UNITED INSURANCE HOLDINGS CORP.
Form 10-K
March 18, 2019

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
Commission File Number 001-35761
United Insurance Holdings Corp.
(Exact Name of Registrant as Specified in Its Charter)

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

800 2nd Avenue S
St. Petersburg, Florida 33701
(Address of Principal Executive Offices, including Zip Code)
727-895-7737
(Telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.0001 par value per share	Nasdaq Stock Market LLC

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes £ No R
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No R
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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes R No £
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	£	Accelerated filer	þ
Non-accelerated filer	£	Smaller reporting company	£
		Emerging growth company	£

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. £
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No R

The aggregate market value of shares of the registrant's common stock held by non–affiliates of the registrant was approximately $393,570,120 as of June 29, 2018, calculated using the closing sales price reported for such date on the Nasdaq Stock Market. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 8, 2019, 42,983,953 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

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

FORWARD-LOOKING STATEMENTS

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

- our exposure to catastrophic events and severe weather conditions;
- the regulatory, economic and weather conditions present in Florida, the state in which we are most concentrated;
- our ability to cultivate and maintain agent relationships, particularly our relationship with AmRisc, LLC (AmRisc);
- the possibility that actual claims incurred may exceed our loss reserves for claims;
- assessments charged by various governmental agencies;
- our ability to implement and maintain adequate internal controls over financial reporting;
- our ability to maintain information technology and data security systems, and to outsource relationships;
- our reliance on key vendor relationships, and the ability of our vendors to protect the personal information of our customers;
- our ability to attract and retain the services of senior management;
- risks and uncertainties relating to our acquisitions, including our ability to successfully integrate the acquired companies;
- our ability to generate sufficient cash to service all of our indebtedness and comply with covenants related to our indebtedness;
- our ability to increase or maintain our market share;
- changes in the regulatory environment present in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost, viability and availability of reinsurance;
- our ability to collect from our reinsurers on our reinsurance claims;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- the possibility of the pricing and terms for our products to decline due to the historically cyclical nature of the property and casualty insurance and reinsurance industry;
- the outcome of litigation pending against us, including the terms of any settlements;
- downgrades in our financial strength ratings;
- the impact of future transactions of substantial amounts of our common stock by us or our significant stockholders on our stock price;
- our ability to pay dividends in the future;
- the ability of R. Daniel Peed and his affiliates to exert significant control over us due to substantial ownership of our common stock, subject to certain restrictive covenants that may restrict our ability to pursue certain opportunities; and
- the other risks identified in this report, including under “Risk Factors” in Part I, Item 1A.

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

PART I

Item 1. Business

INTRODUCTION

Company Overview

United Insurance Holdings Corp. (referred to in this Form 10-K as we, our, us, the Company or UPC Insurance) is a holding company primarily engaged in the residential personal and commercial property and casualty insurance business in the United States. Our largest insurance subsidiary is United Property & Casualty Insurance Company (UPC), and we also write business through American Coastal Insurance Company (ACIC), Family Security Insurance Company (FSIC), Interboro Insurance Company (IIC), and Journey Insurance Company (JIC). Our insurance subsidiaries provide personal residential and commercial property and casualty insurance products that protect our policyholders against losses due to damages to structures and their contents. Some of our insurance subsidiaries sell policies that protect against liability for accidents as well as property damage. Our non-insurance subsidiaries support our insurance and investment operations.

As of December 31, 2018, approximately 41.2 % of our policies in-force were written in Florida. We also write in Connecticut, Georgia, Hawaii, Louisiana, Massachusetts, New Jersey, New York, North Carolina, Rhode Island, South Carolina, and Texas. We are licensed to write, but have not commenced writing business, in Alabama, Delaware, Maryland, Mississippi, New Hampshire, and Virginia. A fundamental part of our strategy is to diversify our operations outside of Florida and to write in multiple states where the perceived threat of natural catastrophe has caused large national insurance carriers to reduce their concentration of policies. We believe an opportunity exists for UPC Insurance to write profitable business in such areas.

We manage our risk of catastrophic loss primarily through sophisticated underwriting procedures and pricing algorithms, avoidance of policy concentration, and the use of a comprehensive catastrophe reinsurance program. UPC Insurance has been operating continuously since 1999, and has successfully managed its business through various hurricanes, tropical storms, and other weather-related events. We believe our record of successful risk management and experience in writing business in catastrophe-exposed areas provides us with a competitive advantage as we grow our business in other states facing similar perceived threats.

On April 3, 2017, the Company acquired AmCo Holding Company (AmCo) and its subsidiaries through a series of mergers that ultimately resulted in the Company issuing 20,956,355 shares of its common stock as merger consideration to the equity holders of RDX Holding, LLC, the former parent company of AmCo.

On August 30, 2018, the Company, in strategic partnership with RJ Kiln & Co. (No. 3 Limited) (Kiln), a subsidiary of Tokio Marine Kiln Group Limited, formed JIC. The Company owns 66.7% of JIC, while Kiln owns 33.3%.

Financial strength or stability ratings are important to insurance companies in establishing their competitive position and may impact an insurance company's ability to write policies. We are rated by Demotech, AM Best, and Kroll Bond Rating Agency (Kroll). Demotech maintains a letter-scale financial stability rating system ranging from A'' (A double prime) to L (licensed by insurance regulatory authorities). AM Best maintains a letter-scale financial strength rating system ranging from A++ (Superior) to S (suspended). Kroll maintains a letter-scale financial strength rating system for insurance companies ranging from AAA (extremely strong operations and no risk) to R (operating under regulatory supervision). The financial strength or stability ratings of our insurance company subsidiaries as of December 31, 2018 are listed below. With these ratings, we expect our property insurance policies will be acceptable to the secondary mortgage marketplace and mortgage lenders.

Subsidiary	Demotech Rating	AM Best	Kroll Rating
UPC	A		A-
ACIC	A'		A-
FSIC	A		A-
IIC	A		A-
JIC		A-	

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As of December 31, 2018, we had 293 employees. We are not party to any collective bargaining agreements and we have not experienced any work stoppages or strikes as a result of labor disputes. We believe we have good working relationships with our employees.

Our Strategy

Our vision is to be the premier provider of property insurance in catastrophe exposed areas. Historically, we have advanced our vision through strong organic growth complemented by strategic acquisitions. Going forward, we plan to continue to diversify our exposure both by product and by geography.

Our emphasis on growing in areas with an ongoing threat of natural catastrophes exposes our company to risk and volatility. We manage the inherent volatility associated with our risk profile in three primary ways: strategically, financially and operationally.

Strategic Risk Management

UPC Insurance uses a strategic approach to manage inherent volatility through geographic and product diversification. In 2018, we continued to grow our premium base in our existing states. Our gross written premiums increased by 20% in 2018 compared to 2017. This is primarily a reflection of organic growth in new and renewal business generated in all regions. We will continue to evaluate opportunities to expand our product offerings into states where we can leverage existing distribution capabilities. Primary factors considered in the evaluation of a potential new state include weather-related catastrophe history, the legal climate, and the competitive state of the market. Refer to “Geographic Markets” below for further information on our geographic distribution.

Financial Risk Management

We take a financial approach to manage risk using robust reinsurance programs, low financial leverage and a conservative investment approach. UPC Insurance has several reinsurance programs in place including quota share, catastrophe excess-of-loss, and aggregate catastrophe. During 2018, our excess-of-loss reinsurance program covered all four of our wholly-owned insurance subsidiaries, gaining synergies in reinsurance costs and increasing our coverage limits for the June 1, 2018 to May 31, 2019 program year. Refer to Note 9 in our Notes to Consolidated Financial Statements in Part II, Item 8 of this report for further details on our reinsurance program.

We also limit our financial leverage. In December 2017, the Company issued $150,000,000 of senior notes, the proceeds of which we have used to support our growth initiatives, such as forming JIC. We have a debt covenant in place which requires us to maintain a financial leverage of less than 30%, and we believe that this is a conservative limit to our leverage. As of December 31, 2018, our financial leverage was 23%. Refer to Note 11 in our Notes to Consolidated Financial Statements in Part II, Item 8 of this report for further details on our debt offerings.

We follow a conservative investment approach using two outside investment management companies. Each manager has the authority and discretion to manage our investments, subject to the investment guidelines established by the Investment Committee of our Board of Directors and the direction of management. Our portfolio is primarily invested in short-term and intermediate-term, investment-grade fixed-income securities. Our investment portfolio had a fair value of $951,836,000 at December 31, 2018, compared to $854,531,000 at December 31, 2017 with approximately 87.2% of our fixed maturities invested in U.S. Treasuries, or corporate bonds rated “A” or better. Refer to Note 3 in our Notes to Consolidated Financial Statements in Part II, Item 8 of this report for further information on our investment policies.

Operational Risk Management

Finally, we use an operational approach to manage risk by in-sourcing key insurance functions and establishing strong external distribution partnerships. During 2018, we continued to focus on the development of our internal claims department function. In 2017, we created a robust “UPC University” training program for our incoming claims adjusters, focused on providing world class service to our policyholders. In addition, we have leveraged our investments in internally developed claims and policy administration systems and analytics to manage exposure growth and improve profitability.

In addition, we have taken two initiatives to monitor our risk management strategy related to loss activity. We have a five-person actuarial department whose primary focus is to manage risk for our company. Also, at the end of 2017, we formed a new entity, Skyway Reinsurance Services, LLC to insource our reinsurance intermediary function as part of our risk management strategy.

We have also leveraged our current partnerships and added new strategic external partnerships to expand distribution and service capabilities in all states in which we operate. Refer to “Products and Distribution” below for further details on our external partnerships.

PRODUCTS AND DISTRIBUTION

In 2017 and 2018, we continued to diversify our product mix, including through our merger with AmCo, which resulted in an increase in our commercial products from 3% of our product mix at December 31, 2016 to 28% of our product mix at December 31, 2018.

Personal Residential Products

Policies we issue under our homeowners’ program provide structure, content and liability coverage for standard single-family homeowners, renters and condominium unit owners. Personal residential products are offered in all states in which we write business.

In 2018, personal residential property policies (by which we mean both standard homeowners’, dwelling fire, renters and condo owners’ policies) produced written premium of $871,307,000 and accounted for 70% of our total gross written premium. Approximately 54% of the personal residential gross written premium was written outside of Florida.

We have developed a unique and proprietary homeowners’ product. This product uses a granular approach to pricing for catastrophe perils. Our objective is to create specific geographic areas such that within each area or “catastrophe band” the expected losses are within a specified range of error or approximation from a central estimate. These areas may have millions of data points that help us create distance-to-coast factors that provide a sophisticated market segmentation that is highly correlated to our risk exposure and reinsurance costs.

Loss and loss adjustment expenses related to our personal residential products tend to be higher during periods of severe or inclement weather, which varies from state to state.

Commercial Residential Products

We provide commercial multi-peril property insurance for residential condominium associations in Florida. We include coverage to policyholders for loss or damage to buildings, inventory or equipment caused by covered cause of loss such as fire, wind, hail, water, theft and vandalism.

In 2018, commercial policies produced written premium of $362,000,000 and accounted for 28% of our total gross written premium.

Not-At-Risk Offerings

On our flood, equipment breakdown and identity theft policies, we earn a commission while retaining no risk of loss, since all such risk is ceded to the federal government via the National Flood Insurance Program (flood risk) and other private companies (other risks). We offer flood policies in all states in which we write business. Flood policies produced written premium of $19,207,000 and accounted for 2% of our total gross written premium at December 31, 2018.

Underwriting

We price our product at levels that we project will generate an acceptable underwriting profit. We aim to be granular in our approach, so that our price can accurately reflect the risk and profitability of each potential customer. In our proprietary pricing algorithm, we consider insurance credit scores (where allowable) and historical attritional loss costs for the rating territory in which the customer resides, as well as projected reinsurance costs based on the specific geographic and structural characteristics of the home. In addition to the specific characteristics of the policy being priced, we also evaluate the reinsurance costs of each incremental policy on our portfolio as a whole. In this regard, we seek to optimize our portfolio by diversifying our geographic exposure in order to limit our probable maximum loss, total insured value and average annual loss. As part of this optimization process, we use the output from third-party modeling software to analyze our risk exposures, including wind exposures, by zip code or street address.

We have established underwriting guidelines designed to provide a uniform approach to our risk selection and designed to achieve acceptable underwriting profitability. Our underwriters review the property inspection report during their risk evaluation and, if the policy does not meet our underwriting criteria, we have the right to cancel the policy within 90 days in Florida and within 60 days in all other states in which we operate.

We measure our underwriting profitability by the combined ratio, which is a sum of the ratios of losses, loss adjustment expenses, and underwriting expenses to either gross or net earned premiums. A combined ratio under 100% indicates an underwriting profit. Refer to Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this report for further details on our combined ratio.

Distribution Channels

As of December 31, 2018, we market and distribute our policies to consumers through approximately 9,000 independent agents representing over 6,300 agencies, with only one agency, Allstate, representing more than 10% of our revenue. UPC Insurance has focused on the independent agency distribution channel since its inception, and we believe independent agents and agencies build relationships in their communities that can lead to profitable business and policyholder satisfaction. We believe we have built significant credibility and loyalty with the independent agent communities in the states in which we operate through (i) our extensive training for full-service insurance agencies that distribute our products, (ii) periodic business reviews using established benchmarks and goals for premium volume and profitability, and (iii) regular visits from the Company’s executives to strengthen the personal relationships with our agents and agencies. Also, each state is assigned a sales representative from UPC Insurance who lives in the community, recruits new agents and agencies, and provides direct support for existing agents and agencies.

Typically, a full-service agency is small to medium in size and represents several insurance companies for both personal and commercial product lines. We depend on our independent agents to produce new business for us. We compensate our independent agents primarily with fixed-rate commissions that we believe are consistent with those generally prevailing in the market. In 2018, we expanded our commission program in order to allow agents and brokers to be eligible to earn a bonus commission based on the overall profitability of policies they place with UPC Insurance in a particular year.

In addition to our relationships with individual agencies, we have important partnerships with other insurance companies and industry associations. The largest of these relationships are with Allstate and GEICO. In Florida, Allstate's Ivantage program refers Allstate auto insurance customers to our company and other partner companies to provide homeowners' insurance. We partner with GEICO to underwrite homeowners' policies for some of their auto customers. We also have a partnership with the Florida Association of Insurance Agents (FAIA) to serve as a conduit between UPC Insurance and many smaller insurance agencies in Florida with whom we do not have direct relationships.

