

UNITED INSURANCE HOLDINGS CORP.
Form 10-Q
November 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015
Commission File Number 001-35761

United Insurance Holdings Corp.
(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

75-3241967
(IRS Employer Identification Number)

360 Central Avenue, Suite 900
St. Petersburg, Florida 33701
(Address, including zip code, of principal executive offices)
727-895-7737
(Registrant's telephone number, including area code)

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

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

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

| | | | |
|-------------------------|---|---------------------------|---|
| Large accelerated filer | £ | Accelerated filer | þ |
| Non-accelerated filer | £ | Smaller reporting company | £ |

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

As of November 5, 2015; 21,527,817 shares of common stock, par value \$0.0001 per share, were outstanding.

UNITED INSURANCE HOLDINGS CORP.

PART I. FINANCIAL INFORMATION

| | |
|---|-----------|
| Item 1. Financial Statements | <u>4</u> |
| Consolidated Balance Sheets | <u>4</u> |
| Unaudited Consolidated Statements of Comprehensive Income | <u>5</u> |
| Unaudited Consolidated Statements of Cash Flows | <u>6</u> |
| Notes to Unaudited Consolidated Financial Statements | <u>7</u> |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>26</u> |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | <u>39</u> |
| Item 4. Controls and Procedures | <u>39</u> |

PART II. OTHER INFORMATION

| | |
|---|-----------|
| Item 1. Legal Proceedings | <u>40</u> |
| Item 1A. Risk Factors | <u>40</u> |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | <u>40</u> |
| Item 3. Defaults Upon Senior Securities | <u>41</u> |
| Item 4. Mine Safety Disclosures | <u>41</u> |
| Item 5. Other Information | <u>41</u> |
| Item 6. Exhibits | <u>42</u> |
| Signatures | <u>43</u> |

Throughout this Form 10-Q, we present amounts in all tables in thousands, except for share amounts, per share amounts, policy counts or where more specific language or context indicates a different presentation. In the narrative sections of this Quarterly Report, we show full values rounded to the nearest thousand.

UNITED INSURANCE HOLDINGS CORP.

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q as of September 30, 2015, and for the three and nine months ended September 30, 2015 (Form 10-Q) or in documents incorporated by reference that are not historical fact are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity, and our ability to meet our investment objectives and to manage and mitigate market risk with respect to our investments. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management’s beliefs and assumptions. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue” or the negative variations thereof or comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the regulatory, economic and weather conditions present in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost and availability of reinsurance;
- assessments charged by various governmental agencies;
- pricing competition and other initiatives by competitors;
- our ability to attract and retain the services of senior management;
- the outcome of litigation pending against us, including the terms of any settlements;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- our exposure to catastrophic events and severe weather conditions;
- downgrades in our financial strength ratings; and
- other risks and uncertainties described in the section entitled "Risk Factors" in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014 and in Part II, Item 1A of this Form 10-Q.

We caution you not to place reliance on these forward-looking statements, which are valid only as of the date they were made. We undertake no obligation to update or revise any forward-looking statements to reflect new information or the occurrence of unanticipated events or otherwise. In addition, we prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP), which prescribes when we may reserve for particular risks, including litigation exposures. Accordingly, our results for a given reporting period could be significantly affected if and when we establish a reserve for a major contingency. Therefore, the results we report in certain accounting periods may appear to be volatile.

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us described in our filings with the SEC. The forward-looking events that we discuss in our Form 10-Q are valid only as of the date of our Form 10-Q and may not occur in light of the risks, uncertainties and assumptions that we describe from time to time in our filings with the SEC. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our forward-looking statements is included in the section entitled “RISK FACTORS” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2014 and in Part II, Item 1A of this Form 10-Q. Except as required by applicable law, we undertake no obligation and disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

UNITED INSURANCE HOLDINGS CORP.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| | (Unaudited) | |
| ASSETS | | |
| Investments available for sale, at fair value: | | |
| Fixed maturities (amortized cost of \$415,605 and \$350,063, respectively) | \$418,399 | \$352,630 |
| Equity securities (adjusted cost of \$22,896 and \$22,278, respectively) | 24,303 | 25,987 |
| Other investments (amortized cost of \$2,734 and \$2,749, respectively) | 3,036 | 3,010 |
| Total investments | \$445,738 | \$381,627 |
| Cash and cash equivalents | 84,341 | 61,391 |
| Accrued investment income | 2,565 | 2,239 |
| Property and equipment, net | 15,343 | 8,022 |
| Premiums receivable, net | 46,389 | 31,369 |
| Reinsurance recoverable on paid and unpaid losses | 2,804 | 2,068 |
| Prepaid reinsurance premiums | 120,657 | 63,827 |
| Goodwill | 4,196 | — |
| Deferred policy acquisition costs | 46,928 | 31,925 |
| Other assets | 11,719 | 1,701 |
| Total Assets | \$780,680 | \$584,169 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses | \$71,943 | \$54,436 |
| Unearned premiums | 299,419 | 229,486 |
| Reinsurance payable | 118,440 | 45,254 |
| Other liabilities | 51,048 | 37,701 |
| Notes payable | 12,647 | 13,529 |
| Total Liabilities | \$553,497 | \$380,406 |
| Commitments and contingencies (Note 9) | | |
| Stockholders' Equity: | | |
| Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued or outstanding | — | — |
| Common stock, \$0.0001 par value; 50,000,000 shares authorized; 21,739,900 and 21,116,497 issued; 21,527,817 and 20,904,414 outstanding for 2015 and 2014, respectively | 2 | 2 |
| Additional paid-in capital | 96,718 | 82,380 |
| Treasury shares, at cost; 212,083 shares | (431) | (431) |
| Accumulated other comprehensive income | 2,763 | 4,011 |
| Retained earnings | 128,131 | 117,801 |
| Total Stockholders' Equity | \$227,183 | \$203,763 |
| Total Liabilities and Stockholders' Equity | \$780,680 | \$584,169 |

See accompanying Notes to Unaudited Consolidated Financial Statements.

4

UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Comprehensive Income
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| REVENUE: | | | | |
| Gross premiums written | \$155,985 | \$105,065 | \$425,183 | \$322,986 |
| Increase in gross unearned premiums | (27,252) | (4,214) | (60,286) | (29,901) |
| Gross premiums earned | 128,733 | 100,851 | 364,897 | 293,085 |
| Ceded premiums earned | (44,730) | (35,741) | (122,394) | (99,757) |
| Net premiums earned | 84,003 | 65,110 | 242,503 | 193,328 |
| Investment income | 2,413 | 1,807 | 6,725 | 4,891 |
| Net realized gains (losses) | | | | |