UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
April 27, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	65-0231984
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

(954) 958-1200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,063,424 shares of common stock, par value $0.01 per share, outstanding on April 23, 2018.

UNIVERSAL INSURANCE HOLDINGS, INC.

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Universal Insurance Holdings, Inc. and Subsidiaries

Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the “Company”) as of March 31, 2018 and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three-month periods ended March 31, 2018 and 2017. These interim financial statements are the responsibility of the Company’s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of December 31, 2017 and the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated February 23, 2018. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Plante & Moran, PLLC

Chicago, Illinois

April 27, 2018

3

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

	As of	
	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Available-for-sale debt securities	$634,238	$639,334
Available-for-sale short-term investments	10,000	10,000
Equity securities	66,043	62,215
Investment real estate, net	19,406	18,474
Total invested assets	729,687	730,023
Cash and cash equivalents	244,673	213,486
Restricted cash and cash equivalents	2,635	2,635
Prepaid reinsurance premiums	53,123	132,806
Reinsurance recoverable	72,641	182,405
Reinsurance receivable, net	492	—
Premium receivable, net	57,455	56,500
Property and equipment, net	33,169	32,866
Deferred policy acquisition costs	78,007	73,059
Income taxes recoverable	—	9,472
Deferred income tax asset, net	11,436	9,286
Other assets	12,389	12,461
Total assets	$1,295,707	$1,454,999
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$129,637	$248,425
Unearned premiums	540,167	532,444
Advance premium	39,323	26,216
Accounts payable	3,486	2,866
Book overdraft	171	36,715
Reinsurance payable, net	54,218	110,381
Income taxes payable	4,436	—
Other liabilities and accrued expenses	46,675	45,096
Long-term debt	12,500	12,868
Total liabilities	830,613	1,015,011

Commitments and Contingencies (Note 12)		
STOCKHOLDERS' EQUITY:		
Cumulative convertible preferred stock, $.01 par value	—	—
Authorized shares - 1,000		
Issued shares - 10 and 10		
Outstanding shares - 10 and 10		
Minimum liquidation preference, $9.99 and $9.99 per share		
Common stock, $.01 par value	461	458
Authorized shares - 55,000		
Issued shares - 46,148 and 45,778		
Outstanding shares - 35,012 and 34,735		
Treasury shares, at cost - 11,136 and 11,043	(107,869)	(105,123)
Additional paid-in capital	84,294	86,186
Accumulated other comprehensive income (loss), net of taxes	(7,312)	(6,281)
Retained earnings	495,520	464,748
Total stockholders' equity	465,094	439,988
Total liabilities and stockholders' equity	$1,295,707	$1,454,999

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended March 31, 2018	2017
PREMIUMS EARNED AND OTHER REVENUES		
Direct premiums written	$269,984	$245,415
Change in unearned premium	(7,723)	(9,040)
Direct premium earned	262,261	236,375
Ceded premium earned	(79,684)	(74,816)
Premiums earned, net	182,577	161,559
Net investment income (expense)	4,785	2,704
Net realized gains (losses) on sale of securities	(2,641)	(63)
Net change in unrealized gains (losses) of securities	(5,109)	—
Commission revenue	5,271	4,598
Policy fees	4,775	4,483
Other revenue	1,842	1,593
Total premiums earned and other revenues	191,500	174,874
OPERATING COSTS AND EXPENSES		
Losses and loss adjustment expenses	75,926	70,570
General and administrative expenses	63,875	56,933
Total operating costs and expenses	139,801	127,503
INCOME BEFORE INCOME TAXES	51,699	47,371
Income tax expense	11,644	16,172
NET INCOME	$40,055	$31,199
Basic earnings per common share	$1.15	$0.89
Weighted average common shares outstanding - Basic	34,839	35,140
Diluted earnings per common share	$1.12	$0.86
Weighted average common shares outstanding - Diluted	35,660	36,180
Cash dividend declared per common share	$0.14	$0.14

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended March 31, 2018	2017
Net income	$40,055	$31,199
Other comprehensive income (loss), net of taxes	(4,050)	2,464
Comprehensive income	$36,005	$33,663

