

UNITED INSURANCE HOLDINGS CORP.

Form 10-Q

May 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2016

Commission File Number 001-35761

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United Insurance Holdings Corp.

(Exact name of Registrant as specified in its charter)

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Delaware 75-3241967

(State of Incorporation) (IRS Employer Identification Number)

800 2nd Avenue S

St. Petersburg, Florida 33701

(Address, including zip code, of principal executive offices)

727-895-7737

(Registrant's telephone number, including area code)

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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  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of May 4, 2016; 21,594,948 shares of common stock, par value \$0.0001 per share, were outstanding.



UNITED INSURANCE HOLDINGS CORP.

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**PART I. FINANCIAL INFORMATION**

|   |           |
|---|-----------|
| Item 1. Financial Statements  | <u>4</u>  |
| Consolidated Balance Sheets   | <u>4</u>  |
| Unaudited Consolidated Statements of Comprehensive Income                                     | <u>5</u>  |
| Unaudited Consolidated Statements of Cash Flows   | <u>6</u>  |
| Notes to Unaudited Consolidated Financial Statements  | <u>7</u>  |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>25</u> |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | <u>35</u> |
| Item 4. Controls and Procedures   | <u>35</u> |

**PART II. OTHER INFORMATION**

|   |           |
|---|-----------|
| Item 1. Legal Proceedings   | <u>36</u> |
| Item 1A. Risk Factors   | <u>36</u> |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | <u>36</u> |
| Item 3. Defaults Upon Senior Securities                             | <u>37</u> |
| Item 4. Mine Safety Disclosures                                     | <u>37</u> |
| Item 5. Other Information   | <u>37</u> |
| Item 6. Exhibits  | <u>38</u> |
| Signatures  | <u>39</u> |

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

UNITED INSURANCE HOLDINGS CORP.

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FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q as of March 31, 2016, and for the three months then ended or in documents incorporated by reference that do not reflect historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity, and our ability to meet our investment objectives and to manage and mitigate market risk with respect to our investments. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management’s beliefs and assumptions. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue,” the negative variations of those words, or comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the regulatory, economic and weather conditions in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost and availability of reinsurance;
- assessments charged by various governmental agencies;
- pricing competition and other initiatives by competitors;
- our ability to attract and retain the services of senior management;
- the outcome of litigation pending against us, including the terms of any settlements;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- our exposure to catastrophic events and severe weather conditions;
- downgrades in our financial strength ratings; and
- other risks and uncertainties described in the section entitled "Risk Factors" in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2015 and in Part II, Item 1A of this Form 10-Q.

We caution you not to place reliance on these forward-looking statements, which are valid only as of the date they were made. In addition, we prepare our financial statements in accordance with U.S. generally accepted accounting principles (GAAP), which prescribes when we may reserve for particular risks, including litigation exposures. Accordingly, our results for a given reporting period could be significantly affected if and when we establish a reserve for a major contingency. Therefore, the results we report in certain accounting periods may appear to be volatile and past results may not be indicative of results in future periods.

Our forward-looking statements are subject to numerous risks, uncertainties and assumptions that are described in our filings with the SEC. The forward-looking events that we discuss in this Form 10-Q are valid only as of the date of this Form 10-Q and may not occur, or may have different consequences, in light of the risks, uncertainties and assumptions that we describe from time to time in our filings with the SEC. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our forward-looking statements is included in the section entitled “RISK FACTORS” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2015 and in Part II, Item 1A of this Form 10-Q. Except as required by applicable law, we undertake no obligation and disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



## UNITED INSURANCE HOLDINGS CORP.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Consolidated Balance Sheets

|   | March 31,<br>2016 | December 31,<br>2015 |
|---|-------------------|----------------------|
|   | (Unaudited)       |                      |
| <b>ASSETS</b>   |                   |                      |
| Investments available for sale, at fair value:  |                   |                      |
| Fixed maturities (amortized cost of \$395,503 and \$396,415, respectively)  | \$ 401,019        | \$ 396,698           |
| Equity securities (adjusted cost of \$45,150 and \$48,679, respectively)  | 48,062            | 50,806               |
| Other investments (amortized cost of \$5,326 and \$4,980, respectively)   | 5,648             | 5,210                |
| Total investments   | \$ 454,729        | \$ 452,714           |
| Cash and cash equivalents   | 126,409           | 84,786               |
| Accrued investment income   | 2,765             | 2,915                |
| Property and equipment, net   | 17,953            | 17,135               |
| Premiums receivable, net  | 38,022            | 41,170               |
| Reinsurance recoverable on paid and unpaid losses   | 2,662             | 2,961                |
| Prepaid reinsurance premiums  | 42,943            | 79,399               |
| Goodwill  | 3,413             | 3,413                |
| Deferred policy acquisition costs   | 45,375            | 46,732               |
| Other assets  | 6,581             | 8,796                |
| Total Assets  | \$ 740,852        | \$ 740,021           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                   |                      |
| <b>Liabilities:</b>   |                   |                      |
| Unpaid losses and loss adjustment expenses  | \$ 88,446         | \$ 76,792            |
| Unearned premiums   | 294,107           | 304,653              |
| Reinsurance payable   | 38,253            | 64,542               |
| Other liabilities   | 62,795            | 42,470               |
| Notes payable   | 12,059            | 12,353               |
| Total Liabilities   | \$ 495,660        | \$ 500,810           |
| Commitments and contingencies ( <a href="#">Note 9</a> )  |                   |                      |
| <b>Stockholders' Equity:</b>  |                   |                      |
| Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued or outstanding  | —                 | —                    |
| Common stock, \$0.0001 par value; 50,000,000 shares authorized; 21,807,031 and 21,736,431 issued; 21,594,948 and 21,524,348 outstanding for 2016 and 2015, respectively | 2                 | 2                    |
| Additional paid-in capital  | 97,520            | 97,163               |
| Treasury shares, at cost; 212,083 shares  | (431              | ) (431 )             |
| Accumulated other comprehensive income  | 5,369             | 1,620                |
| Retained earnings   | 142,732           | 140,857              |
| Total Stockholders' Equity  | \$ 245,192        | \$ 239,211           |
| Total Liabilities and Stockholders' Equity  | \$ 740,852        | \$ 740,021           |

See accompanying Notes to Unaudited Consolidated Financial Statements.

4

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## UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Comprehensive Income  
(Unaudited)

|   | Three Months Ended |            |
|---|--------------------|------------|
|   | March 31,          |            |
|   | 2016               | 2015       |
| <b>REVENUE:</b>   |                    |            |
| Gross premiums written  | \$135,956          | \$106,616  |
| Decrease in gross unearned premiums                               | 10,546             | 8,566      |
| Gross premiums earned   | 146,502            | 115,182    |
| Ceded premiums earned   | (45,132 )          | (37,134 )  |
| Net premiums earned   | 101,370            | 78,048     |
| Investment income   | 2,396              | 2,073      |
| Net realized gains  | 270                | 122        |
| Other revenue   | 3,525              | 2,153      |
| Total revenue   | 107,561            | 82,396     |
| <b>EXPENSES:</b>  |                    |            |
| Losses and loss adjustment expenses                               | 64,258             | 51,971     |
| Policy acquisition costs  | 27,032             | 19,186     |
| Operating expenses  | 3,954              | 3,541      |
| General and administrative expenses                               | 7,933              | 7,401      |
| Interest expense  | 75                 | 83         |
| Total expenses  | 103,252            | 82,182     |
| Income before other income  | 4,309              | 214        |
| Other income  | 21                 | 124        |
| Income before income taxes  | 4,330              | 338        |
| Provision for income taxes  | 1,379              | 140        |
| Net income  | \$2,951            | \$198      |
| <b>OTHER COMPREHENSIVE INCOME:</b>                                |                    |            |
| Change in net unrealized gains on investments                     | 6,380              | 2,529      |
| Reclassification adjustment for net realized investment gains     | (270 )             | (122 )     |
| Income tax expense related to items of other comprehensive income | (2,361 )           | (930 )     |
| Total comprehensive income  | \$6,700            | \$1,675    |
| Weighted average shares outstanding                               |                    |            |
| Basic   | 21,346,701         | 20,752,565 |
| Diluted   | 21,537,496         | 21,243,103 |
| Earnings per share  |                    |            |
| Basic   | \$0.14             | \$0.01     |
| Diluted   | \$0.14             | \$0.01     |
| Dividends declared per share                                      | \$0.05             | \$0.05     |

See accompanying Notes to Unaudited Consolidated Financial Statements.





## UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Cash Flows  
(Unaudited)

|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2016                            | 2015      |
| <b>OPERATING ACTIVITIES</b>   |                                 |           |
| Net income  | \$2,951                         | \$198     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Depreciation and amortization   | 908                             | 678       |
| Bond amortization and accretion   | 690                             | 557       |
| Net realized gains  | (270)                           | (122)     |
| Provision for uncollectable premiums/over and short                               | 109                             | 112       |
| Deferred income taxes, net  | (1,102)                         | 72        |
| Stock based compensation  | 459                             | 466       |
| Changes in operating assets and liabilities:                                      |                                 |           |
| Accrued investment income   | 150                             | 17        |
| Premiums receivable   | 3,039                           | 1,732     |
| Reinsurance recoverable on paid and unpaid losses                                 | 299                             | (2,230)   |
| Prepaid reinsurance premiums  | 36,456                          | 30,946    |
| Deferred policy acquisition costs, net  | 1,357                           | 134       |
| Other assets  | 670                             | (4,262)   |
| Unpaid losses and loss adjustment expenses  | 11,654                          | 9,820     |
| Unearned premiums   | (10,546)                        | (8,566)   |
| Reinsurance payable   | (26,289)                        | (21,414)  |
| Other liabilities   | 20,325                          | 10,645    |
| Net cash provided by operating activities   | \$40,860                        | \$18,783  |
| <b>INVESTING ACTIVITIES</b>   |                                 |           |
| Proceeds from sales and maturities of investments available for sale              | 55,351                          | 48,777    |
| Purchases of investments available for sale                                       | (51,676)                        | (66,702)  |
| Cash from acquisition   | —                               | 12,745    |
| Cost of property, equipment and capitalized software acquired                     | (1,440)                         | (2,506)   |
| Net cash provided by (used in) investing activities                               | \$2,235                         | \$(7,686) |
| <b>FINANCING ACTIVITIES</b>   |                                 |           |
| Tax withholding payment related to net settlement of equity awards                | (102)                           | (73)      |
| Repayments of borrowings  | (294)                           | (2,540)   |
| Dividends   | (1,076)                         | (1,073)   |
| Net cash used in financing activities   | \$(1,472)                       | \$(3,686) |
| Increase in cash  | 41,623                          | 7,411     |
| Cash and cash equivalents at beginning of period                                  | 84,786                          | 61,391    |
| Cash and cash equivalents at end of period  | \$126,409                       | \$68,802  |
| <b>Supplemental Cash Flows Information</b>  |                                 |           |
| Interest paid   | \$72                            | \$87      |
| Income taxes paid   | \$200                           | \$425     |

See accompanying Notes to Unaudited Consolidated Financial Statements.



UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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1) ORGANIZATION, CONSOLIDATION AND PRESENTATION

(a)Business

United Insurance Holdings Corp. (referred to in this document as we, our, us, the Company or UPC Insurance) is a property and casualty insurance holding company that sources, writes, and services residential and commercial property and casualty insurance policies using a network of agents and two wholly-owned insurance subsidiaries. Our primary insurance subsidiary is United Property & Casualty Insurance Company (UPC), which was formed in Florida in 1999 and has operated continuously since that time. Our other subsidiaries include United Insurance Management, L.C., the managing general agent that manages substantially all aspects of UPC's business; Skyway Claims Services, LLC (our claims adjusting affiliate) that provides services to our insurance affiliates; and UPC Re (our reinsurance affiliate) that provides a portion of the reinsurance protection purchased by our insurance affiliates. On February 3, 2015, we acquired Family Security Holdings, LLC (FSH) and its two wholly-owned subsidiaries, Family Security Insurance Company, Inc. (FSIC) and Family Security Underwriters, LLC, via merger. See Note 4 in our Notes to Unaudited Consolidated Financial Statements for additional information regarding this acquisition.

Our primary product is homeowners' insurance, which we currently offer in Connecticut, Florida, Georgia, Hawaii, Louisiana, Massachusetts, New Jersey, North Carolina, Rhode Island, South Carolina and Texas, under authorization from the insurance regulatory authorities in each state. We are also licensed to write property and casualty insurance in Alabama, Delaware, Maryland, Mississippi, New Hampshire, New York and Virginia; however, we have not commenced writing in these states.

We conduct our operations under one business segment.

(b)Consolidation and Presentation

We prepare our financial statements in conformity with U.S. GAAP. While preparing our financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenues and expenses during the reporting period. Reported amounts that require us to make extensive use of estimates include our reserves for unpaid losses and loss adjustment expenses, reinsurance recoverable, deferred policy acquisition costs, and investments. Actual results could differ from those estimates. Except for the captions on our Unaudited Consolidated Balance Sheets and Unaudited Consolidated Statements of Comprehensive Income, we generally use the term loss(es) to collectively refer to both loss and loss adjustment expenses.

We include all of our subsidiaries in our unaudited consolidated financial statements, eliminating all significant intercompany balances and transactions during consolidation.

We prepared the accompanying Unaudited Consolidated Balance Sheet as of March 31, 2016, with the Audited Consolidated Balance Sheet amounts as of December 31, 2015, presented for comparative purposes, and the related Unaudited Consolidated Statements of Comprehensive Income and Statements of Cash Flows in accordance with the instructions for Form 10-Q and Article 10-01 of Regulation S-X. In compliance with those instructions, we have omitted certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP, though management believes the disclosures made herein are sufficient to ensure that the information presented is not misleading.

Our results of operations and our cash flows as of the end of the interim periods reported herein do not necessarily indicate the results we may experience for the remainder of the year or for any other future period.

We reclassified certain amounts in the 2015 financial statements to conform to the 2016 presentation. These reclassifications had no impact on our results of operations, cash flows or stockholders' equity as previously reported.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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Management believes our unaudited consolidated interim financial statements include all the normal recurring adjustments necessary to fairly present our Unaudited Consolidated Balance Sheet as of March 31, 2016, our Unaudited Consolidated Statements of Comprehensive Income and our Unaudited Consolidated Statements of Cash Flows for all periods presented. Our unaudited consolidated interim financial statements and footnotes should be read in conjunction with our consolidated financial statements and footnotes in our Annual Report filed on Form 10-K for the year ended December 31, 2015.

2) SIGNIFICANT ACCOUNTING POLICIES

(a) Changes to significant accounting policies

We have made no material changes to our significant accounting policies as reported in our 2015 Form 10-K.

(b) Fair value assumptions

The carrying amounts for the following financial instrument categories approximate their fair values at March 31, 2016 and December 31, 2015, because of their short-term nature: cash and cash equivalents, accrued investment income, premiums receivable, reinsurance recoverable, reinsurance payable, accounts payable, accrued expenses and other liabilities. The carrying amount of notes payable approximates fair value as the interest rate is variable.

