operating expenses, dividends to shareholders (if and when authorized and declared by our Board of Directors), payment for the possible repurchase of our common stock (if and when authorized by our Board of Directors), payment of income taxes, and interest and principal payments on debt obligations. The declaration and payment of future dividends by UVE to its shareholders, and any future repurchases of UVE common stock, will be at the discretion of our Board of Directors and will depend upon many factors, including our operating results, financial condition, debt covenants and any regulatory constraints. Principal sources of liquidity for UVE and its non-insurance subsidiaries include revenues generated from fees paid by the Insurance Entities to affiliated companies for policy administration, inspections and claims adjusting services. Additional sources of liquidity include brokerage commissions earned on reinsurance contracts and any unused credit lines. UVE also maintains investments in equity securities which would generate funds upon sale. As discussed in “Item 1 – Note 5 (Insurance Operations),” there are limitations on the dividends the Insurance Entities may pay to their immediate parent company.

Liquidity for the Insurance Entities is primarily required to cover payments for reinsurance premiums, claims payments including potential payments of catastrophe losses offset by recovery of any reimbursement amounts under our reinsurance agreements, fees paid to affiliates for managing general agency services, inspections and claims adjusting services, agent commissions, premiums and income taxes, regulatory assessments, general operating expenses, and interest and principal payments on debt obligations. The principal source of liquidity for the Insurance Entities consists of the revenue generated from the collection of net premiums, after deductions for expenses and the collection of reinsurance recoverable.

The Insurance Entities maintain substantial investments in highly liquid, marketable securities which would generate funds upon sale.

Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks, and facilitate continued business growth. At September 30, 2016, we had total capital of \$388.7 million, comprised of stockholders' equity of \$373.3 million and total long-term debt of \$15.4 million. Our debt-to-total-capital ratio and debt-to-equity ratio were 4.0% and 4.1%, respectively, at September 30, 2016. At December 31, 2015, we had total capital of \$317.2 million, comprised of stockholders' equity of \$293.1 million and total long-term debt of \$24.1 million. Our debt-to-total-capital ratio and debt-to-equity ratio were 7.6% and 8.2%, respectively, at December 31, 2015.

As described in our Form 10-K for the year ended December 31, 2015, UPCIC entered into a surplus note with the State Board of Administration of Florida under Florida's Insurance Capital Build-Up Incentive Program. The surplus note has a twenty-year term, with quarterly payments of principal and interest that accrues per the terms of the note agreement. At September 30, 2016, UPCIC was in compliance with the terms of the surplus note. Total adjusted capital surplus was in excess of regulatory requirements for both UPCIC and APPCIC.

On June 13, 2016, the Company announced that its Board of Directors authorized the repurchase of up to \$20 million of the Company's outstanding common stock through December 31, 2017. The Company may repurchase shares from time to time at its discretion, based on ongoing assessments of the capital needs of the Company, the market price of its common stock and general market conditions. The Company will fund the share repurchase program with cash from operations. This new authorization follows completion of the Board authorized share repurchase program announced on November 19, 2015, pursuant to which the Company repurchased 527,107 shares of common stock at an average price of \$18.93 per share on the open market. The Company financed the share repurchases under the program using cash on hand.

On April 28, 2016, the Company entered into a Purchase and Exchange Agreement with RenRe, pursuant to which the Company sold an aggregate of 583,771 shares of common stock at a purchase price of \$17.13 per share for a total of \$10 million, which was comprised of \$2,965,000 in cash and \$7,035,000 in cancellation of outstanding indebtedness.

During the nine months ended September 30, 2016, we repurchased an aggregate of 437,107 shares of UVE's common stock in the open market. Also see "Part II, Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds" for share repurchase activity during the three months ended September 30, 2016.

Cash Dividends

On January 14, 2016, we declared a cash dividend of \$0.14 per share on our outstanding common stock which was paid on March 2, 2016, to the shareholders of record at the close of business on February 18, 2016.