GEOGRAPHIC MARKETS

The table below shows the geographic distribution of our policies in-force as of December 31, 2018, 2017 and 2016.

Policies In-Force By Region [1]	2018	2017	2016
Florida	239,725	217,763	187,414
Gulf	126,285	124,649	103,207
Northeast	130,808	110,550	93,258
Southeast	85,278	75,231	67,276
Total	582,096	528,193	451,155

[1] "Gulf" is comprised of Hawaii, Louisiana and Texas; "Northeast" is comprised of Connecticut, Massachusetts, New Jersey, New York and Rhode Island; and "Southeast" is comprised of Georgia, North Carolina and South Carolina.

The table below shows the geographic distribution of our total insured value (TIV) of all polices in-force as of December 31, 2018, 2017 and 2016.

TIV By Region[1]	2018	2017	2016
Florida	$160,406,387	$144,151,960	$80,444,296
Northeast	85,296,121	70,480,702	61,327,280
Gulf	51,219,071	50,844,315	40,411,989
Southeast	37,913,396	33,607,596	31,931,399
Total	$334,834,975	$299,084,573	$214,114,964

[1] “Gulf” is comprised of Hawaii, Louisiana and Texas; “Northeast” is comprised of Connecticut, Massachusetts, New Jersey, New York and Rhode Island; and “Southeast” is comprised of Georgia, North Carolina and South Carolina.

COMPETITION

Our target market for homeowners' insurance, our primary product offering, includes the 18 states in which we are currently licensed plus the state of Maine, where we plan to obtain a license at some point in the future. The following table summarizes the homeowners' insurance market countrywide for the year ended December 31, 2018, the date for which the most current data is available (dollars in thousands):

Countrywide Property Insurance Market - 2018 Homeowners DWP *

2018 Rank	Company Name	Direct Written Premium	Market Share
1	State Farm Group	$18,177,462	18.5 %
2	Allstate Insurance Group	8,262,445	8.4 %
3	Liberty Mutual Group	6,655,452	6.8 %
4	USAA Group	6,170,558	6.3 %
5	Farmers Insurance Group	5,795,044	5.9 %
6	Travelers Group	3,766,277	3.8 %
7	American Family Insurance Group	3,276,280	3.3 %
8	Nationwide Corp Group	3,184,627	3.2 %
9	Chubb Ltd. Group	2,832,082	2.9 %
10	Erie Insurance Group	1,675,976	1.7 %
11	Auto Owners Group	1,571,704	1.6 %
12	Progressive Group	1,403,095	1.4 %
13	American International Group	1,153,294	1.2 %
14	Universal Insurance Holding Group	1,116,377	1.1 %
15	Metropolitan Group	1,102,128	1.1 %
16	Hartford Fire & Casualty Group	983,754	1.0 %
17	CSAA Insurance Group	924,000	0.9 %
18	Amica Mutual Group	909,196	0.9 %
19	Auto Club Enterprises Insurance Group	827,909	0.8 %
20	National Gen Group	792,392	0.8 %
21	United Insurance Holdings Group	786,377	0.8 %
22	Heritage Insurance Holdings Group	783,541	0.8 %
23	Country Insurance & Financial Services Group	698,990	0.7 %
24	Automobile Club MI Group	684,538	0.7 %
25	Assurant Inc Group	672,055	0.7 %
	Total - Top 25 Insurers	$74,205,553	75.7 %
	Total - All Insurers	$98,019,967	100.0 %

* The information displayed in the table above is compiled and published by the National Association of Insurance Commissioners (NAIC) as of December 31, 2018 based on information filings submitted annually by all licensed insurance companies. The information above is presented on a consolidated or aggregated basis for each insurance company group. The amounts shown in the table above are also on a statutory basis and exclude non-Homeowners lines of business that are included in the Company’s total direct written premium for 2018.

We compete primarily on the basis of product features, the strength of our distribution network, the quality of our services to our agents and policyholders, and our long-term financial stability. Our long and successful track record writing homeowners’ insurance in catastrophe-exposed areas has enabled us to develop sophisticated pricing techniques that endeavor to accurately reflect the risk of loss while allowing us to be competitive in our target markets. This pricing segmentation approach allows us to offer products in areas that have a high demand for property insurance yet are under-served by the national carriers. However, we face the risk that policyholders may be able to obtain more favorable terms from competitors rather than renewing coverage with us.

REGULATION

We are subject to extensive regulation in the jurisdictions in which our insurance company subsidiaries are domiciled and licensed to transact business, primarily at the state level. UPC, ACIC, and JIC are domiciled in Florida, FSIC is domiciled in Hawaii, and IIC is domiciled in New York. UPC Insurance is also regulated by the NAIC. In general, these regulations are designed to protect the interests of insurance policyholders.

Such regulations have a substantial effect on certain areas of our business, including:

- insurer solvency,
- reserve adequacy,
- insurance company licensing and examination,
- agent and adjuster licensing,
- rate setting,
- investments,
- assessments or other surcharges for guaranty funds,
- transactions with affiliates,
- the payment of dividends,
- reinsurance,
- protection of personal information,
- risk solvency assessment and enterprise risk management,
- cyber security,
- statutory accounting methods, and
- numerous requirements relating to other areas of insurance operations, including policy forms, underwriting standards and claims practices.

Our insurance subsidiaries provide audited statutory financial statements to the various insurance regulatory authorities. With regard to periodic examinations of an insurance company’s affairs, insurance regulatory authorities, in general, defer to the insurance regulatory authority in the state in which an insurer is domiciled; however, insurance regulatory authorities from any state in which we operate may conduct examinations at their discretion. In 2018, the Hawaii Insurance Division of the Department of Commerce and Consumer Affairs finished performing a regularly scheduled statutory examination of FSIC for the five years ended December 31, 2016. There were no significant findings resulting from this examination.

For a discussion of statutory financial information and regulatory contingencies, see Note 14 to our Notes to Consolidated Financial Statements in Part II, Item 8 of this report.

Risk-Based Capital Requirements

To enhance the regulation of insurer solvency, the NAIC has published risk-based capital (RBC) guidelines for insurance companies designed to assess capital adequacy and to raise the level of protection statutory surplus provides for policyholders. The guidelines measure three major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss developments and inadequate pricing; (ii) declines in asset values arising from credit risk; and (iii) other business risks. Most states, including Florida, Hawaii and New York, have enacted the NAIC guidelines as statutory requirements, and insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The level of required risk-based capital is calculated and reported annually. The table below outlines each of our subsidiary's RBC ratios, all of which were in excess of minimum requirements, as of December 31, 2018.

Subsidiary	RBC Ratio	
UPC	301	%
ACIC	580	%
FSIC	306	%
IIC	1,109	%
JIC	20,345	%

Underwriting and Marketing Restrictions

During the past several years, various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations: (i) created “market assistance plans” under which insurers are induced to provide certain coverage; (ii) restrict the ability of insurers to reject insurance coverage applications, to rescind or otherwise cancel certain policies in mid-term, and to terminate agents; (iii) restrict certain policy non-renewals and require advance notice on certain policy non-renewals; and (iv) limit rate increases or decrease rates permitted to be charged.

Most states also have insurance laws requiring that rate schedules and other information be filed with the insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The insurance regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory.

Most states require licensure or insurance regulatory authority approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company’s business plan, solvency, reinsurance, rates, forms and other financial and non-financial aspects of a company, such as the character of its officers and directors. The insurance regulatory authorities may prohibit entry into a new market by not granting a license or by withholding approval.

Limitations on Dividends by Insurance Subsidiaries

As a holding company with no significant business operations of our own, we rely on payments from our insurance subsidiaries as one of the principal sources of cash to pay dividends and meet our obligations. Our insurance affiliates are regulated as property and casualty insurance companies and their ability to pay dividends is restricted by Florida, Hawaii and New York law.

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

For additional information regarding those restrictions, see Part II, Item 5 and Part I, Item 1A of this report.

Insurance Holding Company Regulation

As a holding company of insurance subsidiaries, we are subject to laws governing insurance holding companies in Florida, Hawaii and New York. These laws, among other things: (i) require us to file periodic information with the insurance regulatory authority, including information concerning our capital structure, ownership, financial condition and general business operations; (ii) regulate certain transactions between our affiliates and us, including the amount of dividends and other distributions and the terms of surplus notes: and (iii) restrict the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval. Any purchaser of 5% or more of the outstanding shares of our common stock could be presumed to have acquired control of us unless the insurance regulatory authority, upon application, determines otherwise.

Insurance holding company regulations also govern the amount any affiliate of the holding company may charge our insurance affiliates for services (i.e., management fees and commissions). We have a long-term management agreement among our managing company, United Insurance Management L.C., UPC and FSIC which presently provides for monthly management fees. The Florida Office of Insurance Regulation and the Hawaii Insurance Division must approve any changes to this agreement.

AmRisc, a managing general underwriter, handles the underwriting, claims processing and premium collection for AmCo and JIC, for monthly management fees.

The Company does not utilize a managing general agent structure in New York. Instead, UPC Insurance allocates a portion of relevant expenses to IIC for statutory accounting purposes at cost.

CORPORATE INFORMATION

United Insurance Holdings Corp. was incorporated in Delaware in 2012. Our principal executive offices are located at 800 2nd Avenue S., St. Petersburg, FL 33701 and our telephone number at that location is (727) 895-7737. We are listed on the Nasdaq stock exchange under ticker symbol "UIHC."

Segments

We conduct our operations under one business segment.

Available Information

We make available, free of charge through our website, www.upcinsurance.com, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the Securities and Exchange Commission (SEC).

You may also access this information at the SEC's website (www.sec.gov). This site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

Many factors affect our business, financial condition and results of operations, some of which are beyond our control. If any of the following risks or uncertainties occur, our business, financial condition or results of operations may be materially and adversely affected. In that event, the trading price of our securities could decline, and investors could lose all or part of their investment in our securities. Additional risks and uncertainties we are unaware of, or we currently deem immaterial, may also become important factors that affect us. Before making an investment in our securities, investors should carefully consider the risk factors discussed below, together with the other information in this report, including the section entitled Forward-looking Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, and the other reports and materials filed by us with the SEC.

RISKS RELATED TO OUR BUSINESS

As a property and casualty insurer, we may experience significant losses, and our financial results may vary from period to period, due to our exposure to catastrophic events and severe weather conditions, the incidence and severity of which could be affected by the unpredictability of future catastrophic events and severe weather conditions.

Our property and casualty insurance operations expose us to risks arising from catastrophes. Catastrophes can be caused by various natural events, including but not limited to hurricanes, tropical storms, tornadoes, windstorms, earthquakes, hail, sinkholes, severe winter weather and fires, or man-made events, such as terrorist attacks (including those involving nuclear, biological, chemical or radiological events), cybercrimes or consequences of war or political instability. We may incur catastrophe losses that exceed the amount of:

- catastrophe losses experienced in prior years;
- catastrophe losses projected to be incurred, using third-party catastrophe modeling software;
- catastrophe loss estimates used to develop prices for our products; or
- our current reinsurance coverage (which would cause us to have to pay such excess losses).

The incidence and severity of weather conditions are inherently unpredictable, but the frequency and severity of property claims generally increase when severe weather conditions occur. Florida, South Carolina and Texas, all states in which we write policies, have experienced significant hurricanes in recent years, which some weather analysts believe is consistent with a period of sustained greater hurricane activity. Climate change, to the extent that it may affect weather patterns, may cause an increase in the frequency and/or the severity of catastrophic events or severe weather conditions which, in addition to the attendant increase in claims-related costs, may also cause an increase in our reinsurance costs and/or negatively impact our ability to provide insurance to our policyholders in the future. Governmental entities may also respond to climate change by enacting laws and regulations that may increase our cost of providing insurance in the future, which could adversely affect demand.

Catastrophes could be more frequent or severe than contemplated in our pricing and risk management models, and may have a material adverse effect on our results of operations during any reporting period due to increases in our loss and loss adjustment expense. Catastrophes may also reduce liquidity and could impair our ability to raise capital on acceptable terms or at all. In addition to catastrophes, the accumulation of losses from several smaller weather-related events in any reporting period may have a similar impact to our results of operations and financial condition.

Because we conduct a significant portion of our business in Florida, our financial results substantially depend on the regulatory, legal, economic, political, demographic, competitive and weather conditions present in that state.

A significant portion of our policies in-force is concentrated in Florida. Therefore, the prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in Florida will likely have a more significant impact on our revenues and profitability compared to such conditions in other jurisdictions in which we operate. Furthermore, changes in such conditions in Florida could make doing business in Florida less attractive for us, which could have a more pronounced effect on us than it would on other insurance companies that are more geographically diversified.

In addition, due to Florida's climate, we are subject to increased exposure to certain catastrophic events such as hurricanes, tropical storms and tornadoes, as well as an increased risk of losses. The occurrence of one or more catastrophic events or other conditions affecting losses in Florida may cause a disproportionately adverse effect on our results of operations and financial condition.

Because we rely on insurance agents, the loss of these agent relationships, particularly our relationship with AmRisc, LLC ("AmRisc"), or our inability to attract and incentivize new agents could have an adverse impact on our business.

We market our policies to a broad range of prospective policyholders through approximately 9,000 independent agents representing over 6,300 agencies as of December 31, 2018. Many of these agents are independent insurance agents that own their customer relationships, and our agency contracts with them limit our ability to directly solicit business from our existing policyholders. Independent agents commonly represent other insurance companies, including our competitors, and we do not control their activities. As a result, we must compete with other insurers for independent agents' business. Historically, we have used marketing relationships with national insurance companies and associations of independent insurance agents to attract and retain agents and agency groups. The loss of these marketing relationships could adversely impact our ability to attract new agents or retain our agency network and policies in force. Failure to grow or maintain our agency relationships, a failure to attract and incentivize new agents or the failure of agents to act as anticipated could adversely affect sales of our insurance products.