(c) Pending Accounting Pronouncements

We have evaluated recent accounting pronouncements that have had or may have a significant effect on our financial statements or on our disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). This update is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted for certain requirements. We do not intend to early adopt and are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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## 3) INVESTMENTS

The following table details the difference between cost or adjusted/amortized cost and estimated fair value, by major investment category, at March 31, 2016 and December 31, 2015:

|   | Cost or<br>Adjusted/Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|---|---------------------------------------|------------------------------|-------------------------------|---------------|
| March 31, 2016                                    |                                       |                              |                               |               |
| U.S. government and agency securities             | \$ 79,515                             | \$ 727                       | \$ 93                         | \$80,149      |
| Foreign government                                | 2,038                                 | 80                           | —                             | 2,118         |
| States, municipalities and political subdivisions | 157,294                               | 3,064                        | 275                           | 160,083       |
| Public utilities                                  | 6,080                                 | 160                          | —                             | 6,240         |
| Corporate securities                              | 148,724                               | 2,496                        | 607                           | 150,613       |
| Redeemable preferred stocks                       | 1,852                                 | 35                           | 71                            | 1,816         |
| Total fixed maturities                            | 395,503                               | 6,562                        | 1,046                         | 401,019       |
| Mutual fund                                       | 21,416                                | 12                           | 44                            | 21,384        |
| Public utilities                                  | 1,343                                 | 175                          | —                             | 1,518         |
| Other common stocks                               | 20,035                                | 3,303                        | 631                           | 22,707        |
| Non-redeemable preferred stocks                   | 2,356                                 | 120                          | 23                            | 2,453         |
| Total equity securities                           | 45,150                                | 3,610                        | 698                           | 48,062        |
| Other long-term investments                       | 5,326                                 | 322                          | —                             | 5,648         |
| Total investments                                 | \$ 445,979                            | \$ 10,494                    | \$ 1,744                      | \$454,729     |
| December 31, 2015                                 |                                       |                              |                               |               |
| U.S. government and agency securities             | \$ 81,973                             | \$ 148                       | \$ 474                        | \$81,647      |
| Foreign government                                | 2,038                                 | 37                           | —                             | 2,075         |
| States, municipalities and political subdivisions | 154,004                               | 2,391                        | 490                           | 155,905       |
| Public utilities                                  | 8,398                                 | 128                          | 33                            | 8,493         |
| Corporate securities                              | 148,170                               | 880                          | 2,292                         | 146,758       |
| Redeemable preferred stocks                       | 1,832                                 | 37                           | 49                            | 1,820         |
| Total fixed maturities                            | 396,415                               | 3,621                        | 3,338                         | 396,698       |
| Mutual fund                                       | 26,357                                | —                            | 14                            | 26,343        |
| Public utilities                                  | 1,342                                 | 44                           | 34                            | 1,352         |
| Other common stocks                               | 18,624                                | 2,615                        | 545                           | 20,694        |
| Non-redeemable preferred stocks                   | 2,356                                 | 67                           | 6                             | 2,417         |
| Total equity securities                           | 48,679                                | 2,726                        | 599                           | 50,806        |
| Other long-term investments                       | 4,980                                 | 230                          | —                             | 5,210         |
| Total investments                                 | \$ 450,074                            | \$ 6,577                     | \$ 3,937                      | \$452,714     |

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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When we sell investments, we calculate the gain or loss realized on the sale by comparing the sales price (fair value) to the cost or adjusted/amortized cost of the security sold. We determine the cost or adjusted/amortized cost of the security sold using the specific-identification method. The following table details our realized gains (losses) by major investment category for the three month periods ended March 31, 2016 and 2015:

|  | 2016              |                          | 2015              |                          |
|--|-------------------|--------------------------|-------------------|--------------------------|
|  | Gains<br>(Losses) | Fair<br>Value at<br>Sale | Gains<br>(Losses) | Fair<br>Value at<br>Sale |
| Three Months Ended March 31,           |                   |                          |                   |                          |
| Fixed maturities                       | \$1,055           | \$25,342                 | \$227             | \$20,963                 |
| Equity securities                      | —                 | —                        | 3                 | 238                      |
| Total realized gains                   | 1,055             | 25,342                   | 230               | 21,201                   |
| Fixed maturities                       | (678 )            | 9,162                    | (106 )            | 10,534                   |
| Equity securities                      | (107 )            | 6,009                    | (2 )              | 33                       |
| Total realized losses                  | (785 )            | 15,171                   | (108 )            | 10,567                   |
| Net realized investment gains (losses) | \$270             | \$40,513                 | \$122             | \$31,768                 |

The table below summarizes our fixed maturities at March 31, 2016 by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of those obligations.

|  | March 31, 2016               |                     |               |                     |
|--|------------------------------|---------------------|---------------|---------------------|
|  | Cost or<br>Amortized<br>Cost | Percent<br>of Total | Fair<br>Value | Percent<br>of Total |
| Due in one year or less                | \$39,688                     | 10.0 %              | \$39,650      | 9.9 %               |
| Due after one year through five years  | 206,558                      | 52.2                | 208,566       | 52.0                |
| Due after five years through ten years | 112,435                      | 28.4                | 114,473       | 28.5                |
| Due after ten years                    | 36,822                       | 9.4                 | 38,330        | 9.6                 |
| Total                                  | \$395,503                    | 100.0%              | \$401,019     | 100.0%              |



UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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The following table summarizes our net investment income by major investment category:

|   | Three Months    |         |
|---|-----------------|---------|
|   | Ended March 31, |         |
|   | 2016            | 2015    |
| Fixed maturities                                  | \$2,099         | \$1,822 |
| Equity securities                                 | 263             | 203     |
| Cash, cash equivalents and short-term investments | 17              | 3       |
| Other investments                                 | 13              | 42      |
| Other assets                                      | 4               | 3       |
| Investment income                                 | 2,396           | 2,073   |
| Investment expenses                               | (74 )           | (87 )   |
| Net investment income                             | \$2,322         | \$1,986 |

#### Portfolio monitoring

We have a comprehensive portfolio monitoring process to identify and evaluate each fixed income and equity security whose carrying value may be other-than-temporarily impaired.

For each fixed income security in an unrealized loss position, we determine if the loss is temporary or other-than-temporary. If our management decides to sell the security or determines that it is more likely than not that we will be required to sell the security before recovery of the cost or amortized cost basis for reasons such as liquidity needs or contractual or regulatory requirements, then 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 uncertain whether or not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect the security to receive cash flows sufficient to recover the entire cost or amortized cost basis of the security. We calculate the estimated recovery value by discounting the best estimate of future cash flows at the security's original or current effective rate, as appropriate, and compare this to the cost or amortized cost of the security. If we do not expect to receive cash flows sufficient to recover the entire cost or amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss related to other factors recognized in other comprehensive income.

For equity securities, we consider various factors, including whether we have the intent and ability to hold the equity security for a period of time sufficient to recover its cost basis. If we lack the intent and ability to hold to recovery, or if we believe the recovery period is extended, the equity security's decline in fair value is considered other-than-temporary and is recorded in earnings.

Our portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its cost or amortized cost (for fixed income securities) or cost (for equity securities) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which we may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in our evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition

and future earnings potential of the issue or issuer. Some of the factors that may be considered in evaluating whether a decline in fair value is other-than-temporary are: (1) 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; (2) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and (3) the length of time and extent to which the fair value has been less than amortized cost or cost.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

The following table presents an aging of our unrealized investment losses by investment class:

|   | Less Than Twelve Months |                          |            | Twelve Months or More |                          |            |
|---|-------------------------|--------------------------|------------|-----------------------|--------------------------|------------|
|   | Number of Securities    | Gross Unrealized Losses* | Fair Value | Number of Securities  | Gross Unrealized Losses* | Fair Value |
| March 31, 2016                                    |                         |                          |            |                       |                          |            |
| U.S. government and agency securities             | 9                       | \$ 26                    | \$5,116    | 17                    | \$ 67                    | \$7,972    |
| States, municipalities and political subdivisions | 30                      | 231                      | 34,005     | 3                     | 44                       | 3,664      |
| Public utilities                                  | 2                       | —                        | 200        | —                     | —                        | —          |
| Corporate securities                              | 51                      | 473                      | 21,213     | 10                    | 134                      | 10,200     |
| Redeemable preferred stocks                       | 2                       | 71                       | 235        | —                     | —                        | —          |
| Total fixed maturities                            | 94                      | 801                      | 60,769     | 30                    | 245                      | 21,836     |
| Mutual Fund                                       | 2                       | 44                       | 10,661     | —                     | —                        | —          |
| Other common stocks                               | 63                      | 582                      | 18,831     | 5                     | 49                       | 988        |
| Non-redeemable preferred stocks                   | 12                      | 23                       | 955        | —                     | —                        | —          |
| Total equity securities                           | 77                      | 649                      | 30,447     | 5                     | 49                       | 988        |
| Total   | 171                     | \$ 1,450                 | \$91,216   | 35                    | \$ 294                   | \$22,824   |
| December 31, 2015                                 |                         |                          |            |                       |                          |            |
| U.S. government and agency securities             | 73                      | \$ 265                   | \$44,786   | 21                    | \$ 209                   | \$11,250   |
| States, municipalities and political subdivisions | 61                      | 463                      | 56,971     | 5                     | 27                       | 7,620      |
| Public utilities                                  | 8                       | 4                        | 1,961      | 1                     | 29                       | 1,015      |
| Corporate securities                              | 242                     | 2,025                    | 92,429     | 9                     | 267                      | 10,047     |
| Redeemable preferred stocks                       | 7                       | 49                       | 746        | —                     | —                        | —          |
| Total fixed maturities                            | 391                     | 2,806                    | 196,893    | 36                    | 532                      | 29,932     |
| Mutual Funds                                      | 1                       | 14                       | 26,343     | —                     | —                        | —          |
| Public utilities                                  | 4                       | 34                       | 697        | —                     | —                        | —          |
| Other common stocks                               | 63                      | 497                      | 6,665      | 3                     | 48                       | 118        |
| Non-redeemable preferred stocks                   | 19                      | 6                        | 1,161      | —                     | —                        | —          |
| Total equity securities                           | 87                      | 551                      | 34,866     | 3                     | 48                       | 118        |
| Total   | 478                     | \$ 3,357                 | \$231,759  | 39                    | \$ 580                   | \$30,050   |