On April 13, 2016, we declared a cash dividend of \$0.14 per share on our outstanding common stock which was paid on July 5, 2016 to shareholders of record at the close of business on June 15, 2016.

On August 31, 2016, we declared a cash dividend of \$0.14 per share on our outstanding common stock which was paid on October 24, 2016 to shareholders of record at the close of business on September 12, 2016.

Contractual Obligations

The following table represents our contractual obligations for which cash flows are fixed or determinable as of September 30, 2016 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	Over 5 years
Unpaid losses and LAE, direct (1)	\$54,209	\$31,333	\$15,287	\$5,746	\$1,843
Long-term debt	15,837	1,265	3,311	3,222	8,039
Operating leases	396	165	231	—	—
Total contractual obligations	\$70,442	\$32,763	\$18,829	\$8,968	\$9,882

(1) There are generally no notional or stated amounts related to unpaid losses and LAE. Both the amounts and timing of future loss and LAE payments are estimates and subject to the inherent variability of legal and market conditions affecting the obligations and making the timing of cash outflows uncertain. The ultimate amount and timing of unpaid losses and LAE could differ materially from the amounts in the table above. Further, the unpaid losses and LAE do not represent all of the obligations that will arise under the contracts, but rather only the estimated liability incurred through September 30, 2016.

Critical Accounting Policies and Estimates

Other than as disclosed in “Item 1 — Note 2 (Significant Accounting Policies),” there have been no material changes during the period covered by this Quarterly Report on Form 10-Q to Critical Accounting Policies and Estimates previously disclosed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Accounting Pronouncements Not Yet Adopted

In August 2016, the Financial Accounting Standards Board (“FASB”) issued guidance intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new guidance will apply to: 1) debt prepayment or debt extinguishment costs, 2) settlement of zero-coupon debt instruments, 3) contingent consideration payments made after business combination, 4) proceeds from the settlement of insurance claims, 5) proceeds from the settlement of corporate-owned life insurance policies, 6) distributions received from equity method investments, 7) beneficial interests in securitization transactions, and 8) separately identifiable cash flows and application of the predominance principle. The guidance is effective in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In June 2016, the FASB issued guidance that introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new guidance will apply to: 1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, 2) loan commitments and certain other off-balance sheet credit exposures, 3) debt securities and other financial assets measured at fair value through other comprehensive income, and 4) beneficial interests in securitized financial assets. The guidance is effective in

fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In March 2016, the FASB issued guidance that will change certain aspects of accounting for share-based payments to employees. The new guidance will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It also will allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. The guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted in any annual or interim period for which financial statements haven't been issued or made available for issuance, but all of the guidance must be adopted in the same period. The adoption of this guidance is not expected to have a material effect on our results of operations, financial position or liquidity.

In January 2016, the FASB issued guidance on recognition and measurement of financial instruments. The new guidance requires certain equity investments to be measured at fair value with changes in fair value reported in earnings and requires changes in instrument-specific credit risk for financial liabilities recorded at fair value under the fair value option to be reported in other comprehensive income ("OCI"). The new guidance is effective in fiscal years beginning after December 15, 2017, with early adoption permitted for the provisions related to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in OCI.

In May 2015, the FASB issued guidance addressing enhanced disclosure requirements for insurers relating to short-duration insurance contract claims and the unpaid claims liability rollforward for long and short-duration contracts. The disclosures are intended to provide users of financial statements with more transparent information about an insurance entity's initial claim estimates and subsequent adjustments to those estimates, the methodologies and judgments used to estimate claims, and the timing, frequency, and severity of claims. The guidance is effective for annual reporting periods beginning after December 15, 2015. Early application is permitted. The adoption of this guidance will result in additional disclosure but is not expected to impact our results of operations, financial position or liquidity.