Additionally, ACIC and JIC have managing agency contracts (the MGA contracts) with AmRisc, pursuant to which AmRisc serves as ACIC's and JIC's managing general agent for binding and writing commercial residential property lines for condominium, townhome and homeowners association insurance written in Florida in accordance with ACIC's and JIC's underwriting guidelines. The contract between ACIC and AmRisc is exclusive, while the contract between JIC and AmRisc is not. Under the MGA contracts, AmRisc must produce a certain volume of business for ACIC. Therefore, failure of AmRisc to produce the required volume of business could cause us to lose substantial premiums and could require us to seek one or more alternative managing general agents. If we were unable to find a replacement managing general agent (because of AmRisc's failure to produce the required volume of business or otherwise) or otherwise increase the production of premiums, our revenues could decrease, which could have a material adverse effect on our business, financial condition and results of operations. Given the concentration of ACIC's and JIC's commercial business and operations with AmRisc, AmRisc may have substantial leverage in negotiations with ACIC and JIC regarding the MGA contracts, and amendments to the terms and conditions of the MGA contracts and other changes to the commercial relationship between AmRisc and ACIC on the one hand, and AmRisc and JIC, on the other hand, could have a material adverse effect on our business, financial condition and results of operations. Following the termination or expiration of the MGA contracts (set to occur in 2022 for ACIC and 2023 for JIC), ACIC's and JIC's ability to compete for and solicit renewals of business previously underwritten by AmRisc on their respective behalves may be limited by legal, commercial and other impediments, including AmRisc's relationship with other insurance producers that control the business. Such impediments could have a material adverse effect on our financial condition and results of operations due to the concentration of ACIC's and JIC's business with AmRisc.

Actual claims incurred may exceed our loss reserves for claims, which could adversely affect our results of operations and financial condition.

Loss reserves represent our estimate of ultimate unpaid losses for claims that have been reported and claims that have been incurred but not yet reported. Loss reserves do not represent an exact calculation of liability, but instead represent our best estimate, generally utilizing actuarial expertise, historical information and projection techniques at a given reporting date.

The process of estimating our loss reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends, legislative changes, and varying judgments and viewpoints of the individuals involved in the estimation process, among others. In addition, application of statistical and actuarial methods in estimating our loss reserves may require the adjustment of overall reserves upward or downward from time to time. Future loss experience substantially in excess of our loss reserves could substantially harm our results of operations and financial condition.

Because of the inherent uncertainty in estimating loss reserves, including reserves for catastrophes, additional liabilities resulting from one insured event, or an accumulation of insured events, may exceed our existing loss reserves. If our reserves are inadequate, it may cause us to overstate our earnings for the periods during which our reserves for expected losses was insufficient.

Our financial results may vary from period to period based on the timing of our collection of government-levied assessments from our policyholders.

Our insurance subsidiaries are subject to assessments levied by various governmental and quasi-governmental entities in the states in which we operate. While we may have the ability to recover these assessments from policyholders through policy surcharges in some states in which we operate, our payment of the assessments and our recoveries may not offset each other in the same reporting period in our financial statements and may cause a material adverse effect on our results of operations in a particular reporting period.

Our failure to implement and maintain adequate internal control over financial reporting in our business could have a material adverse effect on our business, financial condition, results of operations and stock price.

"Internal control over financial reporting" refers to those processes within a company that are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to annually assess the effectiveness of our internal control over financial reporting.

If we fail to achieve and maintain adequate internal controls, or if we have material weaknesses in our internal controls, in each case in accordance with applicable standards, we may be unable to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. Because effective internal controls are necessary for us to produce reliable financial reports, our business, financial condition and results of operations could be harmed, investors could lose confidence in our reported financial information, and the market price for our stock could decline if our internal controls are ineffective or if material weaknesses in our internal controls are identified.

If we experience difficulties with our information technology or data security systems and/or outsourcing relationships, our ability to conduct our business could be negatively impacted, which could adversely affect our financial condition or results of operations.

We use computer systems to store, retrieve, evaluate and utilize customer, employee and company data and information. While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present certain risks. Our business is highly dependent upon our information technology systems and upon our contractors' and third-party administrators' ability to perform necessary business functions in an efficient and uninterrupted fashion, such as the processing of policies and the adjusting of claims. Because our information technology and telecommunications systems interface with and often depend on these third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

Despite our implementation of security measures, our information technology systems are vulnerable to computer viruses, natural disasters, unauthorized access, cyber-attacks, system failures, human error and negligence and similar disruptions. A material breach in the security of our information technology systems and data could include the theft of our confidential or proprietary information, including trade secrets, and the personal information of our customers, claimants and employees. From time to time, we have experienced threats to our data and information technology systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. To the extent that any disruptions or security breaches result in a loss or damage to our data or inappropriate disclosure of proprietary or confidential information, it could cause significant damage to our reputation, adversely affect our relationships with our customers, result in litigation, increased costs and/or regulatory penalties, and ultimately harm our business. Third parties to whom we outsource certain of our functions are also subject to the risks outlined above, any one of which may result in our incurring substantial costs and other negative consequences, including a material adverse effect on our business, financial condition and results of operations.

In addition, we may transmit, receive and store personal, confidential and proprietary information by any number of standard data transmission methods or other electronic means. Although we attempt to keep such information confidential, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect confidential information. Furthermore, we are subject to compliance with laws and regulations enacted by U.S. federal and state governments, or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm.

Loss of key vendor relationships or failure of a vendor to protect personal information of our customers, claimants or employees could affect our operations.

We rely on services and products provided by many third-party vendors. These include, for example, vendors of computer hardware and software and vendors of services such as claim adjustment services and human resource benefits management services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect personal information of our customers, claimants or employees, we may suffer operational impairments and financial losses. Moreover, in the event of a data breach involving any of our third-party vendors, our customers' data and personal information could also be put at risk. Any such data breach involving our third-party vendors could result in significant mitigation or legal expenses for us, which could materially and adversely affect our results of operations and financial condition.

Our success has been and will continue to be greatly influenced by our ability to attract and retain the services of senior management, the loss of any of whom could have an adverse effect on our business, financial condition or results of operations.

Our senior executive officers play an integral role in the development and management of our business. Due to the intense competition in our industry for senior executive officers with demonstrated ability, we cannot guarantee that any such officers will continue their employment with us. Additionally, we do not maintain any key person life insurance policies on any of our officers or employees. Losing any of our senior executive officers could also have an adverse effect on our operations given their skills, knowledge of our business, years of industry experience and the potential difficulty of promptly finding qualified replacement employees. Our results of operations and financial condition could be adversely affected if we are unsuccessful in attracting and retaining senior executive officers.

Our acquisitions and other strategic transactions may not be as successful as we anticipate, and could be difficult to integrate, divert management resources, result in unanticipated costs or dilute our existing stockholders.

Part of our continuing business strategy is to evaluate opportunities to merge with and acquire companies that complement our business model or make other strategic transactions that facilitate or expedite the accomplishment of our business goals. We may be unable to identify suitable counterparties to such a transaction. Even if we enter into an agreement in respect of a merger with or acquisition of another business, we may not be able to finalize a transaction after significant investment of time and resources due to, among other things, a lack of regulatory approval or imposition of a burdensome condition by the regulator.

In connection with an acquisition or merger, we could incur debt, amortization expenses related to intangible assets, large and immediate write-offs, assume liabilities or issue stock that would dilute our current stockholders' percentage of ownership. As a result, there is a risk of transaction-related litigation. Such strategic transactions could pose numerous risks to our operations, including risks relating to:

- incurring substantial unanticipated integration costs;
- diverting significant management attention and financial resources from our other operations and disrupting our ongoing business during the assimilations of such acquired businesses;
- losing key employees, particularly those of the acquired operations;
- retaining the acquired business' customers;
- failing to realize the strategic benefits or the potential cost savings or other financial benefits of the acquisitions or mergers; and
- incurring unanticipated liabilities or claims from the acquired businesses and contractually-based time and monetary limitations on the seller's obligation to indemnify us for such liabilities or claims.

We are also subject to a certain level of risk regarding the actual condition of the businesses that we acquire. Until we actually assume operating control of such businesses and their assets and operations, we may not be able to ascertain the actual value or understand the potential liabilities of the acquired entities and their operations. As a result, we may not be able to complete acquisitions or mergers or integrate the operations, products or personnel gained through any such acquisition or merger without a material adverse effect on our business, financial condition and results of operations.

Our Senior Notes place certain restrictions on our operations and our failure to comply with such restrictions, including as a result of events beyond our control, could result in an event of default, which could materially and adversely affect our financial condition and results of operations.

Our 6.25% Senior Notes due 2027 (Senior Notes) place certain restrictions on the Company's financial operations. Because we are a holding company, our assets consist primarily of the securities of our subsidiaries. The negative pledge provisions in the Senior Notes limit our ability to pledge securities of our subsidiaries and restrict dispositions of the capital stock of our subsidiaries. Our Senior Notes require us to maintain certain financial ratios and to comply with various operational and other covenants, including limitations on our ability to incur any indebtedness unless certain conditions are met. Our failure to comply with such restrictions, including as a result of events beyond our control, could result in an event of default and an acceleration of the maturity of the Senior Notes. We cannot assure you that our assets or cash flow would be sufficient to fully repay the Senior Notes if accelerated, or that we would be able to restructure the payments on the Senior Notes. This could have a material adverse impact on our financial condition and results of operations.

RISKS RELATED TO THE INSURANCE INDUSTRY

Because we are operating in a highly competitive market, we may lack the resources to increase or maintain our market share, which could adversely impact our business and results of operations.

The property and casualty insurance industry is highly competitive, and we believe it will remain highly competitive for the foreseeable future. The principal competitive factors in our industry are price, service, coverage options, underwriting guidelines, commission structure and financial condition. We compete with other property and casualty insurers that underwrite property and casualty insurance in the same geographic areas in which we operate and some of those insurers have greater financial resources and have a longer operating history than we do. In addition, our competitors may offer products for alternative forms of risk protection that we presently do not offer or are not similarly regulated in the admitted market, which could adversely affect the sales of our products. We also compete with new companies that continue to enter the insurance market. Competition could limit our ability to retain existing business or to write new business at adequate rates, and such limitation may cause a material adverse effect on our results of operations and financial position.

In addition, industry developments could further increase competition in our industry. These developments could include:

- an influx of new capital in the marketplace as existing companies attempt to expand their businesses and new companies attempt to enter the insurance business as a result of better premium pricing and/or policy terms;
- an increase in programs in which state-sponsored entities provide property insurance in catastrophe-prone areas;
- changes in state regulatory climates; and
- the passage of federal proposals for an optional federal charter that would allow some competing insurers to operate under regulations different or less stringent than those applicable to us.

These developments and others could make the property and casualty insurance marketplace more competitive by increasing the supply of insurance available. If competition limits our ability to write new business at adequate rates, our future results of operations would be adversely affected.

Changes in state regulation may adversely affect our results of operation and financial condition.

As a holding company with operating insurance company subsidiaries, we are subject to the laws and regulations of the various states in which our insurance subsidiaries operate. From time to time, states pass legislation, and regulators take action, that has the effect of limiting the ability of insurers to manage risk, such as legislation prohibiting insurers from reducing exposures or withdrawing from catastrophe-prone areas, or mandating that insurers participate in residual markets. In addition, legislative initiatives and court decisions can seek to expand insurance coverage for insured losses beyond the original intent of the policies, which could cause our actual loss and loss adjustment expense to exceed our estimates. Further, our ability to increase pricing to the extent necessary to offset rising loss or operating costs requires approval of insurance regulatory authorities.

Our ability or willingness to manage our catastrophe exposure by raising prices, modifying underwriting terms or reducing exposure to certain geographies may be limited due to considerations of public policy, the evolving political environment and our ability to penetrate other geographic markets through our diversification strategy, which may cause a material adverse effect on our results of operations, financial condition and cash flows. We cannot predict whether and to what extent the adoption of new legislation and regulations would affect our ability to manage our exposure to catastrophic events.

The insurance industry is heavily regulated and further restrictive regulation may reduce our profitability and limit our growth.

The insurance industry is extensively regulated and supervised. Insurance regulatory authorities generally design insurance rules and regulations to protect the interests of policyholders, and not necessarily the interests of insurers, their stockholders, and other investors. This regulation relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurance company’s business. We are subject to comprehensive regulation and supervision by state insurance departments in all states in which our insurance subsidiaries are domiciled, as well as all states in which they are licensed, sell insurance products, issue policies, or handle claims. The regulations of each state are unique and complex and subject to change, and certain states may have regulations that conflict with the regulations of other states in which we operate. As a result, we are subject to the risk that compliance with the regulations in one state may not result in compliance with the regulations in another state.

We strive to maintain all required licenses and approvals. However, we may not fully comply with the wide variety of applicable laws and regulations. The relevant authority's interpretation of the laws and regulations also may change from time to time. Regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the required licenses and approvals or do not comply with applicable regulatory requirements, these authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines.

State statutes and administrative rules generally require each insurance company to register with the department of insurance in its state of domicile and to furnish information concerning the operations of the companies within the holding company system. Failure to comply with such requirements may materially affect the operations, management or financial condition of the insurers. As part of its registration, each insurance company must identify material agreements, relationships and transactions with affiliates, including loans, investments, asset transfers, transactions outside of the ordinary course of business, certain management, service, and cost sharing agreements, reinsurance transactions, dividends, and other financial and non-financial components of an insurer's business. Some states impose restrictions or require prior regulatory approval of specific corporate actions, which may adversely affect our ability to operate, innovate, obtain necessary rate adjustments in a timely manner or grow our business profitably. Our ability to comply with these laws and regulations, and to obtain necessary regulatory action in a timely manner is, and will continue to be, critical to our success.

Currently, the federal government's role in regulating or dictating the policies of insurance companies is limited. However, from time to time Congress has considered and may in the future consider proposals that would increase the role of the federal government in insurance regulation, either in addition to or in lieu of state regulation. For example, the Dodd-Frank Act established a Federal Insurance Office (FIO) within the U.S. Department of Treasury Department to collect data on the insurance industry, recommend changes to the state system of insurance regulation and preempt certain state insurance laws. The potential impact on our business as a result of the Dodd-Frank Act and the FIO's current and future recommendations remains unclear; however, the implementation of any federal insurance regulations that constrain our business opportunities or reduce investment flexibility could negatively impact our business.

In recent years, the state insurance regulatory framework has come under increased federal scrutiny. Changes in federal legislation, regulation and/or administrative policies in several areas, including changes in financial services regulation and federal taxation, could negatively affect the insurance industry and us. In addition, Congress and some federal agencies from time to time investigate the current condition of insurance regulation in the United States to determine whether to impose federal or national regulation or to allow an optional federal charter, similar to the option available to most banks. Further, the NAIC and state insurance regulators continually reexamine existing laws and regulations, specifically focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws and regulations. We cannot predict what effect, if any, proposed or future legislation or NAIC initiatives may have on the manner in which we conduct our business.

As part of potential, or future, industry-wide investigations, we may from time to time receive requests for information from government agencies and authorities at the state or federal level. If we are subpoenaed for information by government agencies and authorities, potential outcomes could include law enforcement proceedings or settlements resulting in fines, penalties and/or changes in business practices that could cause a material adverse effect on our results of operations. In addition, these investigations may result in changes to laws and regulations affecting the industry.