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$52,326	$71,998
Cash flows from investing activities:		
Proceeds from sale of property and equipment	12	8
Purchases of property and equipment	(1,314)	(1,255)
Purchases of equity securities	(9,857)	(243)
Purchases of available-for-sale debt securities	(121,996)	(26,610)
Purchases of investment real estate, net	(1,034)	(1,714)
Proceeds from sales of equity securities	1,045	2,500
Proceeds from sales of available-for-sale debt securities	99,464	914
Maturities of available-for-sale debt securities	25,363	18,915
Net cash provided by (used in) investing activities	(8,317)	(7,485)
Cash flows from financing activities:		
Preferred stock dividend	(3)	(3)
Common stock dividend	(4,912)	(4,924)
Purchase of treasury stock	(2,746)	(2,548)
Payments related to tax withholding for share-based compensation	(4,793)	(1,337)
Repayment of debt	(368)	(1,067)
Net cash provided by (used in) financing activities	(12,822)	(9,879)
Cash and cash equivalents, and restricted cash and cash equivalents:		
Net increase (decrease) during the period	31,187	54,634
Balance, beginning of period	216,121	108,365
Balance, end of period	$247,308	$162,999

The following table summarizes our cash and cash equivalents and restricted cash and cash equivalents within the Condensed Consolidated Balance Sheets (in thousands):

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$244,673	$213,486
Restricted cash and cash equivalents (1)	2,635	2,635
Total cash and cash equivalents and restricted cash and cash equivalents	$247,308	$216,121

(1) See "—Note 5 (Insurance Operations)," for a discussion of the nature of the restrictions for restricted cash and cash equivalents.

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc. ("UVE") is a Delaware corporation incorporated in 1990. UVE with its wholly-owned subsidiaries (the "Company") is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned insurance company subsidiaries, Universal Property & Casualty Insurance Company ("UPCIC") and American Platinum Property and Casualty Insurance Company ("APPCIC"), together referred to as the "Insurance Entities," the Company is principally engaged in the property and casualty insurance business offered primarily through its network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company's primary product is residential homeowners' insurance currently offered in sixteen states as of March 31, 2018, including Florida, which comprises the vast majority of the Company's in-force policies. See "—Note 5 (Insurance Operations)" for more information regarding the Company's insurance operations.

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

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements ("Financial Statements") in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, the Financial Statements do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles ("U. S. GAAP") for annual financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 23, 2018. The condensed consolidated balance sheet at December 31, 2017, was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

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

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

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

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2017. The following are new or revised disclosures or disclosures required on a quarterly basis.

Recently Adopted Accounting Pronouncements

In January 2016, the FASB revised U.S. GAAP with the issuance of ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities to improve the recognition and measurement of financial instruments. The new ASU requires certain investments in equity securities to be measured at fair value with changes in fair value reported in earnings and requires changes in instrument-specific credit risk for financial liabilities recorded at fair value under the fair value option to be reported in OCI. The Company adopted this ASU effective January 1, 2018 using the modified retrospective transition method and recorded a cumulative effect adjustment of $3.6 million to the Condensed Consolidated Balance Sheets to reclassify unrealized losses on investments in equity securities to retained earnings from other comprehensive income. The adoption of this ASU also resulted in the recognition of change in unrealized gains and losses for equity security investments as a separate component in the Condensed Consolidated Statements of Income during the three months ended March 31, 2018.

In August 2016, the FASB revised U.S. GAAP with the issuance of ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new ASU applies to: 1) debt prepayment or debt extinguishment costs, 2) settlement of zero-coupon debt instruments, 3) contingent consideration payments made after business combination, 4) proceeds from the settlement of insurance claims, 5) proceeds from the settlement of corporate-owned life insurance policies, 6) distributions received from equity method investments, 7) beneficial interests in securitization transactions, and 8) separately identifiable cash flows and application of the predominance principle. Historically, the items outlined above have not been applicable to the Company. The Company adopted this ASU effective January 1, 2018 and the adoption did not have an impact on our Condensed Consolidated Statements of Cash Flows.

In November 2016, the FASB revised U.S. GAAP, Statement of Cash Flows (Topic 230): Restricted Cash with the issuance of the ASU 2016-18, to reduce diversity in the classification and presentation of changes in restricted cash in the statement of cash flows. The new ASU requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company is required to reconcile such total to amounts on the Condensed Consolidated Balance Sheets and disclose the nature of the restrictions. The Company adopted this ASU effective January 1, 2018, which only resulted in a change in the presentation of the Condensed Consolidated Statements of Cash Flows.