\* This amount represents the actual number of discrete securities, not the number of shares of those securities. The numbers are not presented in thousands.

During our quarterly evaluations of our securities for impairment, we determined that none of our investments in debt and equity securities that reflected an unrealized loss position were other-than-temporarily impaired. The issuers of our debt securities continue to make interest payments on a timely basis. We do not intend to sell nor is it likely that we would be required to sell the debt securities before we recover our amortized cost basis. The near-term prospects of all the issuers of the equity securities we own indicate we could recover our cost basis, and we also do not intend to sell these securities until their value equals or exceeds their cost.

During the three months ended March 31, 2016 and 2015, we recorded no other-than-temporary impairment charges.



UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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Fair value measurement

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy for inputs used in determining fair value maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Assets and liabilities recorded on the Unaudited Consolidated Balance Sheets at fair value are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1: Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.

Level 2: Assets and liabilities whose values are based on the following:

- (a) Quoted prices for similar assets or liabilities in active markets;
- (b) Quoted prices for identical or similar assets or liabilities in markets that are not active; or
- (c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs reflect our estimates of the assumptions that market participants would use in valuing the assets and liabilities.

We estimate the fair value of our investments using the closing prices on the last business day of the reporting period, obtained from active markets such as the NYSE, NASDAQ, and NYSE MKT. For securities for which quoted prices in active markets are unavailable, we use a third-party pricing service that utilizes quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs to estimate the fair value of those securities for which quoted prices are unavailable. Our estimates of fair value reflect the interest rate environment that existed as of the close of business on March 31, 2016 and December 31, 2015. Changes in interest rates subsequent to March 31, 2016 may affect the fair value of our investments.

The fair value of our fixed-maturities is initially calculated by a third-party pricing service. Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of proprietary models, produce valuation information in the form of a single fair value for individual fixed income and other securities for which a fair value has been requested. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, liquidity spreads, currency rates, and other information, as applicable. Credit and liquidity spreads are typically implied from completed transactions and transactions of comparable securities. Valuation service providers also use proprietary discounted cash flow models that are widely accepted in the financial services industry and similar to those used by other market participants to value the same financial information. The valuation models take into account, among other things, market observable information as of the measurement date, as described above, as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector and, where applicable, collateral quality and other issue or issuer specific information. Executing valuation models effectively requires seasoned professional judgment and experience.

For our Level 3 assets, our internal pricing methods are primarily based on models using discounted cash flow methodologies that determine a single best estimate of fair value for individual financial instruments. In addition, our models use a discount rate and internally assigned credit ratings as inputs (which are generally consistent with any external ratings) and those we use to report our holdings by credit rating. Market related inputs used in these fair values, which we believe are representative of inputs other market participants would use to determine fair value of the same instruments include: interest rate yield curves, quoted market prices of comparable securities, credit spreads, and other applicable market data. As a result of the significance of non-market observable inputs, including internally assigned credit ratings as described above, judgment is required in developing these fair values. The fair value of these financial assets may differ from the amount actually received if we were to sell the asset. Moreover, the use of different valuation assumptions may have a material effect on the fair values on the financial assets.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

Any change in the estimated fair value of our securities would impact the amount of unrealized gain or loss we have recorded, which could change the amount we have recorded for our investments and other comprehensive income on our Unaudited Consolidated Balance Sheet as of March 31, 2016.

The following table presents the fair value of our financial instruments measured on a recurring basis by level at March 31, 2016 and December 31, 2015:

|   | Total     | Level 1  | Level 2   | Level 3 |
|---|-----------|----------|-----------|---------|
| March 31, 2016                                    |           |          |           |         |
| U.S. government and agency securities             | \$80,149  | \$—      | \$80,149  | \$—     |
| Foreign government                                | 2,118     | —        | 2,118     | —       |
| States, municipalities and political subdivisions | 160,083   | —        | 160,083   | —       |
| Public utilities                                  | 6,240     | —        | 6,240     | —       |
| Corporate securities                              | 150,613   | —        | 150,613   | —       |
| Redeemable preferred stocks                       | 1,816     | 1,816    | —         | —       |
| Total fixed maturities                            | 401,019   | 1,816    | 399,203   | —       |
| Mutual fund                                       | 21,384    | 21,384   | —         | —       |
| Public utilities                                  | 1,518     | 1,518    | —         | —       |
| Other common stocks                               | 22,707    | 22,707   | —         | —       |
| Non-redeemable preferred stocks                   | 2,453     | 2,453    | —         | —       |
| Total equity securities                           | 48,062    | 48,062   | —         | —       |
| Other long-term investments                       | 5,648     | 300      | 3,482     | 1,866   |
| Total investments                                 | \$454,729 | \$50,178 | \$402,685 | \$1,866 |
| December 31, 2015                                 |           |          |           |         |
| U.S. government and agency securities             | \$81,647  | \$—      | \$81,647  | \$—     |
| Foreign government                                | 2,075     | —        | 2,075     | —       |
| States, municipalities and political subdivisions | 155,905   | —        | 155,905   | —       |
| Public utilities                                  | 8,493     | —        | 8,493     | —       |
| Corporate securities                              | 146,758   | —        | 146,758   | —       |
| Redeemable preferred stocks                       | 1,820     | 1,820    | —         | —       |
| Total fixed maturities                            | 396,698   | 1,820    | 394,878   | —       |
| Mutual Funds                                      | 26,343    | 26,343   | —         | —       |
| Public utilities                                  | 1,352     | 1,352    | —         | —       |
| Other common stocks                               | 20,694    | 20,694   | —         | —       |
| Non-redeemable preferred stocks                   | 2,417     | 2,417    | —         | —       |
| Total equity securities                           | 50,806    | 50,806   | —         | —       |
| Other long-term investments                       | 5,210     | 300      | 3,055     | 1,855   |
| Total investments                                 | \$452,714 | \$52,926 | \$397,933 | \$1,855 |





UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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The table below presents the rollforward of our Level 3 investments held at fair value during the three months ended March 31, 2016:

|  | Other<br>Investments |
|--|----------------------|
| December 31, 2015  | \$ 1,855             |
| Transfers in   | —                    |
| Partnership income   | 3                    |
| Return of capital  | (83 )                |
| Unrealized gains in accumulated other comprehensive income | 91                   |
| March 31, 2016   | \$ 1,866             |

We are responsible for the determination of fair value and the supporting assumptions and methodologies. We gain assurance on the overall reasonableness and consistent application of valuation methodologies and inputs and compliance with accounting standards through the execution of various processes and controls designed to provide assurance that our assets and liabilities are appropriately valued. For fair values received from third parties, our processes are designed to provide assurance that the valuation methodologies and inputs are appropriate and consistently applied, the assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded.

At the end of each quarter, we determine whether we need to transfer the fair values of any securities between levels of the fair value hierarchy and, if so, we report the transfer as of the end of the quarter. During the first three months of 2016, we transferred no investments between levels. We used unobservable inputs to derive our estimated fair value for Level 3 investments, and the unobservable inputs are significant to the overall fair value measurement.