Changes to insurance laws or regulations, or new insurance laws and regulations, may be more restrictive than current laws or regulations and could significantly increase our compliance costs, which could have a material adverse effect on our results of operations and our prospects for future growth. Additionally, our failure to comply with certain provisions of applicable insurance laws and regulations could result in significant fines or penalties being levied against us and may cause a material adverse effect on our results of operations or financial condition.

Our inability to obtain reinsurance on acceptable terms could increase our loss exposure or limit our ability to underwrite policies, which could adversely affect our results of operations and financial condition.

We use, and we expect to continue to use, reinsurance to help manage our exposure to property risks. Reinsurance is insurance for insurers and is fundamentally a promise by the reinsurer to pay possible future claims in exchange for the payment of a premium by the insurance company seeking reinsurance. Both the availability of reinsurance and the cost of reinsurance are subject to prevailing market conditions beyond our control, which can affect business volume and profitability. We may be unable to maintain our current reinsurance coverage, to obtain additional reinsurance coverage in the event our current reinsurance coverage is exhausted by a catastrophic event, or to obtain other reinsurance coverage in adequate amounts or at acceptable rates. Similar risks exist whether we are seeking to replace coverage terminated during the applicable coverage period or to renew or replace coverage upon its expiration. Market conditions beyond our control determine the availability and cost of reinsurance. For example, reinsurance may be more difficult or costly to obtain after a year with a large number of major catastrophes. We provide no assurance that we can obtain sufficient reinsurance to cover losses resulting from one or more storms or other events in the future, or that we can obtain such reinsurance in a timely or cost-effective manner. If we are unable to renew our expiring coverage or to obtain new reinsurance coverage, either our net exposure to risk would increase or, if we are unwilling to accept an increase in net risk exposures, we may have to reduce the amount of risk we underwrite or accept higher reinsurance costs. Any of these alternatives may cause a material adverse effect on our results of operations and our financial condition.

Our inability to collect from our reinsurers on our reinsurance claims could have a material adverse effect on our business, results of operation, financial condition and cash flow.

We use reinsurance as a tool to manage risks associated with our business. However, we remain primarily liable as the direct insurer on all risks for which we obtain reinsurance. Our reinsurance agreements do not eliminate our obligation to pay claims to insureds. As a result, we are subject to counterparty risk with respect to our ability to recover amounts due from reinsurers. The risk could arise in two situations: (i) our reinsurers may dispute some of our reinsurance claims based on contract terms, and we may ultimately receive partial or no payment, or (ii) the amount of losses that reinsurers incur related to worldwide catastrophes may materially harm the financial condition of our reinsurers and cause them to default on their obligations. Collectability of reinsurance is subject to the solvency of the reinsurers, interpretation of contract language and other factors. A reinsurer’s insolvency or inability to make payments under the terms of a reinsurance contract could have a material adverse effect on our business, results of operations, financial condition and cash flow.

Our efforts to manage these risks through underwriting guidelines, collateral requirements and other oversight mechanisms may not be successful. As a result, our exposure to counterparty risk under our reinsurance agreements may have a material adverse effect on our results of operations, financial condition and cash flow.

Our investments are subject to market risks that may result in reduced returns or losses.

Our investment assets are invested by professional investment management firms under the direction of our management team in accordance with investment guidelines approved by the Investment Committee of the Board of Directors. Although our investment guidelines emphasize diversification of risks and conservation of principal and liquidity, our investments are subject to market risks and risks inherent in individual securities. In particular, interest rates are highly sensitive to many factors, including monetary and fiscal policy, domestic and international economic and political issues and other factors beyond our control.

Our portfolio is primarily invested in fixed income securities and changes in the general interest rate environment will affect our returns on, and the fair value of, our fixed maturity and short-term investments. A decline in interest rates reduces the interest rate payable on new fixed income investments, thereby negatively impacting our net investment income. Conversely, rising interest rates reduce the fair value of existing fixed maturities. The volatility of any losses may force us to liquidate securities, which may cause us to incur capital losses. Realized fixed income and equity and unrealized equity losses in our investment portfolio would generally reduce our book value and, if significant, could affect our ability to conduct business. In addition, defaults under, or impairments of, any of these investments as a result of financial problems with the issuer and, where applicable, its guarantor could reduce our net investment income and net realized investment gains or result in investment losses.

We are subject to risks associated with potential declines in credit quality related to specific issuers and a general weakening in the economy. We may experience credit or default losses in our portfolio, including as a result of the failure of the procedures we have implemented to monitor the credit risk of our invested assets, which could adversely affect our results of operations and financial condition.

We may decide to invest an additional portion of our assets in equity securities, private equity limited partnership interests or other investments, which are subject to greater volatility than fixed maturity investments. Moreover, our private equity limited partnership interests are subject to transfer restrictions and may be illiquid. General economic conditions, stock market conditions and many other factors beyond our control can adversely affect the fair value of our equity securities or other investments, and could adversely affect our realization of net investment income. As a result of these factors, we may not realize an adequate return on our investments or we may incur losses on sales of our investments, which could reduce our net investment income and net realized investment gains or result in investment losses.

The fair value of our investment portfolio is also subject to valuation uncertainties. The valuation of investments is more subjective when the markets for these investments are illiquid and may increase the risk that the estimated fair value of our investment portfolio is not reflective of prices at which actual transactions would occur. Additionally, in the case of our private equity limited partnership interests, such valuations are determined by outside managers.

Our determination of the amount of other-than-temporary impairment to record varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective investment type. We revise our evaluations and assessments as conditions change and new information becomes available, and we reflect changes in other-than-temporary impairments in our Consolidated Statements of Comprehensive Income (Loss). We base our assessment of whether other-than-temporary impairments have occurred on our case-by-case evaluation of the underlying reasons for the decline in fair value. However, we may not accurately assess whether the impairment of one or more of our investments is temporary or other-than-temporary and the recorded amounts for other-than-temporary impairments in our financial statements may be inadequate. Furthermore, historical trends may not be indicative of future impairments and additional impairments may need to be recorded in the future.

Federal and/or state tax legislation could be enacted that would lessen or eliminate some or all of the tax advantages we currently benefit from, including those governing received deductions and tax credits, which could adversely affect the value of our investment portfolio.

The property and casualty insurance and reinsurance industry is historically cyclical and the pricing and terms for our products may decline, which would adversely affect our profitability.

Historically, the financial performance of the property and casualty insurance and reinsurance industry has been cyclical, characterized by periods of severe price competition and excess underwriting capacity, or “soft” markets, followed by periods of high premium rates and shortages of underwriting capacity, or “hard” markets. We cannot predict when such a period may occur or how long any given hard or soft market will last. Downturns in the property and casualty market may cause a material adverse effect on our results of operations and our financial condition.

Losses from legal actions may be material to our operating results, cash flows and financial condition.

Trends in the insurance industry regarding claims and coverage issues, such as increased litigation and the willingness of courts to expand covered causes of loss, may contribute to increased litigation costs and increase our loss exposure under the policies that we underwrite.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. Examples of emerging claims and coverage issues include, but are not limited to:

- judicial expansion of policy coverage and the impact of new theories of liability;
- plaintiffs targeting property and casualty insurers in purported class-action litigation relating to claims-handling and other practices.

Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant award or a judicial ruling that was otherwise detrimental, could create a precedent in our industry that could have a material adverse effect on our results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain.

We may be named a defendant in a number of legal actions relating to those emerging claim and coverage issues. The propensity of policyholders and third-party claimants to litigate and the willingness of courts to expand causes of loss and the size of awards may result in increased costs associated with litigation, render our loss reserves inadequate, and may be material to our operating results and cash flows for a particular quarter or annual period and to our financial condition. In addition, claims and coverage issues may not become apparent to us for some time after our issuance of the affected insurance policies. As a result, we may not know the full extent of liability under insurance policies we issue for many years after the policies are issued.

A downgrade in our financial strength or stability ratings could adversely impact our business volume and our ability to access additional debt or equity financing.

Financial strength or stability ratings are important to an insurer's competitive position. Ratings measure an insurance company's ability to meet its obligation to contract holders and policyholders. High ratings help maintain public confidence in a company's products, facilitate the marketing of its products and enhance the company's competitive position. Rating agencies review their ratings periodically, and our current ratings may not be maintained in the future. If significant losses, such as those resulting from one or more major catastrophes, or significant reserve additions were to cause our capital position to deteriorate significantly, or if one or more rating agencies substantially increase their capital requirements, we may need to raise equity capital in the future to maintain our ratings or limit the extent of a downgrade. For example, a trend of more frequent and severe weather-related catastrophes may lead rating agencies to substantially increase their capital requirements.

We cannot guarantee that our insurance affiliates, UPC, FSIC, IIC, ACIC and JIC will maintain their current A (Exceptional) or higher ratings by Demotech, A- ratings by Kroll or A- rating by AM Best. Any downgrade of these ratings could impact the acceptability of our products to mortgage lenders that require homeowners to buy insurance, reduce our ability to retain and attract policyholders and agents and damage our ability to compete, which may cause a material adverse effect on our results of operations and financial condition. These material adverse effects could include, but are not limited to:

- reducing demand for new sales of insurance products;
- requiring us to modify our existing products or services, introduce new products or services or reduce prices for our products and services, in order to remain competitive;
- adversely affecting our relationships with our independent agents;
- materially increasing the number or amount of policy cancellations and non-renewals by policyholders;
- requiring us to post additional collateral under certain of our financing transactions;
- limiting financial flexibility and access to capital markets;
- adversely affecting our ability to obtain reinsurance at reasonable prices or at all; and
- increasing the interest rates on our outstanding Senior Notes.

RISKS RELATED TO AN INVESTMENT IN OUR COMMON STOCK

Future sales of substantial amounts of our common stock by us or our existing stockholders could cause our stock price to decrease.

As of December 31, 2018, we had registered up to $100,000,000 of our securities (including our common stock) for sale from time to time in one or more offerings. Additional equity financings or other share issuances by us could adversely affect the market price of our common stock. Additionally, we issued shares representing approximately 49% of the issued and outstanding common stock of the Company as consideration in the merger with AmCo, resulting in substantial dilution to our then-existing shareholders. Future share issuances in connection with merger transactions or other acquisitions could result in substantial additional dilution to our shareholders.

Dividend payments on our common stock in the future are uncertain, and our ability to pay dividends may be constrained by our holding company structure.

We have paid dividends on our common stock in the past. However, the declaration and payment of dividends will be at the discretion of our Board of Directors and will be dependent upon our profits, financial requirements and other factors, including legal and regulatory restrictions on the payment of dividends from our subsidiaries (as we are a holding company and do not have any significant operations or assets other than our ownership of the shares of our operating subsidiaries), general business conditions and such other factors as our Board of Directors deems relevant. Therefore, investors who purchase our common stock may only realize a return on their investment if the value of our common stock appreciates.

The ability of our subsidiaries to pay dividends may affect our liquidity and ability to meet our obligations.

The Company is a holding company with no significant operations. The principal assets are the stock of its subsidiaries and the holding company’s directly held investment portfolio. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries, as described in Note 14 of our Consolidated Financial Statements. The limitations are based on statutory income and surplus. In addition, competitive pressures generally require the subsidiaries to maintain insurance financial strength ratings. These restrictions and other regulatory requirements affect the ability of the subsidiaries to make dividend payments. Limits on the ability of the subsidiaries to pay dividends could adversely affect holding company liquidity, including our ability to pay dividends to shareholders and service our debt in the timeframe expected.

Management views enterprise economic capital as a combination of statutory surplus and invested assets at the parent holding company level. Deterioration in statutory surplus or earnings, from developments such as catastrophe losses, or changes in market conditions or interest rates, could adversely affect holding company liquidity by impacting the amount of dividends from our subsidiaries or the utilization of invested assets at the holding company to increase statutory surplus or for other corporate purposes.

The substantial ownership of our common stock by R. Daniel Peed and his affiliates allows him to exert significant control over us, and the Company and R. Daniel Peed are subject to certain restrictive covenants that may restrict our ability to pursue certain opportunities.

R. Daniel Peed beneficially owned approximately 32% of our issued and outstanding common stock at December 31, 2018. Mr. Peed also has a proxy from another member of RDX Holding, LLC, the former parent company of AmCo, who beneficially owns approximately 8% of our issued and outstanding common stock. As a result, Mr. Peed is able to exert substantial control over us. Moreover, Mr. Peed’s interests may conflict with the interests of other holders of our common stock and he may take actions affecting us with which other stockholders may disagree. Mr. Peed has the ability to exert significant influence over the following:

- the nomination, election and removal of our Board of Directors;
- the adoption of amendments to our charter documents;
- management and policies; and
- the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets.

Mr. Peed, AmCo and ACIC are also subject to restrictive covenant agreements that contain non-competition, non-solicitation, confidentiality and other restrictive covenants that prohibit Mr. Peed, AmCo and ACIC from engaging in certain activities, including activities customarily performed by managing general agents and activities relating to segments of the commercial property insurance market for coastally exposed risks in the United States. Additionally, in connection with our merger with AmCo, we agreed to be subject to a restrictive covenant expiring on June 1, 2022 that will prohibit the formation, investment in or development, acquisition or ownership of any managing general agent or entity that performs activities customarily performed by managing general agents, or the engagement in customary managing general agent functions with respect to the commercial property insurance business. These restrictive covenants may restrict us and Mr. Peed from pursuing opportunities for expansion, including opportunities to act as or perform functions similar to a managing general agent, and therefore may limit our overall growth potential.

Further, we entered into a stockholder’s agreement with Mr. Peed and certain affiliates of Mr. Peed, which provides those stockholders with rights that our other stockholders do not have. Although the stockholder’s agreement requires shares beneficially owned by Mr. Peed and his affiliates to be voted in proportion to the votes cast by other stockholders on any proposal on which our stockholders are entitled to vote, this restriction will terminate on the earlier of (i) April 3, 2022 and (ii) the date that Mr. Peed and his affiliates beneficially own less than 25% of our voting securities.

Transactions by Mr. Peed and his affiliates involving our common stock may have an adverse effect on the price of our common stock.