In February 2018, the Financial Accounting Standards Board (“FASB”) revised U.S. GAAP, Comprehensive Income (Topic 220), with the issuance of Accounting Standards Update (“ASU”) 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income in response to the enactment of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) on December 22, 2017. The new ASU permits a company to reclassify the disproportionate income tax effects of the Tax Act on items within accumulated other comprehensive income (“AOCI”) to retained earnings and requires certain new disclosures. The Company adopted this guidance effective January 1, 2018 and made an election to reclassify the income tax effects of the 2017 Act from AOCI to retained earnings. The reclassification of approximately $0.6 million reduced retained earnings. The reclassification represents the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances at the date of enactment of the Tax Act related to items remaining in accumulated other comprehensive income. The Company follows an aggregate portfolio approach and considers that it had two portfolios, an available for sale debt equity portfolio and an available for sale equity portfolio, the disproportionate tax effects relating to the available for sale equity portfolio were included in the transition adjustment when adopting ASU 2016-01.

3. Investments

Securities Available for Sale

The following table provides the amortized cost and fair value of debt and short-term investment securities available for sale as of the dates presented (in thousands):

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities:				
U.S. government obligations and agencies	$60,073	$ —	$ (1,276)	$58,797
Corporate bonds	302,764	299	(4,333)	298,730
Mortgage-backed and asset-backed securities	234,053	39	(4,593)	229,499
Municipal bonds	34,327	4	(47)	34,284
Redeemable preferred stock	12,671	386	(129)	12,928
Short-term investments	10,000	—	—	10,000
Total	$653,888	$ 728	$ (10,378)	$644,238

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities:				
U.S. government obligations and agencies	$60,481	$ —	$ (877)	$59,604
Corporate bonds	228,336	476	(1,308)	227,504
Mortgage-backed and asset-backed securities	221,956	19	(2,523)	219,452
Municipal bonds	120,883	599	(1,187)	120,295
Redeemable preferred stock	12,059	485	(65)	12,479
Short-term investments	10,000	—	—	10,000
Total	$653,715	$ 1,579	$ (5,960)	$649,334

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

March 31, 2018	December 31, 2017

Comparable Ratings	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
AAA	$126,242	19.6 %	$135,237	20.8 %
AA	250,660	38.9 %	292,496	45.1 %
A	152,908	23.7 %	134,505	20.7 %
BBB	109,087	16.9 %	80,566	12.4 %
BB+ and Below	2,945	0.5 %	2,919	0.4 %
No Rating Available	2,396	0.4 %	3,611	0.6 %
Total	$644,238	100.0 %	$649,334	100.0 %

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

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

	March 31, 2018 Amortized Cost	Fair Value	December 31, 2017 Amortized Cost	Fair Value
Mortgage-backed Securities:				
Agency	$132,498	$129,750	$118,014	$116,014
Non-agency	19,650	19,286	17,676	17,488
Asset-backed Securities:				
Auto loan receivables	39,313	39,011	35,105	34,962
Credit card receivables	16,172	16,017	38,844	38,719
Other receivables	26,420	25,435	12,317	12,269
Total	$234,053	$229,499	$221,956	$219,452

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

	March 31, 2018 Less Than 12 Months Number of Issues	Fair Value	Unrealized Losses	12 Months or Longer Number of Issues	Fair Value	Unrealized Losses
Debt Securities:						
U.S. government obligations and agencies	10	$40,203	$ (553)	5	$23,590	$ (723)
Corporate bonds	314	226,028	(3,328)	35	31,603	(1,005)
Mortgage-backed and asset-backed securities	102	140,047	(2,090)	47	68,200	(2,503)
Municipal bonds	6	3,289	(47)	—	—	—
Redeemable preferred stock	66	3,271	(129)	—	—	—
Total	498	$412,838	$ (6,147)	87	$123,393	$ (4,231)

	December 31, 2017 Less Than 12 Months Number of Issues	Fair Value	Unrealized Losses	12 Months or Longer Number of Issues	Fair Value	Unrealized Losses

Debt Securities:						
U.S. government obligations and agencies	7	$35,464	$ (301)	9	$24,140	$ (576)
Corporate bonds	159	142,208	(792)	39	29,796	(516)
Mortgage-backed and asset-backed securities	83	137,481	(955)	37	70,218	(1,568)
Municipal bonds	36	28,265	(246)	30	48,370	(941)
Redeemable preferred stock	21	2,464	(65)	—	—	—
Total	306	$345,882	$ (2,359)	115	$172,524	$ (3,601)