For our investments in U.S. government securities that do not have prices in active markets, agency securities, state and municipal governments, and corporate bonds, we obtain the fair values from Synovus Trust Company, NA, which uses a third-party valuation service. The valuation service calculates prices for our investments in the aforementioned security types on a month-end basis by using several matrix-pricing methodologies that incorporate inputs from various sources. The model the valuation service uses to price U.S. government securities and securities of states and municipalities incorporates inputs from active market makers and inter-dealer brokers. To price corporate bonds and agency securities, the valuation service calculates non-call yield spreads on all issuers, uses option-adjusted yield spreads to account for any early redemption features, then adds final spreads to the U.S. Treasury curve at 3 p.m. (ET) as of quarter end. Since the inputs the valuation service uses in their calculations are not quoted prices in active markets, but are observable inputs, they represent Level 2 inputs.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

Other investments

We acquired investments in limited partnerships, recorded in the other investments line of our Unaudited Consolidated Balance Sheets, that are currently being accounted for at fair value utilizing a discounted cash flow methodology. The estimated fair value of our investments in the limited partnership interests was \$5,348,000. We have fully funded our investments in DCR Mortgage Partners VI, L.P., DCR Mortgage Partners VII, L.P., and RCH Mortgage Fund VI Investors, L.P.; however, we are still obligated to fund an additional \$623,000 and \$835,000 for our investments in Kayne Anderson Senior Credit Fund II, L.P. and Blackstone Alternative Solutions 2015 Trust, respectively. The information presented in the table below is as of March 31, 2016.

|   | Initial<br>Investment | Book<br>Value | Unrealized<br>Gain | Fair<br>Value |
|---|-----------------------|---------------|--------------------|---------------|
| DCR Mortgage Partners VI, L.P.                | \$ 591                | \$579         | \$ 300             | \$879         |
| RCH Mortgage Fund VI Investors, LP            | 1,000                 | 965           | 22                 | 987           |
| Total Level 3 limited partnership investments | 1,591                 | 1,544         | 322                | 1,866         |
| Kayne Senior Credit Fund II, L.P.             | 1,377                 | 1,317         | —                  | 1,317         |
| DCR Mortgage Partners VII, L.P.               | 2,000                 | 2,000         | —                  | 2,000         |
| Blackstone Alternative Solutions 2015 Trust   | 165                   | 165           | —                  | 165           |
| Total Level 2 limited partnership investments | 3,542                 | 3,482         | —                  | 3,482         |
| Total limited partnership investments         | \$ 5,133              | \$5,026       | \$ 322             | \$5,348       |
| Other short-term investments                  | 300                   | 300           | —                  | 300           |
| Total other investments                       | \$ 5,433              | \$5,326       | \$ 322             | \$5,648       |

The following table summarizes the quantitative impact that the significant unobservable inputs used to estimate the fair value of our Level 3 investments has on the estimated fair value on our investments shown in the tables above. Due to Kayne, DCR VII, and Blackstone being carried at cost, we have excluded them from the table below. The DCR VI and RCH investments were valued using a duration of 60 months for both periods presented below.

|                   | Fair<br>Value | Valuation<br>Technique | Unobservable Input                      | Rate<br>Adjustment |
|-------------------|---------------|------------------------|---|--------------------|
| March 31, 2016    |               |                        |   |                    |
| DCR VI            | \$(83 )       | Discounted cash flow   | Discount rate based on D&B paydex scale | 2.35%              |
| RCH               | \$(341)       | Discounted cash flow   | Discount rate based on D&B paydex scale | 7.35%              |
| December 31, 2015 |               |                        |   |                    |
| DCR VI            | \$(88 )       | Discounted cash flow   | Discount rate based on D&B paydex scale | 2.35%              |
| RCH               | \$(341)       | Discounted cash flow   | Discount rate based on D&B paydex scale | 7.35%              |

4) ACQUISITION

On February 3, 2015, we completed the acquisition of Family Security Holdings, LLC and its two wholly-owned subsidiaries. The purchase price consisted of an initial purchase price of \$12,994,000, paid in 503,857 shares of our common stock, plus \$513,000 of contingent consideration based on a percentage of gross written premiums written on the renewal of FSH policies during the one year period following the closing date. The contingent consideration was paid in 32,943 shares of our common stock in March 2016, based on the average closing price of our common stock

during the 180 days immediately prior to the first anniversary of the closing.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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## 5) 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 vesting of restricted stock awards. The following table shows the computation of basic and diluted EPS for the three month periods ended March 31, 2016 and March 31, 2015:

|  | Three Months<br>Ended March 31,<br>2016 2015 |            |
|--|--|------------|
| Numerator:                                     |  |            |
| Net income attributable to common stockholders | \$2,951                                      | \$ 198     |
| Denominator:                                   |  |            |
| Weighted-average shares outstanding            | 21,346,700                                   | 21,752,565 |
| Effect of dilutive securities                  | 190,795                                      | 490,538    |
| Weighted-average diluted shares                | 21,537,495                                   | 22,243,103 |
| Basic earnings per share                       | \$0.14                                       | \$ 0.01    |
| Diluted earnings per share                     | \$0.14                                       | \$ 0.01    |

See [Note 14](#) for additional information on the stock grants related to dilutive securities.

## 6) PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

|   | March 31, December 31,<br>2016 2015 |           |
|---|-------------------------------------|-----------|
| Land  | \$2,114                             | \$ 2,114  |
| Building and building improvements              | 5,309                               | 4,298     |
| Computer hardware and software                  | 13,860                              | 13,574    |
| Office furniture and equipment                  | 1,974                               | 1,831     |
| Leasehold improvements                          | —                                   | 141       |
| Total, at cost                                  | 23,257                              | 21,958    |
| Less: accumulated depreciation and amortization | (5,304 )                            | (4,823 )  |
| Property and equipment, net                     | \$17,953                            | \$ 17,135 |

Depreciation and amortization expense under property and equipment was \$622,000 and \$339,000 for the three months ended March 31, 2016 and 2015, respectively.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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7) REINSURANCE

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 catastrophe). 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, either in amount or in number of claims made.

Our program provides reinsurance protection for catastrophes including hurricanes, tropical storms, and tornadoes. These reinsurance agreements are part of our catastrophe management strategy, which is intended to provide our shareholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings, while providing protection to our policyholders.

During the second quarter of 2015, we placed our reinsurance program for the 2015 treaty year beginning June 1, 2015 and ending on May 31, 2016. The agreements incorporate the mandatory coverage required by and placed with the Florida Hurricane Catastrophe Fund (FHCF). The FHCF is a Florida state-sponsored trust fund that provides reimbursement in Florida against storms that the National Hurricane Center designates as hurricanes. The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes.

For the treaty year beginning June 1, 2015 and ending on May 31, 2016, UPC Insurance has obtained reinsurance protection of \$1,243,122,000 excess \$25,000,000, providing sufficient protection for approximately a 1-in-100 year hurricane event and a second 1-in-50 year hurricane event as calculated using a blended model result predominately based on our licensed modeling software, AIR model version 15, using long-term event rates including demand surge. For a single first event hurricane or tropical storm, UPC Insurance will pay, or “retain”, 100% of losses up to \$25,000,000 in a Florida event and 100% of losses up to \$5,000,000 in an event outside of Florida. The catastrophe excess of loss reinsurance program provides 100% coverage for all losses in excess of \$25,000,000 up to \$1,173,122,000 for a first event and \$1,243,122,000 for any number of subsequent events until all limits are exhausted.

For the 2015 contract year, UPC Insurance has elected a 45% participation rate with the FHCF and purchased FHCF replacement coverage from private reinsurers for the remaining 45%. Of the \$1,243,122,000 in excess of \$25,000,000, we estimate the mandatory FHCF layer will provide approximately \$284,061,000 (45% of \$631,247,000) of aggregate coverage for losses in excess of \$230,356,000. The private market FHCF replacement coverage provides another \$284,061,000 in excess of \$230,356,000 layer for Florida only on a fully collateralized basis that also inures to the benefit of all other private reinsurance coverage.