Related Party Transactions

See "Item 1 — Note 8 (Related Party Transactions)" for information about related party transactions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the potential for economic losses due to adverse changes in fair value of financial instruments. We carry all of our investments at market value in our statement of financial condition. Our investment portfolio as of September 30, 2016, is comprised of fixed maturities and equity securities exposing us to changes in interest rates and equity prices.

Our investment objectives with respect to fixed maturities are to maximize after-tax investment income without exposing the surplus of our Insurance Entities to excessive volatility. Our investment objectives with respect to equity securities are to enhance our long-term surplus levels through capital appreciation and earn a competitive rate of total return versus appropriate benchmarks. We cannot provide any assurance that we will be able to achieve our investment objectives. None of our investments in risk sensitive instruments were entered into for trading purposes.

See "Item 1 – Note 3 (Investments)" for more information about our investments.

Interest Rate Risk

Interest rate risk is the sensitivity of a fixed-rate instrument to changes in interest rates. When interest rates rise, the fair value of our fixed-rate investment securities declines.

The following table provides information about our fixed income investments, which are sensitive to changes in interest rates. The table presents cash flows of principal amounts and related weighted average interest rates by expected maturity dates for investments available for sale as of the dates presented (in thousands):

	September 30, 2016								Fair Value
	Amortized Cost								Total
	2016	2017	2018	2019	2020	Thereafter	Other (1)	Total	Total
Fixed income	\$4,782	\$51,914	\$52,043	\$78,482	\$38,589	\$124,744	\$233,517	\$584,071	\$589,277

investments																		
Weighted average interest rate																		
	3.34	%	2.02	%	2.16	%	1.96	%	2.14	%	3.57	%	2.90	%	2.72	%	2.72	%
December 31, 2015																		
	Amortized Cost									Fair Value								
	2016	2017	2018	2019	2020	Thereafter	Other (1)	Total		Total								
Fixed income investments																		
	\$57,229	\$53,023	\$78,272	\$61,659	\$30,634	\$86,605	\$76,212	\$443,634		\$441,104								
Weighted average interest rate																		
	1.12	%	2.09	%	1.65	%	1.70	%	1.93	%	3.23	%	1.65	%	1.96	%	1.95	%

(1) Comprised of mortgage-backed and asset-backed securities that have multiple maturity dates, and perpetual maturity securities, and are presented separately for the purposes of this table.

The tables above represent average contract rates that differ from the book yield of the fixed maturities. The fixed income investments in our available for sale portfolio are comprised of United States government and agency securities, corporate bonds, redeemable preferred stock, mortgage-backed and asset-backed securities, municipal securities and certificates of deposit. Duration is a measure of interest rate sensitivity expressed as a number of years. The weighted average duration of the fixed maturity investments in our available for sale portfolio at September 30, 2016 was 3.1 years.

To a lesser extent, we also have exposure to interest on our debt obligations which are in the form of a surplus note, and on any amounts we draw under the DB Loan. The surplus note accrues interest at an adjustable rate based on the 10-year Constant Maturity Treasury rate. Draws under the DB Loan accrue interest at a rate based on LIBOR or Deutsche Bank's prime rate plus an applicable margin.

Equity Price Risk

Equity price risk is the potential for loss in fair value of investments in common stock and mutual funds from adverse changes in the prices of those instruments.

The following table provides information about the investments in our available for sale portfolio subject to price risk as of the dates presented (in thousands):

	September 30, 2016		December 31, 2015	
	Fair		Fair	
	Value	Percent	Value	Percent
Equity securities:				
Common stock	\$10,836	24.5 %	\$10,762	25.5 %
Mutual funds	33,404	75.5 %	31,452	74.5 %
Total equity securities	\$44,240	100.0 %	\$42,214	100.0 %

A hypothetical decrease of 20% in the market prices of each of the equity securities held at September 30, 2016 and December 31, 2015 would have resulted in a decrease of \$8.8 million and \$8.4 million, respectively, in the fair value of those securities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of September 30, 2016, to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