As noted above, Mr. Peed beneficially owned approximately 32% of our issued and outstanding common stock as of December 31, 2018. The Company has granted Mr. Peed and his affiliates customary demand and piggyback registration rights pursuant to which, subject to certain limitations, all of such shares eligible to be registered under the Securities Act of 1933, as amended (the Securities Act), and may be offered and sold to the public from time to time after the effectiveness of the related registration statement. Such shares may also be resold into the public markets in accordance with an exemption from registration under the Securities Act, including Rule 144, subject to the volume limitations, manner of sale requirements and notice requirements thereof. Sales of our common stock by Mr. Peed and his affiliates could have the effect of lowering our stock price. The perceived risk associated with the possible sale of a large number of shares by these stockholders could cause some of our other stockholders to sell their stock, thus causing the price of our stock to decline. In addition, actual or anticipated downward pressure on our stock price due to actual or anticipated sales of stock by Mr. Peed and his affiliates could cause other institutions or individuals to engage in short sales of our common stock, which may further cause the price of our stock to decline.

Provisions in our charter documents may make it harder for others to obtain control of us even though some stockholders might consider such a development to be favorable.

Our charter and bylaws contain provisions that may discourage unsolicited takeover proposals our stockholders may consider to be in their best interests. Our Board of Directors is divided into two classes, each of which will generally serve for a term of two years with only one class of directors being elected in each year. At a given annual meeting, only a portion of our Board of Directors may be considered for election. Since our “staggered board” may prevent our stockholders from replacing a majority of our Board of Directors at certain annual meetings, it may entrench our management and discourage unsolicited
stockholder proposals that may be in the best interests of our stockholders.

Further, our Board of Directors has the ability to designate the terms of and issue one or more series of preferred stock, which may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our securities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We use all of our owned and leased properties for office space. We own two buildings located in St. Petersburg, Florida. Our principal executive office contains approximately 40,000 square feet of commercial office space and associated property. Our second building contains approximately 7,800 square feet of commercial office space. Both buildings are used as our principal executive offices.

We lease in total approximately 15,800 square feet of office space located in Florida, New York, Hawaii, and Minnesota. These leases are generally short-term to medium-term leases of commercial office space.

Item 3. Legal Proceedings

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

At December 31, 2018, we were not involved in any material non-claims-related legal actions.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION

Our common stock trades on the Nasdaq Capital Market (Nasdaq) under the symbol “UIHC”.

HOLDERS OF COMMON EQUITY

As of March 12, 2019, we had 4,283 holders of record of our common stock. The number of record holders does not include stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

DIVIDENDS

During 2018, we paid a regular quarterly dividend of $0.06 per share of our common stock. While we expect to continue to pay a regular quarterly dividend of $0.06 per share in 2019, any future dividend payments will be at the discretion of our Board of Directors and will depend upon our profits, financial requirements and other factors, including legal and regulatory restrictions on the payment of dividends, general business conditions and such other factors as our Board of Directors deems relevant.

On November 6, 2018, ACIC and IIC paid dividends to the Company of $50,000,000 and $1,764,000, respectively.

Under Florida law, Florida-domiciled insurers such as UPC, ACIC, and JIC may not pay any dividend or distribute cash or other property to its shareholders except out of its available and accumulated surplus funds which are derived from realized net operating profits on its business and net realized capital gains. Additionally, Florida-domiciled insurers may not make dividend payments or distributions to shareholders without the prior approval of the insurance regulatory authority if the dividend or distribution would exceed the larger of:

1. the lesser of:

a. 10% of the insurer’s capital surplus, or

b. 100% of the insurer’s net income, not including realized capital gains, plus a two-year carryforward

2. 10% of the insurer’s capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains, or

3. the lesser of:

a. 10% of the insurer’s capital surplus, or

b.

100% of the insurer's net investment income plus a three-year carryforward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains.

Alternatively, UPC, ACIC, or JIC may pay a dividend or distribution without the prior written approval of the insurance regulatory authority when:

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

a. 10% of the insurer's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains, or

b. The insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, and:

i. The insurer will have surplus as to policyholders equal to or exceeding 115% of the minimum required statutory surplus as to policyholders after the dividend or distribution is made, and

ii. The insurer files a notice of the dividend or distribution with the insurance regulatory authority at least ten business days prior to the dividend payment or distribution, and

iii. The notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution the insurer will have at least 115% of required statutory surplus as to policyholders.

Except as provided above, Florida-domiciled insurers may only pay a dividend or make a distribution (i) subject to prior approval by the insurance regulatory authority, or (ii) 30 days after the insurance regulatory authority has received notice of intent to pay such dividend or distribution and has not disapproved it within such time. As of December 31, 2018, we were in compliance with these requirements.

Under the insurance regulation of Hawaii, the maximum amount of dividends that a Hawaii-domiciled insurer such as FSIC may pay to its parent company without prior approval from the Hawaii Insurance Commissioner is:

1. the lesser of:

a. 10% of the insurer's surplus as of December 31 of the preceding year, or

b. 10% of the net income, not including realized capital gains, for the twelve-month period ending December 31 of the preceding year.

In performing the net income test, property and casualty insurers may carry-forward income from the previous two calendar years that has not already been paid out as dividends. This carry-forward is computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and third immediately preceding calendar years. As of December 31, 2018, we were in compliance with these requirements.

Under the insurance regulations of New York, a New York-domiciled insurer such as IIC may not declare or distribute any dividend to shareholders which, together with all dividends declared or distributed by it during the next preceding twelve months, exceeds:

1. the lesser of:

a. 10% of the insurer's surplus to policyholders as shown on its latest statement on file with the Superintendent, or

b. 100% of "adjusted net investment income" during that period.

New York law defines "adjusted net investment income" to mean net investment income for the twelve months immediately preceding the declaration or distribution of the current dividend increased by the excess, if any, of net investment income over dividends declared or distributed during the period commencing 36 months prior to the declaration or distribution of the current dividend and ending 12 months prior thereto.

Under an agreement with the New York Department of Financial Services, we were prohibited from issuing dividends on behalf of IIC within two years of the acquisition date of April 29, 2016. As of December 31, 2018, this agreement was no longer in effect.

See Note 14 to our Notes to Consolidated Financial Statements for further discussion of restrictions on future payments of dividends by our insurance affiliates.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the dollar change in the cumulative total stockholder return on our common stock from December 31, 2013 through December 31, 2018 as compared to the cumulative total return of the Russell 2000 Index and the Nasdaq Insurance Index. The cumulative total stockholder return is a concept used to compare the performance of a company's stock over time and is the ratio of the stock price change plus the cumulative amount of dividends over the specified time period (assuming dividend reinvestment), to the stock price at the beginning of the time period. The chart depicts the value on each December 31 from 2013 through 2018 of a $100 investment made on December 31, 2013 with all dividends reinvested.

	2013	2014	2015	2016	2017	2018
United Insurance Holdings Corp.	$100.00	$156.75	$123.26	$110.57	$127.66	$124.77
Russell 2000 Index	100.00	103.53	97.62	116.63	131.96	115.89
Nasdaq Insurance Index	100.00	108.54	115.55	133.62	137.87	126.14

The foregoing performance graph and data shall not be deemed "filed" as part of this Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section and should not be deemed incorporated by reference into any other filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such filing.

RECENT SALES OF UNREGISTERED SECURITIES

During 2018, we did not have any unregistered sales of our equity securities.

REPURCHASES OF EQUITY SECURITIES

During 2018, we did not repurchase any of our equity securities.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with Item 7 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing in Item 8 - “Financial Statements and Supplementary Data” of this Form 10-K. The consolidated statements of income data for the years ended December 31, 2018, 2017 and 2016 and the consolidated balance sheet data at December 31, 2018 and 2017 are derived from our audited financial statements appearing in Item 8 of this Form 10-K. The consolidated statements of income data for the years ended December 31, 2015 and 2014 and the balance sheet data at December 31, 2016, 2015 and 2014 are derived from our audited consolidated financial statements that are not included in this Form 10-K. The historical results shown below are not necessarily indicative of the results to be expected in any future period.

	As of and for the Years Ended December 31,				
	2018	2017	2016	2015	2014
Income Statement Data:					
Revenue:					
Gross premiums written	$1,252,401	$1,040,848	$708,156	$569,736	$436,753
Gross premiums earned	1,180,961	986,023	666,829	504,215	400,695
Net premiums earned	$689,276	$585,490	$456,931	$335,958	$264,850
Net investment gain	19,556	17,879	11,226	10,039	6,775
Other revenue	15,110	51,051	18,960	11,572	8,605
Total revenue	$723,942	$654,420	$487,117	$357,569	$280,230
Expenses:					
Loss and loss adjustment expenses	408,589	365,535	298,353	183,108	118,077
Other operating expenses	309,842	284,881	181,138	132,569	97,410
Interest expense	9,866	3,247	723	326	410
Total expenses	$728,297	$653,663	$480,214	$316,003	$215,897
Income (loss) before income taxes	(4,239)	910	7,003	41,860	64,410
Provision (benefit) for income taxes	(4,633)	(9,235)	1,305	14,502	23,397
Net income (loss)	$394	$10,145	$5,698	$27,358	$41,013
Less: Net income attributable to noncontrolling interests (NCI)	104	—	—	—	—
Net Income attributable to UIHC	$290	$10,145	$5,698	$27,358	$41,013
Earnings per share					
Basic	$0.01	$0.27	$0.27	$1.29	$2.06
Diluted	$0.01	$0.27	$0.26	$1.28	$2.05
Cash dividends declared per share	$0.24	$0.24	$0.23	$0.20	$0.16
Other Data:					
Return on equity[1]	0.1 %	2.2 %	2.4 %	12.4 %	27.2 %
Ceded ratio[2]	41.6 %	40.6 %	31.5 %	33.4 %	33.9 %
Ratios to net premiums earned:					
Loss and loss adjustment expenses	59.3 %	62.4 %	65.3 %	54.5 %	44.6 %
Expenses	45.0 %	48.7 %	39.6 %	39.5 %	36.8 %
Combined Ratio	104.3 %	111.1 %	104.9 %	94.0 %	81.4 %
Effect of current year catastrophe losses on combined ratio	14.5 %	19.8 %	12.2 %	8.5 %	0.3 %

Effect of prior year unfavorable (favorable) development on combined ratio	0.6 %	(0.4)%	3.7 %	(0.7)%	(1.5)%
Effect of ceding commission income on combined ratio	— %	6.3 %	1.5 %	— %	— %
Underlying Combined Ratio[3]	89.2 %	85.4 %	87.5 %	86.2 %	82.6 %

[1] Calculated by dividing the net income attributable to UIHC for the period by the average stockholders' equity attributable to UIHC.

[2] Calculated as ceded premiums earned divided by gross premiums earned. We use this operating metric to analyze our ceding loss trends.

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(3) Underlying combined ratio, a measure that is not based on accounting principles generally accepted in the United States of America (GAAP), is reconciled above to the combined ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this Form 10-K is in the “Definitions of Non-GAAP Measures” in Part II Item 7 of this Form 10-K.

	As of and for the Years Ended December 31,[1]				
	2018	2017	2016	2015	2014
Selected Balance Sheet Data:					
Cash and invested assets	$1,135,956	$1,130,806	$679,335	$537,500	$443,018
Ceded unearned premiums	217,885	201,904	132,564	79,399	63,827
Total Assets	2,321,428	2,059,921	999,686	740,021	584,169
Unpaid loss and loss adjustment expenses	$661,203	$482,232	$140,855	$76,792	$54,436
Unearned premiums	627,313	555,873	372,223	304,653	229,486
Reinsurance payable	175,272	149,117	99,891	64,542	45,254
Notes payable	160,118	161,364	54,175	12,353	13,529
Total Liabilities	1,781,059	1,522,796	758,359	500,810	380,406
Total stockholders’ equity attributable to UIHC stockholders	520,230	537,125	241,327	239,211	203,763
Noncontrolling Interest	20,139	—	—	—	—
Total Stockholders’ Equity	540,369	537,125	241,327	239,211	203,763
Statutory Surplus	$437,449	$389,384	$212,298	$150,860	$126,249

(1) Comparability of periods impacted by the acquisition of AmCo, FSH, and IIC in 2017, 2016 and 2015, respectively.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing in Part II, Item 8 of this Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed or implied in these forward-looking statements as a result of certain known and unknown risks and uncertainties. See “Forward-Looking Statements.”

OVERVIEW

United Insurance Holding Corp. is a holding company primarily engaged in residential personal and commercial property and casualty insurance in the United States. We conduct our business principally through four wholly-owned insurance subsidiaries and one majority-owned insurance subsidiary: United Property & Casualty Insurance Company (UPC); American Coastal Insurance Company (ACIC); Family Security Insurance Company (FSIC); Interboro Insurance Company (IIC); and Journey Insurance Company (JIC). Collectively, we refer to the holding company and all our subsidiaries, including non-insurance subsidiaries, as “UPC Insurance,” which is the preferred brand identification for our Company.

Our Company’s primary source of revenue is generated from writing insurance in Connecticut, Florida, Georgia, Hawaii, Louisiana, Massachusetts, New Jersey, New York, North Carolina, Rhode Island, South Carolina and Texas. We are also licensed to write property and casualty insurance in an additional six states; however, we have not commenced writing in these states. Our target market in such areas consists of states where the perceived threat of natural catastrophe has caused large national insurance carriers to reduce their concentration of policies. We believe an opportunity exists for UPC Insurance to write profitable business in such areas.

We have historically grown our business through strong organic growth complemented by strategic acquisitions and partnerships, including our acquisitions of AmCo Holding Company (AmCo) and its subsidiaries, including ACIC, in April 2017, IIC in April 2016, and Family Security Holdings, LLC (FSH), including its subsidiary FSIC in February 2015, and our strategic partnership with a subsidiary of Tokio Marine Kiln Group Limited (Kiln), which formed JIC in August 2018. As a result of these transactions, along with the organic growth of premium in states in which we currently write premium, we have grown our policies in-force by 10.2% from 528,193 policies in-force at December 31, 2017 to 582,096 policies in-force at December 31, 2018.

Our business is subject to the impact of weather-related catastrophes on our loss and loss adjustment expenses (LAE). During the third quarter of 2017, Hurricane Harvey made landfall in Texas and Hurricane Irma made landfall in Florida. In 2017, we retained $83,000,000 of pre-tax catastrophe losses, net of reinsurance recoverable as a result of hurricanes. During the year ended December 31, 2018, we increased our loss and LAE reserves as a result of development trends from Hurricane Irma that indicated our ultimate gross loss estimate should be increased. There was no net change or impact to our 2018 results as a result of this reserve re-estimation as it was 100% ceded under our catastrophe reinsurance program. During the third quarter of 2018, Hurricane Florence made landfall in North Carolina, and during the fourth quarter of 2018, Hurricane Michael made landfall in Florida. We estimate retention of $50,000,000 of pre-tax catastrophe losses, net of reinsurance recoverable, as a result of these storms.