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

As of March 31, 2018, the Company held available-for-sale debt securities that were in an unrealized loss position as presented in the table above. For available-for-sale debt securities with significant declines in value, the Company performs quarterly fundamental credit analysis on a security-by-security basis, which includes consideration of credit quality and credit ratings, review of relevant industry analyst reports and other available market data. For available-for-sale debt securities, the Company considers whether it has the intent and ability to hold the available-for-sale debt securities for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the security’s decline in fair value is considered other than temporary and is recorded in earnings. Based on our analysis, our fixed income portfolio is of high quality and we believe that we will recover the amortized cost basis of our available-for-sale debt securities. We continually monitor the credit quality of our investments in available-for-sale debt securities to assess if it is probable that we will receive our contractual or estimated cash flows in the form of principal and interest. Additionally, the Company considers management’s intent and ability to hold the available-for-sale debt securities until recovery and its credit analysis of the individual issuers of the securities. Based on this process and analysis, management has no reason to believe the unrealized losses for available-for-sale debt securities available for sale as of March 31, 2018 are other than temporary.

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

	March 31, 2018	
	Amortized Cost	Fair Value
Due in one year or less	$61,458	$61,266
Due after one year through five years	216,211	212,187
Due after five years through ten years	86,662	85,479
Due after ten years	42,833	42,879
Mortgage-backed and asset-backed securities	234,053	229,499
Perpetual maturity securities	12,671	12,928
Total	$653,888	$644,238

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

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

	Three Months Ended March 31,	
	2018	2017
Proceeds from sales and maturities (fair value):		
Available-for-sale debt securities	$124,827	$19,829
Equity securities	$1,045	$2,500
Gross realized gains on sale of securities:		
Available-for-sale debt securities	$307	$—
Equity securities	$124	$—
Gross realized losses on sale of securities:		
Available-for-sale debt securities	$(3,072)	$(36)
Equity securities	$—	$(27)

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

	Three Months Ended March 31, 2018	2017
Available-for-sale debt securities	$3,700	$2,710
Equity securities	583	382
Available-for-sale short-term investments	89	15
Other (1)	1,054	144
Total investment income	5,426	3,251
Less: Investment expenses (2)	(641)	(547)
Net investment (expense) income	$4,785	$2,704

(1) Includes interest earned on cash and cash equivalents and restricted cash and cash equivalents. Also includes investment income earned on real estate investments.
(2) Includes bank fees, investment accounting and advisory fees, and expenses associated with real estate investments.

Equity Securities

The following table presents the portion of unrealized gains and losses related to equity securities for the periods presented (in thousands):

	Three Months Ended March 31, 2018	2017
Net gains and (losses) recognized during the period on equity securities	$(4,985)	$(27)
Less: Net (gains) and losses recognized during the period on equity securities sold during the period	(124)	27
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting period	$(5,109)	$—

Investment Real Estate

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

	March 31, 2018	December 31, 2017
Income Producing:		
Investment real estate (1)	$14,530	$ 6,918
Less: Accumulated depreciation	(561)	(460)
	13,969	6,458
Non-Income Producing:		
Properties under development (1)	5,437	12,016
Investment real estate, net	$19,406	$ 18,474

(1) During the three months ended March 31, 2018, the Company transferred $7.4 million from properties under development to investment real estate.

Depreciation expense related to investment real estate for the periods presented (in thousands):

	Three Months Ended March 31, 2018	2017
Depreciation expense on investment real estate	$103	$ 45

12

4. Reinsurance

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

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

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

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

	Ratings as of March 31, 2018			Due from as of	
Reinsurer	AM Best Company	Standard and Poor's Rating Services	Moody's Investors Service, Inc.	March 31, 2018	December 31, 2017
Allianz Risk Transfer	A+	AA-	n/a	$39,007	$105,573
Florida Hurricane Catastrophe Fund (1)	n/a	n/a	n/a	20,822	52,054
Renaissance Reinsurance Ltd	A+	AA-	A1	—	22,545
Total (2)				$59,829	$180,172

(1) No rating is available, because the fund is not rated.
(2) Amounts represent prepaid reinsurance premiums, reinsurance receivables, net recoverables for paid and unpaid losses, including incurred but not reported reserves, loss adjustment expenses, and offsetting reinsurance payables.