In addition to the FHCF and FHCF replacement coverage, \$585,000,000 of aggregate catastrophe reinsurance coverage in excess of \$25,000,000 was acquired from 35 unaffiliated private reinsurers who either carry A.M. Best financial strength ratings of A- or higher, or have fully collateralized their maximum potential obligations in dedicated trusts for the benefit of United Property & Casualty Insurance Company. Our 2015 agreements with these private reinsurers structure coverage into 6 layers, with a cascading feature such that all layers attach at \$25,000,000. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted ensuring there are no potential gaps in coverage up to the \$1,173,122,000 first event program exhaustion point. UPC Insurance also secured up to \$95,000,000 of limit that can be utilized at our option for second and subsequent events at an additional cost, but the

Company is under no obligation to activate this layer.

UPC Insurance also purchased a \$20,000,000 per occurrence, excess of \$5,000,000, underlying layer with \$40,000,000 of aggregate contract year limit. This coverage reduces our retention for named windstorms to \$5,000,000 subject to an overall annual aggregate limit of \$40,000,000. For losses in Florida, this contract stipulates an annual aggregate deductible of \$25,000,000, which effectively reduces our second event retention in Florida to \$10,000,000 and third and subsequent event retentions in Florida to \$5,000,000 subject to the overall \$40,000,000 of aggregate limit.

The total cost of the 2015-16 catastrophe reinsurance program is estimated to be \$161,400,000.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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

|                                     | Three Months Ended<br>March 31, |            |
|-------------------------------------|---------------------------------|------------|
|                                     | 2016                            | 2015       |
| Excess-of-loss                      | \$(4,057 )                      | \$(2,126 ) |
| Equipment & identity theft          | (1,576 )                        | (1,194 )   |
| Flood                               | (3,043 )                        | (2,847 )   |
| Ceded premiums written              | \$(8,676 )                      | \$(6,167 ) |
| Decrease in ceded unearned premiums | (36,456 )                       | (30,967 )  |
| Ceded premiums earned               | \$(45,132)                      | \$(37,134) |

Current year catastrophe losses by the event magnitude are shown in the following table for the three months ended March 31, 2016 and 2015.

|  | 2016                                     |                                   |                             | 2015                                     |                                   |                             |
|--|--|-----------------------------------|-----------------------------|--|-----------------------------------|-----------------------------|
|  | Number<br>of<br>Events<br>and<br>LAE (1) | Inurred<br>Loss<br>and<br>LAE (1) | Combined<br>Ratio<br>Impact | Number<br>of<br>Events<br>and<br>LAE (1) | Inurred<br>Loss<br>and<br>LAE (1) | Combined<br>Ratio<br>Impact |
| Three Months Ended March 31,               |  |                                   |                             |  |                                   |                             |
| Current period catastrophe losses incurred |  |                                   |                             |  |                                   |                             |
| \$ 1 million to \$5 million (2)            | 4  | \$11,341                          | 11.2 %                      | 5  | \$15,259                          | 19.6 %                      |
| Less than \$1 million (3)                  | 6  | 3,715                             | 3.7 %                       | —  | —                                 | — %                         |
| Total                                      | 10                                       | \$15,056                          | 14.9 %                      | 5  | \$15,259                          | 19.6 %                      |

(1) Incurred loss and LAE is equal to losses and LAE paid plus the change in case and incurred but not reported reserves.

(2) Reflects losses from winter storms in 2015. Reflects losses from Florida tornadoes and winter storms in 2016.

(3) Reflects losses from hail and wind storms in 2016.

We collected cash recoveries under our reinsurance agreements totaling \$266,000 and \$811,000 for the three month periods ended March 31, 2016 and 2015, respectively.

Effective January 1, 2016, we entered into a new reinsurance agreement with several private reinsurers. This agreement provides coverage against accumulated losses from all catastrophe events in all states in which we operate except against those windstorms named by the National Hurricane Center. We will retain the first \$15,000,000 of aggregate catastrophe losses and then transfer the next \$20,000,000 of catastrophe losses in the aggregate, excluding named windstorms. The \$20,000,000 of aggregate limit is intended to provide additional protection against the Company's modeled expected loss from the catastrophe perils of winter storms, severe convection storms, tornadoes and hail.

We write flood insurance under an agreement with the National Flood Insurance Program. We cede 100% of the premiums written and the related risk of loss to the federal government. We earn commissions for the issuance of

flood policies based upon a fixed percentage of net written premiums and the processing of flood claims based upon a fixed percentage of incurred losses, and we can earn additional commissions by meeting certain growth targets for the number of in-force policies. We recognized commission revenue from our flood program of \$246,000 and \$241,000 for the three month periods ended March 31, 2016 and 2015, respectively.



UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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8) LONG-TERM DEBT

Our long-term debt at March 31, 2016 consisted of a note payable to the Florida State Board of Administration (SBA note). At March 31, 2016 and December 31, 2015, we owed \$12,059,000 and \$12,353,000, respectively, on the note and the interest rate was 2.31% and 2.05%, respectively. All other terms and conditions of the note remain as described in our 2015 Form 10-K.

The \$12,059,000 SBA note requires United Property & Casualty Insurance Company to maintain surplus as regards policyholders at or above a calculated level, which was \$32,059,000 at March 31, 2016. Each quarter, we monitor the surplus as regards policyholders for both of our insurance affiliates and, for various reasons, we occasionally provide additional capital to our insurance affiliates. During the three month period ended March 31, 2016, we contributed \$5,000,000 capital to our insurance affiliates. During the three month period ended March 31, 2015, no contributions were made to our insurance affiliates. We may make future contributions of capital to our insurance affiliates as circumstances require.

Our SBA note requires that United Property & Casualty Insurance Company maintain either a 2:1 ratio of net written premium to surplus, or net writing ratio, or a 6:1 ratio of gross written premium to surplus, or gross writing ratio, to avoid additional interest penalties. The SBA note agreement defines surplus for the purpose of calculating the required ratios as the \$20,000,000 of capital contributed to United Property & Casualty Insurance Company under the agreement plus the outstanding balance of the note. At March 31, 2016, United Property & Casualty Insurance Company's net written premium to surplus ratio was 6.5:1, which is well above the 2:1 required ratio. United Property & Casualty Insurance Company's gross written premium to surplus ratio was 10.2:1, which exceeds the required ratio of 6:1. Should United Property & Casualty Insurance Company fail to exceed either a net writing ratio of 1.5:1 or a gross writing ratio of 4.5:1, United Property & Casualty Insurance Company's interest rate will increase by 450 basis points above the 10-year Constant Maturity Treasury rate which was 1.78% at the end of March 2016. Any other writing ratio deficiencies result in an interest rate penalty of 25 basis points above the stated rate of the note, which is 2.31% at the end of March 2016. Our SBA note further provides that the SBA may, among other things, declare its loan immediately due and payable for all defaults existing under the SBA note; however, any payment is subject to approval by the insurance regulatory authority. At March 31, 2016, we were in compliance with the covenants of the SBA note.

9) COMMITMENTS AND CONTINGENCIES

We are involved in 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.

See [Note 8](#) for information regarding commitments related to long-term debt, and [Note 10](#) for commitments related to regulatory actions.

10) STATUTORY ACCOUNTING AND REGULATION

The insurance industry is heavily regulated. State laws and regulations, as well as national regulatory agency requirements, govern the operations of all insurers such as our insurance affiliates. The various laws and regulations require that insurers maintain minimum amounts of statutory surplus and risk-based capital, restrict insurers' ability to pay dividends, specify allowable investment types and investment mixes, and subject insurers to assessments. At March 31, 2016, and during the three months then ended, our insurance affiliates met all regulatory requirements of the states in which they operate, and they did not incur any material assessments.

The National Association of Insurance Commissioners published Risk-Based Capital (RBC) guidelines for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for

20

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UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Consolidated Financial Statements

March 31, 2016

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policyholders. Most states, including Florida and Hawaii, have enacted statutory requirements adopting the NAIC RBC guidelines, and insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. State insurance regulatory authorities could require an insurer to cease operations in the event the insurer fails to maintain the required statutory capital.