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of UPC Insurance. In evaluating our results of operations, we use premiums written and earned, policies in-force and new and renewal policies by geographic concentration. We also consider the impact of catastrophe losses and prior year development on our loss ratios, expense ratios and combined ratios. In monitoring our investments, we use credit quality, investment income, cash flows, realized gains and losses, unrealized gains and losses, asset diversification and portfolio duration. To evaluate our financial condition, we consider our liquidity, financial strength, ratings, book value per share and return on equity.

Consolidated Net Income

	Year Ended December 31,		
	2018	2017	2016
REVENUE:			
Gross premiums written	$1,252,401	$1,040,848	$708,156
Change in gross unearned premiums	(71,440)	(54,825)	(41,327)
Gross premiums earned	1,180,961	986,023	666,829
Ceded premiums earned	(491,685)	(400,533)	(209,898)
Net premiums earned	689,276	585,490	456,931
Net investment income	27,201	17,812	10,679
Net realized gains	1,655	67	547
Net unrealized losses on equity securities	(9,300)	—	—
Other revenue	15,110	51,051	18,960
Total revenues	723,942	654,420	487,117
EXPENSES:			
Losses and loss adjustment expenses	408,589	365,535	298,353
Policy acquisition costs	203,140	175,444	117,658
Operating expenses	40,590	27,675	20,524
General and administrative expenses	66,112	81,762	42,956
Interest expense	9,866	3,247	723
Total expenses	728,297	653,663	480,214
Income (loss) before other income	(4,355)	757	6,903
Other income	116	153	100
Income (loss) before income taxes	(4,239)	910	7,003
(Benefit) provision for income taxes	(4,633)	(9,235)	1,305
Net income	$394	$10,145	$5,698
Less: Net income attributable to noncontrolling interests	$104	$—	$—
Net income attributable to UIHC	$290	$10,145	$5,698
Net income per diluted share	$0.01	$0.27	$0.26
Book value per share	$12.10	$12.56	$11.15
Return on equity based on GAAP net income	0.1 %	2.2 %	2.4 %
Loss ratio, net [1]	59.3 %	62.4 %	65.3 %
Expense ratio [2]	45.0 %	48.7 %	39.6 %
Combined ratio [3]	104.3 %	111.1 %	104.9 %
Effect of current year catastrophe losses on combined ratio	14.5 %	19.8 %	12.2 %
Effect of prior year development on combined ratio	0.6 %	(0.4)%	3.7 %
Effect of ceding commission income on combined ratio [4]	— %	6.3 %	1.5 %
Underlying combined ratio[5][6]	89.2 %	85.4 %	87.5 %

(1) Loss ratio, net is calculated as losses and LAE. net of losses ceded to reinsurers, relative to net premiums earned. We use this operating metric to analyze our loss trends.

(2) Expense ratio is calculated as the sum of all operating expenses less interest expense relative to net premiums earned. We use this operating metric to analyze our expense trends.

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

(4) For the year ended December 31, 2018, we presented $42,416,000 of ceding commissions earned as a $9,323,000 decrease to ceded earned premium and a $33,093,000 decrease in policy acquisition costs which reduced other revenue and removed the distortive impact to our underlying combined ratio.

(5) Underlying combined ratio, a measure that is not based on GAAP, is reconciled above to the combined ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented

in this Form 10-K can be found in “Definitions of Non-GAAP Measures”, below.

(6) Included in both the expense ratio and the combined ratio are merger professional fees and amortization expense predominately associated with the AmCo, IIC, and FSH acquisitions, which cause comparative differences among periods.

DEFINITIONS OF NON-GAAP MEASURES

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

Combined ratio excluding the effects of current year catastrophe losses, prior year reserve development and ceding commission income earned (underlying combined ratio) is a non-GAAP ratio, which is computed by subtracting the effect of current year catastrophe losses, prior year development, and ceding commission income earned related to our quota share reinsurance agreement from the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our business that may be obscured by current year catastrophe losses, prior year development, and ceding commission income earned. Current year catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on the combined ratio. Prior year development is caused by unexpected loss development on historical reserves. Ceding commission income compensates the Company for expenses it incurs in generating the premium ceded under our quota share reinsurance agreement. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. The most directly comparable GAAP measure is the combined ratio. The underlying combined ratio should not be considered as a substitute for the combined ratio and does not reflect the overall profitability of our business.

Net loss and LAE excluding the effects of current year catastrophe losses and prior year reserve development (underlying loss and LAE) is a non-GAAP measure which is computed by subtracting the effect of current year catastrophe losses and prior year reserve development from net loss and LAE. We use underlying loss and LAE figures to analyze our loss trends that may be impacted by current year catastrophe losses and prior year development on our reserves. As discussed previously, these two items can have a significant impact on our loss trends in a given period. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. The most directly comparable GAAP measure is net loss and LAE. The underlying loss and LAE measure should not be considered a substitute for net losses and LAE and does not reflect the overall profitability of our business.

Operating expenses excluding the effects of ceding commission income earned, merger expenses, and amortization of intangible assets (underlying expense) is a non-GAAP measure which is computed by subtracting ceding income earned related to our quota share reinsurance agreement, merger expenses and amortization of intangibles. Ceding commission income compensates the Company for expenses it incurs in generating the premium ceded under our quota share reinsurance agreement. Merger expenses are directly related to past mergers and are not reflective of current period operating performance. Similarly, amortization expense is related to the amortization of intangible assets acquired through mergers and therefore the expense does not arise through normal operations. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. The most directly comparable GAAP measure is operating expenses. The underlying expense measure should not be considered a substitute for operating expenses and does not reflect the overall profitability of our business.

RESULTS OF OPERATIONS - 2018 COMPARED TO 2017

Net income attributable to UIHC for the year ended December 31, 2018 decreased by $9,855,000, or 97.1% to $290,000, compared to net income of $10,145,000 for the year ended December 31, 2017. The decrease in net income was primarily due to an increase in losses and LAE, as well as policy acquisition expenses.

Revenues

Our gross written premiums increased by $211,553,000, or 20.3%, to $1,252,401,000 for the year ended December 31, 2018, from $1,040,848,000 for the year ended December 31, 2017, primarily reflecting organic growth in new and renewal business generated in all regions. The breakdown of the year-over-year changes in both direct and assumed written premiums by region and gross written premium by line of business are shown in the table below.

Direct Written and Assumed Premium By Region [1]	2018	2017	Change
Florida	$655,736	$540,796	$114,940
Gulf	210,230	201,475	8,755
Northeast	177,958	154,502	23,456
Southeast	104,266	92,753	11,513
Total direct written premium by region	$1,148,190	$989,526	$158,664
Assumed premium [2]	104,211	51,322	52,889
Total gross written premium by region	$1,252,401	$1,040,848	$211,553
Gross Written Premium by Line of Business			
Personal property [3]	$890,515	$799,097	$91,418
Commercial property	361,886	241,751	120,135
Total gross written premium by line of business	$1,252,401	$1,040,848	$211,553

(1) "Gulf" is comprised of Hawaii, Louisiana and Texas; "Northeast" is comprised of Connecticut, Massachusetts, New Jersey, New York and Rhode Island; and "Southeast" is comprised of Georgia, North Carolina and South Carolina.
(2) Assumed premium written for 2018 and 2017 primarily included commercial property business assumed from unaffiliated insurers.
(3) Includes gross written premium from flood policies.

New and Renewal Policies[1] By Region[2]	2018	2017	Change
Florida	249,033	226,136	22,897
Gulf	131,896	131,334	562
Northeast	135,835	115,709	20,126
Southeast	89,718	79,763	9,955
Total	606,482	552,942	53,540

(1) Only includes new and renewal homeowner, commercial and dwelling fire policies written during the year.
(2) "Gulf" is comprised of Hawaii, Louisiana and Texas; "Northeast" is comprised of Connecticut, Massachusetts, New Jersey, New York and Rhode Island; and "Southeast" is comprised of Georgia, North Carolina and South Carolina.

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

Expenses

Expenses for the year ended December 31, 2018 increased $74,634,000, or 11.4%, to $728,297,000 for the year ended December 31, 2018, from $653,663,000 for 2017. The increase in expenses was primarily due to an increase in losses and LAE combined with the change in presentation of ceding commission income in 2018 from other revenue to policy acquisition costs. The calculations of our combined loss ratios and underlying loss ratios are shown below.

($ in thousands)	Year Ended December 31, 2018	2017	Change
Net loss and LAE	$408,589	$365,535	$43,054
% of Gross earned premiums	34.6 %	37.1 %	(2.5) pts
% of Net earned premiums	59.3 %	62.4 %	(3.1) pts
Less:			
Current year catastrophe losses	$99,988	$116,424	$(16,436)
Prior year reserve unfavorable (favorable) development	4,318	(2,613)	6,931
Underlying loss and LAE [1]	$304,283	$251,724	$52,559
% of Gross earned premiums	25.8 %	25.5 %	0.3 pts
% of Net earned premiums	44.1 %	43.0 %	1.1 pts

[1] Underlying loss and LAE is a non-GAAP financial measure and is reconciled above to net loss and LAE, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this Form 10-K can be found in the "Definitions of Non-GAAP Measures" section, above.

The calculations of our expense ratios and underlying expense ratios are shown below.

($ in thousands)	Year Ended December 31, 2018	2017	Change
Policy acquisition costs	$203,140	$175,444	$27,696
Operating and underwriting	40,590	27,675	12,915
General and administrative	66,112	81,762	(15,650)
Total Operating Expenses	$309,842	$284,881	$24,961
% of Gross earned premiums	26.2 %	28.9 %	(2.7) pts
% of Net earned premiums	45.0 %	48.7 %	(3.7) pts
Less:			
Ceding commission income[1]	$—	$37,175	$(37,175)
Underlying expense [2]	$309,842	$247,706	$62,136
% of Gross earned premiums	26.2 %	25.1 %	1.1 pts
% of Net earned premiums	45.0 %	42.3 %	2.7 pts

[1] For the year ended December 31, 2018, we presented $42.4 million of ceding commissions earned as a $9.3 million decrease to ceded earned premium and a $33.1 million decrease in policy acquisition costs, which reduced other revenue and remove the distortive impact to our underlying expense ratio

[2] Underlying expense is a non-GAAP financial measure and is reconciled above to total operating expenses, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this Form 10-K can be found in the "Definitions of Non-GAAP Measures" section, above.

Loss and LAE increased by $43,054,000, or 11.8%, to $408,589,000 for the year ended December 31, 2018, from $365,535,000 for the year ended December 31, 2017. Loss and LAE expense as a percentage of net earned premiums decreased 3.1 points to 59.3% for the year ended December 31, 2018, compared to 62.4% for the year ended December 31, 2017. Excluding catastrophe losses and reserve development, our gross underlying loss and LAE ratio for the year ended December 31, 2018 would have been 25.8%, an increase of 0.3 points from 25.5% during the year ended December 31, 2017.

Policy acquisition costs increased by $27,696,000, or 15.8%, to $203,140,000 for the year ended December 31, 2018, from $175,444,000 for the year ended December 31, 2017. The primary drivers of the increase in costs were the managing general agent fees paid to AmRisc in relation to AmCo commercial premium which increased by approximately $50,401,000, along with an increase in agent commission costs of approximately $12,264,000, which were generally consistent with our growth in premium production and higher average market commission rates outside of Florida. These increases were partially offset by the approximately $33,093,000 decrease in costs resulting from the change in presentation of ceding commission income as an offset to policy acquisition costs in 2018.

Operating and underwriting expenses increased by $12,915,000, or 46.7%, to $40,590,000 for the year ended December 31, 2018, from $27,675,000 for the year ended December 31, 2017, primarily due to approximately $3,715,000 of increased agent incentive costs from our new contingent commission program, along with approximately $3,070,000 in incurred expenses related to our investment in software and approximately $1,464,000 of assessments incurred in Texas and North Carolina throughout the year.

General and administrative expenses decreased by $15,650,000, or 19.1%, to $66,112,000 for the year ended December 31, 2018, from $81,762,000 for the year ended December 31, 2017, primarily due to higher amortization costs related to the merger with AmCo incurred during the last three quarters of 2017 of approximately $16,095,000 that were fully expensed at the end of the first quarter of 2018.

We experienced unfavorable reserve development in the current year and its historical impact on our net loss and net underlying loss ratios is outlined in the following table.

	Historical Reserve Development				
($ in thousands, except ratios)	2014	2015	2016	2017	2018
Prior year reserve favorable (unfavorable) development	$4,037	$2,368	$(16,988)	$2,613	$(4,318)
Development as a % of earnings before interest and taxes	6.2 %	5.7 %	219.9 %	62.9 %	(76.7)%
Consolidated net loss and LAE ratio (LR)	44.6 %	54.5 %	65.3 %	62.4 %	59.3 %
Prior year reserve unfavorable (favorable) development on LR	(1.5)%	(0.7)%	3.7 %	(0.4)%	0.6 %
Current year catastrophe losses on LR	0.3 %	8.5 %	12.2 %	19.8 %	14.6 %
Underlying net loss and LAE ratio[1]	45.8 %	46.7 %	49.4 %	43.0 %	44.1 %

[1] Underlying net loss and LAE Ratio is a non-GAAP measure and is reconciled above to the Consolidated net loss and LAE Ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this Form 10-K can be found in the “Definitions of Non-GAAP Measures” section, above.

RESULTS OF OPERATIONS - 2017 COMPARED TO 2016

Net Income for the year ended December 31, 2017 was $10,145,000, or $0.27 per diluted share, compared to net income of $5,698,000, or $0.26 per diluted share, for the year ended December 31, 2016. The increase in net income was primarily due to an increase in gross premiums earned and improvement in our underlying loss ratio, as well as the favorable impact of the Tax Cuts and Jobs Act of 2017.