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

Three Months Ended March 31,	
2018	2017

	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
Direct	$269,984	$262,261	$ 76,639	$245,415	$236,375	$ 70,783
Ceded	—	(79,684)	(713)	(186)	(74,816)	(213)
Net	$269,984	$182,577	$ 75,926	$245,229	$161,559	$ 70,570

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

	March 31, 2018	December 31, 2017
Prepaid reinsurance premiums	$53,123	$132,806
Reinsurance recoverable on unpaid losses and LAE	$72,641	$182,405
Reinsurance receivable, net	492	—
Reinsurance recoverable (payable) and receivable	$73,133	$182,405

13

5. Insurance Operations

Deferred Policy Acquisition Costs

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

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

	Three Months Ended March 31,	
	2018	2017
DPAC, beginning of period	$73,059	$64,912
Capitalized Costs	41,939	33,756
Amortization of DPAC	(36,991)	(32,144)
DPAC, end of period	$78,007	$66,524

Regulatory Requirements and Restrictions

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

In accordance with Florida Insurance Code, and based on the calculations performed by the Company as of December 31, 2017, UPCIC has the capacity to pay ordinary dividends of $36.2 million during 2018. APPCIC does not currently meet the earnings or surplus regulatory requirements to pay ordinary dividends during 2018. For the three months ended March 31, 2018, no dividends were paid from UPCIC or APPCIC to UVECF.

The Florida Insurance Code requires insurance companies to maintain capitalization equivalent to the greater of ten percent of the insurer’s total liabilities but not less than $10.0 million. The following table presents the amount of capital and surplus calculated in accordance with statutory accounting principles, which differ from U.S. GAAP, and an amount representing ten percent of total liabilities for both UPCIC and APPCIC as of the dates presented (in thousands):

	March 31, 2018	December 31, 2017
Ten percent of total liabilities		
UPCIC	$76,680	$72,633
APPCIC	$598	$572
Statutory capital and surplus		
UPCIC	$321,132	$307,686
APPCIC	$16,696	$16,633

As of the dates in the table above, both UPCIC and APPCIC exceeded the minimum statutory capitalization requirement. UPCIC also met the capitalization requirements of the other states in which it is licensed as of March 31, 2018. UPCIC and APPCIC are also required to adhere to prescribed premium-to-capital surplus ratios and have met those requirements at such dates. Combined net income for UPCIC and APPCIC, as determined in accordance with statutory accounting practices is $14.5 million and $11.8 million for the three months ended March 31, 2018 and 2017, respectively.

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

	March 31, 2018	December 31, 2017
Restricted cash and cash equivalents	$2,635	$ 2,635
Investments	$3,907	$ 3,910

6. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	Three Months Ended March 31,	
	2018	2017
Balance at beginning of period	$248,425	$58,494
Less: Reinsurance recoverable	(182,405)	(106)
Net balance at beginning of period	66,020	58,388
Incurred (recovered) related to:		
Current year	75,970	70,474
Prior years	(44)	96
Total incurred	75,926	70,570
Paid related to:		
Current year	17,407	22,890
Prior years	65,253	72,252
Total paid	82,660	95,142
Net balance at end of period	59,286	33,816
Plus: Reinsurance recoverable/(payable)	70,351	(2,353)
Balance at end of period	$129,637	$31,463

7. Long-Term Debt

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

	March 31, 2018	December 31, 2017
Surplus note	$12,500	$ 12,868

UPCIC was in compliance with the terms of the surplus note as of March 31, 2018.

16

8. Stockholders' Equity

Common Stock

The following table summarizes the activity relating to shares of the Company's common stock during the three months ended March 31, 2018 (in thousands):

	Issued Shares	Treasury Shares	Outstanding Shares
Balance, as of December 31, 2017	45,778	(11,043)	34,735
Shares repurchased	—	(93)	(93)
Vesting of performance share units	127	—	127
Stock option exercises	804	—	804
Restricted stock grants	50	—	50
Shares acquired through cashless exercise (1)	—	(611)	(611)
Shares cancelled	(611)	611	—
Balance, as of March 31, 2018	46,148	(11,136)	35,012

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

In September 2017, UVE's Board of Directors authorized a share repurchase program under which UVE may repurchase in the open market in compliance with Exchange Act Rule 10b-18, up to $20 million of the Company's outstanding shares of common stock through December 31, 2018. During the three months ended March 31, 2018, UVE repurchased 92,749 shares, at an aggregate price of approximately $2.7 million, pursuant to such repurchase program.

Dividends

On January 22, 2018, UVE declared a cash dividend of $0.14 per share on its outstanding common stock paid on March 12, 2018, to the shareholders of record at the close of business on February 28, 2018.