In view of the out-of-period adjustment discussed in “Item 1 — Note 15 (Out-of-period Adjustment)” of the Condensed Consolidated Financial Statements, our Chief Executive Officer and Chief Financial Officer, in consultation with other senior management and its advisors, reevaluated the effectiveness of our disclosure controls and procedures as of March 31, 2016 and June 30, 2016, as well as the effectiveness of our internal control over financial reporting as of December 31, 2015. The out-of-period adjustment was made based upon management’s discovery in the third quarter of 2016 of a misapplication of GAAP in interim reporting that had no effect on current or prior period earnings, equity or cash flows. Annual reporting was also not affected.

In view of the isolated nature of the misstatement – relating only to recognizing the existence of Ceded premiums written, with no effect on Ceded premiums earned – and the resulting immaterial misstatement of interim condensed and consolidated income statements and balance sheets, the CEO and CFO determined that while the misstatement was caused by a control deficiency, such deficiency did not rise to the level of a material weakness. The nature of the misstatement – an operational control involving the incorrect interpretation of GAAP as it relates to the accrual of Ceded premiums written in interim periods, and related assets and liabilities – could not have resulted in a material misstatement of the company’s annual or interim financial statements. Based on this assessment, our Chief Executive Officer and Chief Financial Officer have concluded that internal control over financial reporting as of December 31, 2015 was effective, and disclosure controls and procedures as of March 31, 2016 and June 30, 2016 were effective.

Changes in Internal Control Over Financial Reporting

There was no change in the Company’s internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 1A. Risk Factors

In the opinion of management, there have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors previously disclosed in Part I, Item 1A, "Risk Factors," included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

A summary of UVE's repurchases of common stock for the three months ended September 30, 2016 is as follows:

	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs (2)
7/1/16 - 7/31/16	—	\$—	—	—
8/1/16 - 8/31/16	70,000	\$ 21.23	70,000	715,426
9/1/16 - 9/30/16	—	\$—	—	—
Total	70,000	\$ 21.23	70,000	715,426

(1) Average price paid per share does not reflect brokerage commissions paid to acquire shares in open market transactions.

(2) Number of shares was calculated using a closing price at September 30, 2016 of \$25.20 per share.

In November 2015, we announced that the Board of Directors authorized a share repurchase program under which the Company may repurchase in the open market in compliance with Exchange Act Rule 10b-18 under the Securities Exchange Act of 1934, as amended, up to \$10 million of its outstanding shares of common stock through December 31, 2016. Since November 2015, we have repurchased 527,107 shares pursuant to this program at an aggregate cost of \$10.0 million. We completed this repurchase program in June 2016.

In June 2016, we announced that the Board of Directors authorized a share repurchase program under which the Company may repurchase in the open market in compliance with Exchange Act Rule 10b-18 under the Securities Exchange Act of 1934, as amended, up to \$20 million of its outstanding shares of common stock through December 31, 2017. We have repurchased 95,000 shares pursuant to this program through September 30, 2016 at an aggregate cost of approximately \$2.0 million.

Item 6. Exhibits

Exhibit No.	Exhibit
15.1	Accountants' Acknowledgment
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS-XBRL	Instance Document
101.SCH-XBRL	Taxonomy Extension Schema Document
101.CAL-XBRL	Taxonomy Extension Calculation Linkbase Document
101.DEF-XBRL	Taxonomy Extension Definition Linkbase Document
101.LAB-XBRL	Taxonomy Extension Label Linkbase Document
101.PRE-XBRL	Taxonomy Extension Presentation Linkbase Document

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.

UNIVERSAL INSURANCE HOLDINGS, INC.

Date: November 4, 2016 /s/ Sean P. Downes
Sean P. Downes, Chief Executive Officer and Principal Executive Officer

Date: November 4, 2016 /s/ Frank C. Wilcox
Frank C. Wilcox, Chief Financial Officer and Principal Accounting Officer