Revenues

Our total gross written premium increased by $332,692,000, or 47.0%, to $1,040,848,000 for the year ended December 31, 2017, from $708,156,000 for the year ended December 31, 2016, primarily reflecting our merger with AmCo on April 3, 2017, as well as strong organic growth in new and renewal business generated in our Gulf and Northeast regions. The breakdown of the year–over–year changes in both direct written and assumed premiums by region and gross written premium by line of business is shown in the following table:

Direct Written and Assumed Premium By Region [1]	2017	2016	Change
Florida	$540,796	$336,591	$204,205
Gulf	201,475	160,520	40,955
Northeast	154,502	123,964	30,538
Southeast	92,753	87,176	5,577
Total direct written premium	$989,526	$708,251	$281,275
Assumed premium [2]	51,322	(95)	51,417
Total gross written premium by region	$1,040,848	$708,156	$332,692
Gross Written Premium by Line of Business			
Personal property [3]	$799,097	$685,402	$113,695
Commercial property	241,751	22,754	218,997
Total gross written premium by line of business	$1,040,848	$708,156	$332,692

[1] “Gulf” is comprised of Hawaii, Louisiana and Texas; “Northeast” is comprised of Connecticut, Massachusetts, New Jersey, New York and Rhode Island; and “Southeast” is comprised of Georgia, North Carolina and South Carolina.
[2] Assumed premiums written for 2017 primarily included commercial property business assumed from unaffiliated insurers and 2016 premium assumed included homeowners’ business from Citizens Property Insurance Corporation and Texas Windstorm Insurance Association.
[3] Includes gross written premium from flood policies.

New and Renewal Policies[1] By Region [2]	2017	2016	Change
Florida	226,136	192,921	33,215
Gulf	131,334	105,334	26,000
Northeast	115,709	89,512	26,197
Southeast	79,763	69,018	10,745
Total	552,942	456,785	96,157

[1] Only includes new and renewal homeowner, commercial and dwelling fire policies written during the year.
[2] “Gulf” is comprised of Hawaii, Louisiana and Texas; “Northeast” is comprised of Connecticut, Massachusetts, New Jersey, New York and Rhode Island; and “Southeast” is comprised of Georgia, North Carolina and South Carolina.

Expenses

Expenses for the year ended December 31, 2017 increased $173,449,000, or 36.1%, to $653,663,000 for the year ended December 31, 2017, from $480,214,000 for the year ended December 31, 2016, primarily due to increased losses, policy acquisition costs, operating costs and general and administrative expenses. The calculation of our combined and underlying loss ratios is shown below:

($ in thousands)	Year Ended December 31, 2017	2016	Change
Loss and LAE	$365,535	$298,353	$67,182
% of Gross earned premiums	37.1 %	44.7 %	(7.6) pts
% of Net earned premiums	62.4 %	65.3 %	(2.9) pts
Less:			
Current year catastrophe losses	$116,424	$55,842	$60,582
Prior year reserve unfavorable (favorable) development	(2,613)	16,988	(19,601)
Underlying Loss and LAE [1]	$251,724	$225,523	$26,201
% of Gross earned premiums	25.5 %	33.8 %	(8.3) pts
% of Net earned premiums	43.0 %	49.4 %	(6.4) pts

[1] Underlying Loss and LAE is a non-GAAP financial measure and is reconciled above to Loss and LAE, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented can be found in this Form 10-K is in the “Definitions of Non-GAAP Measures” section, above.

The calculations of the Company’s expense ratio and underlying expense ratios are shown below.

($ in thousands)	Year Ended December 31, 2017	2016	Change
Policy acquisition costs	$175,444	$117,658	$57,786
Operating and underwriting	27,675	20,524	7,151
General and administrative	81,762	42,956	38,806
Total Operating Expenses	$284,881	$181,138	$103,743
% of Gross earned premiums	28.9 %	27.2 %	1.7 pts
% of Net earned premiums	48.7 %	39.6 %	9.1 pts
Less:			
Ceding commission income	$37,175	$6,882	$30,293
Merger expenses and amortization	38,104	11,108	26,996
Underlying Expense [1]	$209,602	$163,148	$46,454
% of Gross earned premiums	21.3 %	24.5 %	(3.2) pts
% of Net earned premiums	35.8 %	35.7 %	0.1 pts

[1] Underlying Expense is a non-GAAP financial measure and is reconciled above to total operating expenses, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this Form 10-K can be found in the “Definitions of Non-GAAP Measures” section, above.

Loss and LAE increased by $67,182,000, or 22.5%, to $365,535,000 for the year ended December 31, 2017 from $298,353,000 for the year ended December 31, 2016. Loss and LAE expense as a percentage of net earned premiums decreased 2.9 points to 62.4% for the year, compared to 65.3% last year. Excluding catastrophe losses and reserve development, our gross underlying loss and LAE ratio for the year was 25.5%, a decrease of 8.3 points from 33.8% during the year ended December 31, 2016.

During the third quarter of 2017, our catastrophe losses included claims from Hurricane Harvey, which made landfall as a category 4 storm in Texas, and Hurricane Irma, which was also a category 4 storm making landfall in Florida. Our catastrophe excess of loss reinsurance limits retained losses to $91,000,000 in total for these two events, which was further reduced to $83,000,000 by our quota share reinsurance.

Policy acquisition costs increased by $57,786,000, or 49.1%, to $175,444,000 for the year ended December 31, 2017, from $117,658,000 for the year ended December 31, 2016. The primary driver of the increase in costs was the managing general agent fees paid to AmRisc in relation to AmCo commercial premium, which was a cost increase anticipated with the acquisition of AmCo. The remaining change was the result of policy acquisition costs varying directly with changes in gross premiums earned and were generally consistent with our growth in premium production and higher average market commission rates outside of Florida.

Operating and underwriting expenses increased by $7,151,000 or 34.8%, to $27,675,000 for the year ended December 31, 2017, from $20,524,000 for the year ended December 31, 2016, primarily due to increased costs related to our ongoing growth, incurred expenses related to software improvements and costs related to the increase in underwriting reports.

General and administrative expenses increased by $38,806,000, or 90.3%, to $81,762,000 for the year ended December 31, 2017, from $42,956,000 for the year ended December 31, 2016, primarily due to amortization costs related to the merger with AmCo.

ANALYSIS OF FINANCIAL CONDITION - DECEMBER 31, 2018 COMPARED TO DECEMBER 31, 2017

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying consolidated financial statements and related notes in Part II, Item 8 in this Form 10-K.

Investments

The primary goals of our investment strategy are to preserve capital, maximize after-tax investment income, maintain liquidity and minimize risk. To accomplish our goals, we purchase debt securities in sectors that represent the most attractive relative value, and we maintain a moderate equity exposure. Limiting equity exposure manages risks and helps to preserve capital for two reasons: first, bond market returns are less volatile than stock market returns, and second, should the bond issuer enter bankruptcy liquidation, bondholders generally have a higher priority than equityholders in a bankruptcy proceeding.

We must comply with applicable state insurance regulations that prescribe the type, quality and concentrations of investments our insurance subsidiaries can make; therefore, our current investment policy limits investment in non-investment-grade fixed maturities and limits total investment amounts in preferred stock, common stock and mortgage notes receivable. We do not invest in derivative securities.

Two outside asset management companies, which have authority and discretion to buy and sell securities for us, manage our investments subject to (i) the guidelines established by our Board of Directors and (ii) the direction of management. The Investment Committee of our Board of Directors reviews and approves our investment policy on a regular basis.

Our cash and investment portfolios totaled $1,135,956,000 at December 31, 2018 compared to $1,130,806,000 at December 31, 2017.

The following table summarizes our investments, by type:

	December 31, 2018		December 31, 2017	
	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total
U.S. government and agency securities	$98,975	8.7 %	$92,626	8.2 %
Foreign governments	3,982	0.4 %	2,036	0.2 %
States, municipalities and political subdivisions	144,468	12.7 %	201,512	17.8 %
Public utilities	23,890	2.1 %	20,257	1.8 %
Corporate securities	301,988	26.6 %	287,562	25.4 %
Mortgage-backed securities	223,854	19.7 %	143,265	12.7 %
Asset-backed securities	64,037	5.6 %	14,905	1.3 %
Redeemable preferred stocks	1,151	0.1 %	692	0.1 %
Total fixed maturities	862,345	75.9 %	762,855	67.5 %
Mutual fund	50,016	4.4 %	31,924	2.8 %
Public utilities	1,759	0.2 %	1,702	0.2 %
Common stocks	27,198	2.4 %	27,902	2.5 %
Nonredeemable preferred stocks	2,005	0.2 %	1,767	0.2 %
Total equity securities	80,978	7.2 %	63,295	5.7 %

Other long-term investments	8,513	0.7 %	8,381	0.7 %
Portfolio loans	—	— %	20,000	1.8 %
Total investments	951,836	83.8 %	854,531	75.7 %
Cash and cash equivalents	112,679	9.9 %	229,556	20.3 %
Restricted Cash	71,441	6.3 %	46,719	4.0 %
Total cash and investments	$1,135,956	100.0%	$1,130,806	100.0%

We classify all of our investments as available-for-sale. Our investments at December 31, 2018 and 2017 consisted mainly of U.S. government and agency securities, states, municipalities and political subdivisions and securities of investment-grade corporate issuers. Our equity holdings consisted mainly of securities issued by companies in the energy, consumer products, financial, technology and industrial sectors. Most of the corporate bonds we hold reflected a similar diversification. At December 31, 2018, approximately 87.2% of our fixed maturities were U.S. Treasuries, or corporate bonds rated “A” or better, and 12.8% were corporate bonds rated “BBB” or “BB”.

Reinsurance

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

Our reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes. According to the Insurance Service Office (ISO), a catastrophe loss is defined as a single unpredictable incident or series of closely related incidents that result in $25,000,000 or more in U.S. industry-wide direct insured losses to property and that affect a significant number of policyholders and insurers (ISO catastrophes). In addition to ISO catastrophes, we also include as catastrophes those events (non-ISO catastrophes), which may include losses, that we believe are, or will be, material to our operations which we define as incidents that result in $1,000,000 or more in losses for multiple policyholders.

During the second quarter of 2018, we placed our reinsurance program for the 2018 hurricane season. We purchased catastrophe excess of loss reinsurance protection of $3,100,000,000. The contracts reinsure for personal and commercial lines property excess catastrophe losses caused by multiple perils including hurricanes, tropical storms, and tornadoes. The agreements were effective as of June 1, 2018, for a one-year term and incorporate the mandatory coverage required by and placed with the Florida Hurricane Catastrophe Fund.

Effective December 31, 2018, we extended our quota share reinsurance agreement that was set to expire on December 31, 2018 for a period through May 31, 2019. This quota share reinsurance agreement has a cession rate of 20% for all subject business. Effective January 1, 2019, we renewed the aggregate excess of loss agreement to provide coverage against accumulated losses from specified catastrophe events, for a term of 12 months.

Excluding our flood business, for which we cede 100% of the risk of loss, reinsurance costs for 2018 were 40.1% of gross premiums earned compared to 38.6% of gross premiums earned for 2017. The increase in this ratio was driven primarily by our quota share reinsurance program, which was in effect for eleven months during 2018, but for only one month during 2017.

We amortize our ceded unearned premiums over the annual agreement period, and we record that amortization in ceded premiums earned on our Consolidated Statements of Comprehensive Income (Loss). The table below summarizes the amounts of our ceded premiums written under the various types of agreements, as well as the amortization of ceded unearned premiums:

	Year Ended December 31,		
	2018	2017	2016
Quota Share	$(94,267)	$(88,379)	$(51,964)
Excess-of-loss	(389,633)	(331,289)	(183,272)
Equipment & identity theft	(9,163)	(9,576)	(8,313)
Novation of Auto Policies [(1)]	—	—	(2,396)
Flood	(19,207)	(18,085)	(16,395)

Ceded premiums written	$(512,270)	$(447,329)	$(262,340)
Increase in ceded unearned premiums	20,585	46,796	52,442
Ceded premiums earned	$(491,685)	$(400,533)	$(209,898)

(1) Reflects ceding of auto policy premiums to Maidstone Insurance Company as part of the settlement of the novation agreement entered into at the closing of the IIC transaction.

Current year catastrophe losses disaggregated between name and numbered storms and all other catastrophe loss events are shown in the following table.

	Number of Events	Incurred Loss and Loss adjustment expense (LAE) [1]	Combined Ratio Impact	
December 31, 2018				
Current period catastrophe losses incurred				
Named and numbered storms	5	$ 53,227	7.7	%
All other catastrophe loss events	27	46,761	6.8	%
Total	32	$ 99,988	14.5	%
December 31, 2017				
Current period catastrophe losses incurred				
Named and numbered storms	6	$ 84,226	14.4	%
All other catastrophe loss events	16	32,198	5.5	%
Total	22	$ 116,424	19.9	%
December 31, 2016				
Current period catastrophe losses incurred				
Named and numbered storms	4	$ 33,817	7.4	%
All other catastrophe loss events	15	22,025	4.8	%
Total	19	$ 55,842	12.2	%

[1] Incurred loss and LAE is equal to losses and LAE paid plus the change in case and incurred but not reported reserves. Shown net of losses ceded to reinsurers. Incurred loss and LAE and number of events includes the development on storms during the year in which it occurred.

See Note 9 in our Notes to Consolidated Financial Statements for additional information regarding our reinsurance program.

Unpaid Losses and Loss Adjustments

We generally use the term “loss(es)” to collectively refer to both loss and LAE. We establish reserves for both reported and unreported unpaid losses that have occurred at or before the balance sheet date for amounts we estimate we will be required to pay in the future, including provisions for claims that have been reported but are unpaid at the balance sheet date and for obligations on claims that have been incurred but not reported at the balance sheet date. Our policy is to establish these loss reserves after considering all information known to us at each reporting period. At any given point in time, our loss reserve represents our best estimate of the ultimate settlement and administration costs of our insured claims incurred and unpaid.

Unpaid losses and LAE totaled $661,203,000 and $482,232,000 as of December 31, 2018 and 2017, respectively. The balance has increased year over year as a result of increased reserves for both weather-related and non weather-related activity during 2018 compared to 2017.

Since the process of estimating loss reserves requires significant judgment due to a number of variables, such as fluctuations in inflation, judicial decisions, legislative changes and changes in claims handling procedures, our ultimate liability will likely differ from these estimates. We revise our reserve for unpaid losses as additional information becomes available, and reflect adjustments, if any, in our earnings in the periods in which we determine the adjustments as necessary.

See Note 10 in our Notes to Unaudited Consolidated Financial Statements for additional information regarding our losses and LAE.

LIQUIDITY AND CAPITAL RESOURCES

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

As a holding company, we do not conduct any business operations of our own and, as a result, we rely on cash dividends or intercompany loans from our management subsidiaries to pay our general and administrative expenses. Insurance regulatory authorities heavily regulate our insurance subsidiaries, including restricting any dividends paid by our insurance subsidiaries and requiring approval of any management fees our insurance subsidiaries pay to our management subsidiaries for services rendered; however, nothing restricts our non-insurance company subsidiaries from paying us dividends other than state corporate laws regarding solvency. Our management subsidiaries pay us dividends primarily using cash from the collection of management fees from our insurance subsidiaries, pursuant to the management agreements in effect between those entities. In accordance with state laws, our insurance subsidiaries may pay dividends or make distributions out of that part of their statutory surplus derived from their net operating profit and their net realized capital gains. The RBC guidelines published by the NAIC may further restrict our insurance subsidiaries' ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause their respective surplus as it regards policyholders to fall below minimum RBC guidelines. See Note 14 in our Notes to Consolidated Financial Statements and Part II, Item 5 for additional information.