9. Income Taxes

During the three months ended March 31, 2018 and 2017, the Company recorded approximately $11.6 million and $16.2 million of income tax expense, respectively. The effective tax rate for the three months ended March 31, 2018 was 22.5% compared to a 34.1% effective tax rate for the same period in the prior year.

The Company's income tax provision for the current reporting period reflects an estimated annual effective tax rate of 25.6%, calculated before the impact of discrete items. The annual estimated effective tax rate consists of a federal income tax rate of 21% and a state income tax rate, net of federal benefit, of 3.7%. The difference in the statutory rate, 24.7%, and the annual effective tax rate, 25.6%, largely consists of new limitations on the deductibility of executive compensation resulting from the new tax law's changes to Internal Revenue Code Section 162(m). The effect of reporting discrete items in the quarter amounts to an additional decrease to the annual estimated effective tax rate of 3.1%, resulting in a total estimated effective tax rate of 22.5% for the quarter.

Discrete items for the current year's quarter included a credit to income tax expense of $1.8 million for excess tax benefits resulting from stock-based compensation awards that vested and/or were exercised during the first quarter of 2018, benefitting the current quarter's effective tax rate. The prior year's discrete items for the same quarter included $0.8 million of excess tax benefits resulting from stock-based compensation awards that vested and/or exercised during that period and a credit to income tax expense of $1.2 million resulting from anticipated recoveries of income taxes paid for the 2014-2015 tax years.

In arriving at these rates, the Company considers a variety of factors including the forecasted full year pre-tax results, the U.S. federal tax rate of 21%, expected non-deductible expenses, and estimated state income taxes. The Company's final effective tax rate for the full year will be dependent on the level of pre-tax income, discrete items, the apportionment of taxable income among state tax jurisdictions and the extent of non-deductible expenses in relation to pre-tax income.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Company's 2014 through 2016 tax years are still subject to examination by the Internal Revenue Service and various tax years remain open to examination in certain state jurisdictions. In February 2018, the Company received notification from the Internal Revenue Service for an examination of the 2015 tax return.

10. Earnings Per Share

Basic earnings per share ("EPS") is based on the weighted average number of common shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution resulting from the exercises of stock options, vesting of restricted stock, vesting of performance share units, and conversion of preferred stock.

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

	Three Months Ended March 31,	
	2018	2017
Numerator for EPS:		
Net income	$40,055	$31,199
Less: Preferred stock dividends	(3)	(3)
Income available to common stockholders	$40,052	$31,196
Denominator for EPS:		
Weighted average common shares outstanding	34,839	35,140
Plus: Assumed conversion of share-based compensation (1)	796	1,015
Assumed conversion of preferred stock	25	25
Weighted average diluted common shares outstanding	35,660	36,180
Basic earnings per common share	$1.15	$0.89
Diluted earnings per common share	$1.12	$0.86

(1) Represents the dilutive effect of unvested restricted stock, unvested performance share units and unexercised stock options.

11. Other Comprehensive Income (Loss)

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

	Three Months Ended March 31,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net changes related to available-for-sale securities:						
Unrealized holding gains (losses) arising during the period	$(8,034)	$(1,889)	$(6,145)	$3,925	$1,500	$2,425
Less: Reclassification adjustment for (gains) losses realized in net income	2,765	670	2,095	63	24	39
Other comprehensive income (loss)	(5,269)	(1,219)	(4,050)	3,988	1,524	2,464
Reclassification adjustments to retained earnings (1)	5,830	2,811	3,019	—	—	—
Change in accumulated other comprehensive income (loss)	$561	$1,592	$(1,031)	$3,988	$1,524	$2,464

(1) This amount represents reclassifications to retained earnings associated with stranded tax effects in AOCI and Unrealized Losses in AOCI relating to Available for Sale equity security investments. See "—Note 2 — Significant Accounting Polices – Recently Adopted Accounting Pronouncements" for more information.

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended March 31, 2018	2017	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on available-for-sale debt securities			
	$(2,765)	$(63)	Net realized gains (losses) sale of securities
	670	24	Income taxes

Total reclassification for the period	$ (2,095)	$ (39)	Net of tax

12. Commitments and Contingencies

Litigation

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

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

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

13. Fair Value Measurements

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

- Level 1 — Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data.
- Level 3 — Unobservable inputs that are not corroborated by market data. These inputs reflect management’s best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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

Level 1

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

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

Level 2

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

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

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

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

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

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

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

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

Fair Value Measurements March 31, 2018		
Level 1	Level 2	Level 3