During the years ended December 31, 2018 and 2017, we contributed $94,000,000, including our contribution to form our new subsidiary as described below, and $30,000,000 of capital to our insurance subsidiaries, respectively. We may make future contributions of capital to our insurance subsidiaries as circumstances require.

On November 6, 2018 ACIC and IIC paid dividends to the Company of $50,000,000 and $1,764,000, respectively.

During August 2018, we contributed $40,000,000 to fund a new subsidiary, JIC, and Kiln contributed $20,000,000, for total funding of $60,000,000. JIC is owned 66.7% by the Company and 33.3% by Kiln.

On December 13, 2017, we issued $150,000,000 of senior notes (Senior Notes) that will mature on December 15, 2027 and bear interest at a rate equal to 6.25% per annum payable semi-annually on each June 15 and December 15, commencing June 15, 2018. The Senior Notes are senior unsecured obligations of the Company. We may redeem the Senior Notes at our option, at any time and from time to time in whole or in part, at a redemption price equal to the greater of (i) 100% of the principal amount of the Senior Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest thereon from the date of redemption to the date that is three months prior to maturity. On and after that date, we may redeem the Senior Notes at par.

On April 3, 2017, we successfully completed our acquisition of AmCo. The acquisition was completed through a series of mergers that ultimately resulted in the Company issuing 20,956,355 shares of its common stock as merger consideration to the equity holders of RDX Holding, LLC, the former parent company of AmCo. As a result of the mergers, AmCo merged with and into a wholly-owned subsidiary of the Company. We incurred $7,000,000 of merger-related expenses. Please refer to Note 4 in the Notes to Consolidated Financial Statements for additional information on the merger transaction.

On December 5, 2016, we issued $30,000,000 of senior notes to private investors at an interest rate of 5.75% in excess of the three-month LIBOR. The notes were redeemed at par value on December 13, 2017 without a pre-payment penalty. Please refer to Note 11 in the Notes to Consolidated Financial Statements for a discussion of the additional terms associated with these notes.

On May 26, 2016, we issued a $5,200,000, 15-year term note payable to Branch Banking & Trust (BB&T) with the intent to use the funds to renovate, furnish and equip the principal location of our corporate executive offices. The note bears interest at 1.65% in excess of the one-month LIBOR. The interest rate resets monthly and was 4.00% at December 31, 2018. Please refer to Note 11 in the Notes to Consolidated Financial Statements for a discussion of the additional terms associated with this note.

On April 29, 2016, we acquired all of the outstanding common stock of IIC for $60,471,000. We paid $48,450,000 in cash at closing and issued a $8,550,000 promissory note to Interboro, LLC, the former parent company of IIC, which matured and was paid in October 2017. The purchase price also included the assumption of an accrued liability of $3,471,000, which was paid during July 2016. We incurred $224,000 of merger-related expenses. Please refer to Note 4 in the Notes to Consolidated

Financial Statements for additional information on the acquisition transaction, and Note 11 in the Notes to Consolidated Financial Statements for a discussion of the additional terms associated with this note.

Cash Flows for the Year Ended December 31, (in millions)

Operating Activities

The principal cash inflows from our operating activities come from premium collections, reinsurance recoveries, and investment income. The principal cash outflows from our operating activities are the result of claims and related costs, reinsurance premiums, policy acquisition costs, and salaries and employee benefits. A primary liquidity concern with respect to these cash flows is the risk of large magnitude catastrophe events.

During the years ended December 31, 2018 and December 31, 2017, some changes in operating assets and liabilities were significantly impacted by catastrophe losses associated with Hurricanes Florence and Michael in 2018, and Hurricanes Harvey and Irma in 2017. Unpaid losses and LAE increased significantly during the period and, as a result, we expect a considerable increase in cash outflows related to the payment of catastrophe claims in the near future. However, reinsurance recoverable on paid and unpaid losses also increased significantly during the period. We expect that a considerable increase in cash inflows related to reinsurance recoveries in the near future will largely offset the cash outflows from the payment of losses.

Investing Activities

The principal cash inflows from our investing activities come from repayments of principal, proceeds from maturities and sales of investments. We closely monitor and manage these risks through our comprehensive investment risk management process. The principal cash outflows relate to purchases of investments and cost of property, equipment and capitalized software acquired. Additional cash outflows relate to purchases of subsidiaries. The primary liquidity concerns with respect to these cash flows are the risk of default by debtors and market disruption. During the year ended December 31, 2018, cash used in investing activities increased $118,298,000 as the result of $24,183,000 higher net purchases of investments in 2018 when compared to 2017 and $95,284,000 in cash provided by investing activities as a result of the merger with AmCo in 2017 that did not recur during the year ended December 31, 2018.

Financing Activities

The principal cash inflows from our financing activities come from issuances of debt and other securities. The principal cash outflows come from repayments of debt and payments of dividends. The primary liquidity concern with respect to these cash flows is market disruption in the cost and availability of credit. We believe our current capital resources, together with cash provided from our operations, are sufficient to meet currently anticipated working capital requirements. During the year ended December 31, 2018, cash provided by financing activities decreased by $95,253,000 due to the issuance of $150,000,000 in senior notes during 2017 that did not recur in 2018 and the repayment of our $30,000,000 outstanding senior notes balance at the end of 2017 that did not recur in 2018.

RECENT ACCOUNTING STANDARDS

Please refer to Note 2(s) in our Notes to Consolidated Financial Statements for a discussion of recent accounting standards that may affect us.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements. The most critical estimates include those used in determining:

- reserves for unpaid losses,
- fair value of investments,
- investment portfolio impairments, and
- goodwill.

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance industry. It is reasonably likely that changes in these estimates could occur from time to time and result in a material impact on our consolidated financial statements.
In addition, the preparation of our financial statements in accordance with GAAP 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 and past results may not be indicative of results in future periods.

Reserves for Unpaid Losses and LAE

Reserves for unpaid losses and LAE represent the most significant accounting estimate inherent in the preparation of our financial statements. These reserves represent management's best estimate of the amount we will ultimately pay for losses and we base the amount upon the application of various actuarial reserve estimation techniques as well as considering other material facts and circumstances known at the balance sheet date.

As discussed in Note 10 in our Notes to Consolidated Financial Statements, we determine our ultimate losses by using multiple actuarial methods to determine an actuarial estimate within a relevant range of indications that we calculate using generally accepted actuarial techniques. Our selection of the actuarial estimate is influenced by the analysis of our historical loss and claims experience since inception. For each accident year, we estimate the ultimate incurred losses for both reported and unreported claims. In establishing this estimate, we reviewed the results of various actuarial methods discussed in Note 10 in our Notes to Consolidated Financial Statements.

Fair Value of Investments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We are responsible for the determination of fair value of financial assets and the supporting assumptions and methodologies. We use quoted prices from active markets and we use an independent third-party valuation service to assist us in determining fair value. We obtain only one single quote or price for each financial instrument.

As discussed in Note 3 in our Notes to Consolidated Financial Statements, we value our investments at fair value using quoted prices from active markets, to the extent available. For securities for which quoted prices in active markets are unavailable, we use observable inputs such as quoted prices in inactive markets, quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs. We have investments in limited partnerships that require us to use unobservable inputs.

Investment Portfolio Impairments

For investments classified as available for sale, the difference between fair value and cost or amortized cost for fixed income securities is reported as a component of accumulated other comprehensive income (loss) on our Consolidated Balance Sheet and is not reflected in our net income of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when a write-down is recorded due to an other-than-temporary decline in fair value. We have a portfolio monitoring process to identify and evaluate each fixed income security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, we assess whether management with the appropriate authority has made the decision to sell or whether it is more likely than not we will be required to sell the security before recovery of the amortized cost basis for reasons such as liquidity, contractual or regulatory purposes. If a security meets either of these criteria, the security's decline in fair value is considered other-than-temporary and is recorded in earnings.

If we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration, available reserves or escrows, current subordination levels, third party guarantees and other credit enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if we determine that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in accumulated other comprehensive income (loss). If we determine that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, we may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

Once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that a fixed income security is other-than-temporarily impaired, including: (1) general economic conditions that are worse than previously forecasted or that have a greater adverse effect on a particular issue, issuer, or industry sector than originally estimated; (2) changes in the facts and circumstances related to a particular issue or issuer's ability to meet all of its contractual obligations; and (3) changes in facts and circumstances that result in changes to management's intent to sell or result in our assessment that it is more likely than not we will be required to sell before recovery of the amortized cost basis of a fixed income security. Changes in assumptions, facts and circumstances could result in additional charges to earnings in future periods to the extent that losses are realized. The charge to earnings, while potentially significant to net income, would not have a significant effect on stockholders' equity, since our securities are designated as available for sale and carried at fair value and as a result, any related unrealized loss, net of taxes would already be reflected as a component of accumulated other comprehensive income (loss) in stockholders’ equity.

The determination of the amount of other-than-temporary impairment is an inherently subjective process based on periodic evaluations of the following factors: (1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; (2) the length of time and extent to which the fair value has been less than cost; (3) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; and (4) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations quarterly and reflect changes in other-than-temporary impairments in results of operations as such evaluations are revised. The use of different methodologies and assumptions in the determination of the amount of other-than-temporary impairments may have a material effect on the amounts presented within the consolidated financial statements.

Due to the adoption of Accounting Standards Update (ASU) 2016-01 (ASU 2016-01) as of January 1, 2018, equity securities are reported at fair value with changes in fair value recognized in valuation of equity investments and are no longer included in impairment write-downs, change in intent write-downs and sales.

See Note 2(b) in our Notes to Consolidated Financial Statements for further information regarding our impairment testing.

Measurement of Goodwill and Related Impairment

Goodwill is the excess of cost over the estimated fair value of net assets acquired. Goodwill is not amortized but is tested for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. We test goodwill for impairment by either performing a qualitative assessment or a two-step quantitative test and goodwill is impaired when it is determined that carrying value of a reporting unit is in excess of the fair value of that reporting unit. The valuation methodologies utilized are subject to key judgments and assumptions that are sensitive to change. Estimates of fair value are inherently uncertain and represent only management's reasonable expectation regarding future developments.

As discussed in Note 2(i) in our Notes to Consolidated Financial Statements, the qualitative assessment is an assessment of historical information and relevant events and circumstances to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. We may elect not to perform the qualitative assessment and perform a two-step quantitative impairment test.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2018, we did not have any off-balance-sheet arrangements.

CONTRACTUAL OBLIGATIONS

The following table summarizes our expected payments for contractual obligations at December 31, 2018:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Leases (1)	$1,060	$380	$479	$182	$19
Service agreements (2)	24,623	8,778	8,960	4,659	2,226
Long-term debt (3)	246,175	10,988	21,826	21,626	191,735
Employment agreements (4)	3,333	1,000	2,000	333	—
Unpaid loss and loss adjustment expenses (5)	661,203	396,485	190,381	59,681	14,656
Total	$936,394	$417,631	$223,646	$86,481	$208,636

(1) Represents operating and capital leases for our subsidiaries.

(2) Represents agreements entered into to purchase goods and services in the normal course of business.

(3) Represents repayment of $150,000,000 senior notes payable on December 15, 2027, principal payments totaling $8,824,000 over the remaining life of the SBA note, and principal payments totaling $4,304,000 over the remaining life of the BB&T note. Additionally, all future interest payments are calculated using the current rates provided at December 31, 2018, and are included. All future payments are shown net of amortization of debt issuance costs. See Note 11 in our Notes to Consolidated Financial Statements for additional information regarding

our long-term debt.

(4) Represents base salary for the unfulfilled portion of the original employment agreements with certain executive officers.

(5) As of December 31, 2018, UPC, FSIC, IIC, ACIC, and BlueLine Cayman Holdings had unpaid loss and LAE of $661,203,000. The specific amounts and timing of obligations related to known and unknown reserves and related LAE reserves are not set contractually, and the amounts and timing of these obligations are unknown. Nonetheless, based upon our cumulative claims paid over the last 19 years, we estimate that the loss and LAE reserves will be paid in the periods shown above. While we believe that historical performance of loss payment patterns is a reasonable source for projecting future claims payments, there is inherent uncertainty in this estimated projected settlement of loss and LAE reserves, and as a result these estimates will differ, perhaps significantly, from actual future payments.

RELATED PARTY TRANSACTIONS

See Note 15 in our Notes to Consolidated Financial Statements for a discussion of our related party transactions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our investment objective is to preserve capital, maximize after-tax investment income, maintain liquidity and minimize risk. Our current investment policy limits investment in non-investment grade debt securities, and limits total investments in preferred stock, common stock and mortgage notes receivables. We also comply with applicable laws and regulations that further restrict the type, quality and concentration of our investments. In general, these laws and regulations permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, and preferred and common equity securities.

Our investment policy was established by the Investment Committee of our Board of Directors and is reviewed regularly. Pursuant to this investment policy, our fixed-maturity portfolio is classified as available for sale and we report any unrealized gains or losses, net of deferred income taxes, as a component of other comprehensive income (loss) within our stockholders' equity. We do not hold any securities that are classified as held to maturity and we do not hold any securities for trading or speculation. We do not utilize any swaps, options, futures or forward contracts to hedge or enhance our investment portfolio. The unrealized gains or losses related to our equity securities are recorded on the income statement per the guidance in ASU 2016-01.

INTEREST RATE RISK

Fixed-maturity securities are sensitive to potential losses resulting from unfavorable changes in interest rates. We manage the risk by analyzing anticipated movements in interest rates and considering our future capital and liquidity requirements.

The following table illustrates the impact of hypothetical changes in interest rates on the fair value of our fixed-maturity securities at December 31, 2018, and 2017:

Hypothetical Change in Interest Rates	Estimated Fair Value	Change in Estimated Fair Value	Percentage Increase (Decrease) in Estimated Fair Value
2018			
300 basis point increase	$771,039	$(91,306)	(10.6)%
200 basis point increase	$801,470	$(60,875)	(7.1)%
100 basis point increase	$831,905	$(30,440)	(3.5)%
Fair value	$862,345	$—	— %
100 basis point decrease	$892,786		