The state laws of Florida and Hawaii 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. 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 in those states 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 affiliates' 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.

The SBA note is considered a surplus note pursuant to statutory accounting principles. As a result, United Property & Casualty Insurance Company is subject to the authority of the Insurance Commissioner of the State of Florida with regard to its ability to repay principal and interest on the surplus note. Any payment of principal or interest requires permission from the insurance regulatory authority.

We have reported our insurance affiliates' assets, liabilities and results of operations in accordance with GAAP, which varies from statutory accounting principles prescribed or permitted by state laws and regulations, as well as by general industry practices. The following items are principal differences between statutory accounting and GAAP:

Statutory accounting requires that we exclude certain assets, called non-admitted assets, from the balance sheet.

- Statutory accounting requires us to expense policy acquisition costs when incurred, while GAAP allows us to defer to the extent realizable, and amortize policy acquisition costs over the estimated life of the policies.

Statutory accounting requires that surplus notes, also known as surplus debentures, be recorded in statutory surplus, while GAAP requires us to record surplus notes as a liability.

Statutory accounting allows certain investments to be carried at amortized cost or fair value based on the rating received from the Securities Valuation Office of the National Association of Insurance Commissioners, while they are recorded at fair value for GAAP because the investments are held as available for sale.

Statutory accounting allows ceding commission income to be recognized when written if the cost of acquiring and renewing the associated business exceeds the ceding commissions, but under GAAP such income is deferred and recognized over the coverage period.

Statutory accounting requires that unearned premiums and loss reserves are presented net of related reinsurance rather than on a gross basis under GAAP.

Statutory accounting requires that a provision for reinsurance liability be established for reinsurance recoverable on paid losses aged over 90 days and for unsecured amounts recoverable from unauthorized reinsurers. Under GAAP there is no charge for uncollateralized amounts ceded to a company not licensed in the insurance affiliate's domiciliary state and a reserve for uncollectable reinsurance is charged through earnings rather than surplus or equity.

Statutory accounting requires an additional admissibility test and the change in deferred income tax is reported directly in capital and surplus, rather than being reported as a component of income tax expense under GAAP.

Our insurance affiliates must file with the various insurance regulatory authorities an “Annual Statement” which reports, among other items, statutory net income (loss) and surplus as regards policyholders, which is called stockholder’s equity under

21

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UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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GAAP. For the three month periods ended March 31, 2016 and 2015, UPC, FSIC and UPC Re recorded the following amounts of statutory net income (loss).

|        | Three Months<br>Ended |                   |
|--------|-----------------------|-------------------|
|        | March<br>31, 2016     | March<br>31, 2015 |
| UPC    | \$(1,172)             | \$(2,366)         |
| UPC Re | \$(10 )               | \$41              |
| FSIC   | \$96                  | \$115             |

Our insurance affiliates must maintain capital and surplus ratios or balances as determined by the regulatory authority of the states in which they are domiciled. UPC is required to maintain capital and surplus equal to the greater of 10% of its total liabilities or \$5,000,000. Our reinsurance affiliate is required to maintain a minimum surplus of \$100,000. FSIC is required to maintain capital and surplus of \$3,250,000. The table below shows the amount of surplus as regards policyholders for our regulated entities at March 31, 2016 and December 31, 2015, respectively.

|        | March<br>31, 2016 | December<br>31, 2015 |
|--------|-------------------|----------------------|
| UPC    | \$135,996         | \$135,288            |
| UPC Re | \$968             | \$728                |
| FSIC   | \$15,669          | \$15,572             |

#### 11) RELATED PARTY TRANSACTIONS

One of our executive officers, Ms. Salmon, is a former partner at the law firm of Groelle & Salmon, PA, where her spouse remains partner and co-owner. Groelle & Salmon, PA provides legal representation to us related to our claims litigation, and also provided representation to us for several years prior to Ms. Salmon joining UPC Insurance. During the three months ended March 31, 2016 and 2015, Groelle & Salmon, PA billed us approximately \$596,000 and \$180,000, respectively. Ms. Salmon's spouse has a 50% interest in these billings, or approximately \$298,000 and \$90,000, for the three months ended March 31, 2016 and 2015, respectively.

#### 12) ACCUMULATED OTHER COMPREHENSIVE INCOME

We report changes in other comprehensive income items within comprehensive income on the Unaudited Consolidated Statements of Comprehensive Income, and we include accumulated other comprehensive income as a component of stockholders' equity on our Consolidated Balance Sheets.

The table below details the components of accumulated other comprehensive income at period end:

|                   | Pre-Tax<br>Amount | Tax<br>(Expense) | Benefit | Net-of-Tax<br>Amount |
|-------------------|-------------------|------------------|---------|----------------------|
| December 31, 2015 | \$2,640           | \$ (1,020        | )       | \$ 1,620             |

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|  |         |           |     |          |   |
|--|---------|-----------|-----|----------|---|
| Changes in net unrealized gains on investments | 6,380   | (2,465    | )   | 3,915    |   |
| Reclassification adjustment for realized gains | (270    | )         | 104 | (166     | ) |
| March 31, 2016                                 | \$8,750 | \$ (3,381 | )   | \$ 5,369 |   |

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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### 13) STOCKHOLDERS' EQUITY

Our Board declared dividends on our outstanding shares of common stock to shareholders of record as follows for the periods presented:

|               | Three Months Ended March 31, |          |        |          |
|---------------|------------------------------|----------|--------|----------|
|               | 2016                         | 2015     |        |          |
|               | Per                          | Per      | Per    | Per      |
|               | Share                        | Share    | Share  | Share    |
|               | Amount                       | Amount   | Amount | Amount   |
| First Quarter | \$0.05                       | \$ 1,076 | \$0.05 | \$ 1,073 |

On February 3, 2015, we completed the acquisition of FSH and its subsidiaries by issuing 503,857 shares of our common stock as payment of the initial purchase price. We paid contingent consideration of 32,943 additional shares of our common stock in March 2016. See [Note 4](#) for additional information on this acquisition.

We are authorized to issue 875,000 shares of "blank check" preferred stock, which may be issued from time to time in one or more series upon authorization by our Board of Directors. Our Board, without further approval of the stockholders, is authorized to fix the designations, powers, including voting powers, preferences and the relative, participating optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof. As of March 31, 2016, we had not issued any shares of preferred stock.

### 14) STOCK-BASED COMPENSATION

We account for stock-based compensation under the fair value recognition provisions of ASC Topic 718 - Compensation - Stock Compensation.

Stock-based compensation cost for restricted stock grants is measured based on the closing fair market value of our common stock on the date of grant. We recognize stock-based compensation cost over the award's requisite service period on a straight-line basis for time-based restricted stock grants.

We granted 46,205 shares of restricted common stock during the three month period ended March 31, 2016, which had a weighted-average grant date fair value of \$17.63 per share. We granted 65,442 shares of restricted common stock during the three month period ended March 31, 2015, which had a weighted-average grant date fair value of \$24.60 per share.

The following table presents certain information related to the activity of our non-vested common stock grants:

|                                     | Number of  | Weighted  |
|-------------------------------------|------------|-----------|
|                                     | Restricted | Average   |
|                                     | Shares     | Grant     |
|                                     |            | Date Fair |
|                                     |            | Value     |
| Outstanding as of December 31, 2015 | 179,183    | \$ 16.67  |
| Granted                             | 46,205     | 17.63     |

|                                  |         |          |
|----------------------------------|---------|----------|
| Forfeited                        | 8,548   | 21.74    |
| Vested                           | 20,965  | 21.19    |
| Outstanding as of March 31, 2016 | 195,875 | \$ 16.19 |

We had approximately \$1,960,000 and \$2,105,000 of unrecognized stock compensation expense on March 31, 2016 and 2015, respectively, related to non-vested stock-based compensation granted, that we expect to recognize over the next three years. We recognized \$197,000 and \$125,000 of stock-based compensation expense during the three months ended March 31, 2016 and 2015, respectively.



UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
March 31, 2016

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We had approximately \$98,000 and \$136,000 of unrecognized director stock-based compensation expense at March 31, 2016 and March 31, 2015, respectively, related to non-vested director stock-based compensation granted, that we expect to recognize ratably until the 2016 Annual Meeting of Stockholders. We recognized \$262,000 and \$341,000 of director stock-based compensation expense during the three months ended March 31, 2016 and March 31, 2015, respectively.

15) SUBSEQUENT EVENTS

On May 4, 2016, our Board of Directors declared a \$0.06 per share quarterly cash dividend payable on May 26, 2016, to stockholders of record on May 19, 2016.

On April 29, 2016, we acquired Interboro Insurance Company (Interboro), a New York domiciled property and casualty insurer licensed in New York, South Carolina, Alabama, Louisiana, and Washington, D.C. We acquired all of the outstanding common stock of Interboro for \$57,000,000. We paid \$48,500,000 in cash at closing and issued an \$8,500,000 promissory note to Interboro LLC (the Seller), which will mature in 18 months and bear interest at an annual rate of 6%. As a result of this transaction, we acquired approximately \$55,000,000 of homeowners' insurance gross written premiums in New York and South Carolina. All personal automobile and other non-homeowners insurance lines of business remained with the Seller and its retained insurance subsidiaries. Certain other long-term liabilities, such as Interboro's pension and leasehold obligations, have also been carved out and have been assumed by the Seller.

UNITED INSURANCE HOLDINGS CORP.

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Item 2. 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 Unaudited Consolidated Financial Statements and related notes appearing elsewhere in this Form 10-Q.

OUR BUSINESS

United Insurance Holdings Corp. serves as the holding company for United Property & Casualty Insurance Company and its affiliated companies. We conduct our business principally through six wholly-owned operating subsidiaries: United Property & Casualty Insurance Company, United Insurance Management, L.C., Family Security Insurance Company, Inc., Family Security Underwriters, LLC, Skyway Claims Services, LLC (our claims adjusting affiliate) and UPC Re (our reinsurance affiliate). Collectively, including United Insurance Holdings Corp., we refer to these entities as "UPC Insurance," which is the preferred brand identification we are establishing for our Company.

UPC Insurance is primarily engaged in the homeowners property and casualty insurance business in the United States. We currently write in Connecticut, Florida, Georgia, Hawaii, Louisiana, Massachusetts, New Jersey, North Carolina, Rhode Island, South Carolina and Texas, and we are licensed to write in Alabama, Delaware, Maryland, Mississippi, New Hampshire, New York and Virginia. Our target market currently consists of areas where the perceived threat of natural catastrophe has caused large national insurance carriers to reduce their concentration of policies. In such areas we believe an opportunity exists for UPC Insurance to write profitable business. We manage our risk of catastrophic loss primarily through sophisticated pricing algorithms, avoidance of policy concentration, and the use of a comprehensive catastrophe reinsurance program. UPC Insurance has been operating continuously in Florida 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 a competitive advantage as we grow our business in other states facing similar perceived threats.

Overview

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of UPC Insurance. This discussion should be read in conjunction with the Consolidated Financial Statements and related notes found under Part II. Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

The most important factors we monitor to evaluate the financial condition and performance of our Company include:

For Results of Operations: premiums written, policies in-force, premiums earned, retention, price changes, claim frequency (rate of claim occurrence per policies in-force), severity (average cost per claim), catastrophes, loss ratio, expenses, combined ratio, underwriting results, reinsurance costs, premium to probable maximum loss, and geographic concentration;

- For Investments: credit quality, maximizing total return, investment income, cash flows, realized gains and losses, unrealized gains and losses, asset diversification, and portfolio duration; and

- For Financial Condition: liquidity, reserve strength, financial strength, ratings, operating leverage, book value per share, capital preservation, return on investment, and return on equity.

## Recent Events

On May 4, 2016, our Board of Directors declared a \$0.06 per share quarterly cash dividend payable on May 26, 2016, to stockholders of record on May 19, 2016.

On April 29, 2016, we acquired Interboro, a New-York domiciled property and casualty insurer licensed in New York, South Carolina, Alabama, Louisiana, and Washington, D.C. We acquired all of the outstanding common stock of Interboro for \$57,000,000. We paid \$48,500,000 in cash at closing and issued an \$8,500,000 promissory note to Interboro LLC, which will mature in 18 months and bear interest at an annual rate of 6%. We acquired approximately \$55,000,000 of homeowners' insurance gross written premiums in New York and South Carolina. All personal automobile and other non-homeowners insurance lines of business remained with the Seller and its retained insurance subsidiaries. Certain other long-term liabilities such as Interboro's pension and leasehold obligations have also been carved out and have been assumed by the Seller.

UNITED INSURANCE HOLDINGS CORP.

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2016 Highlights

Consolidated net income was \$2,951,000 for the three months ended March 31, 2016, compared to \$198,000 for the three months ended March 31, 2015.

Net income per diluted share was \$0.14 for the three months ended March 31, 2016, compared to \$0.01 for the three months ended March 31, 2015.

Our combined ratio (calculated as operating expenses less interest expense relative to net premiums earned) was 101.8% for the three months ended March 31, 2016, compared to 105.2% for the three months ended March 31, 2015.

Total revenues were \$107,561,000 for the three months ended March 31, 2016, compared to \$82,396,000 for the three months ended March 31, 2015.

Investment and cash holdings were \$581,138,000 at March 31, 2016, compared to \$537,500,000 at December 31, 2015.

Investment income was \$2,396,000 for the three months ended March 31, 2016, compared to \$2,073,000 for the three months ended March 31, 2015.

Net realized gains were \$270,000 for the three months ended March 31, 2016, compared to net realized gains of \$122,000 for the three months ended March 31, 2015.

Book value per share was \$11.35 at March 31, 2016, a 2.2% increase from \$11.11 at December 31, 2015.

Return on average equity for the trailing twelve months ended March 31, 2016 was 13.0% compared to 15.2% for the trailing twelve months ended March 31, 2015.

Policies in-force were 364,742 at March 31, 2016, a 35.0% increase from 270,098 at March 31, 2015.

## UNITED INSURANCE HOLDINGS CORP.

## Consolidated Net Income

|   | Three Months Ended |           |   |
|---|--------------------|-----------|---|
|   | March 31,          |           |   |
|   | 2016               | 2015      |   |
| REVENUE:  |                    |           |   |
| Gross premiums written                          | \$135,956          | \$106,616 |   |
| Decrease in gross unearned premiums             | 10,546             | 8,566     |   |
| Gross premiums earned                           | 146,502            | 115,182   |   |
| Ceded premiums earned                           | (45,132 )          | (37,134 ) |   |
| Net premiums earned                             | 101,370            | 78,048    |   |
| Investment income                               | 2,396              | 2,073     |   |
| Net realized gains (losses)                     | 270                | 122       |   |
| Other revenue                                   | 3,525              | 2,153     |   |
| Total revenue                                   | 107,561            | 82,396    |   |
| EXPENSES:                                       |                    |           |   |
| Losses and loss adjustment expenses             | 64,258             | 51,971    |   |
| Policy acquisition costs                        | 27,032             | 19,186    |   |
| Operating expenses                              | 3,954              | 3,541     |   |
| General and administrative expenses             | 7,933              | 7,401     |   |
| Interest expense                                | 75                 | 83        |   |
| Total expenses                                  | 103,252            | 82,182    |   |
| Income before other income                      | 4,309              | 214       |   |
| Other income                                    | 21                 | 124       |   |
| Income before income taxes                      | 4,330              | 338       |   |
| Provision for income taxes                      | 1,379              | 140       |   |
| Net income                                      | \$2,951            | \$198     |   |
| Net income per diluted share                    | \$0.14             | \$0.01    |   |
| Book value per share                            | \$11.35            | \$10.14   |   |
| Return on average equity, ttm                   | 13.0               | % 15.2    | % |
| Loss ratio, net <sup>1</sup>                    | 63.4               | % 66.6    | % |
| Expense ratio <sup>2</sup>                      | 38.4               | % 38.6    | % |
| Combined ratio (CR) <sup>3</sup>                | 101.8              | % 105.2   | % |
| Effect of current year catastrophe losses on CR | 14.9               | % 19.6    | % |
| Effect of prior year development on CR          | 3.1                | % 1.2     | % |
| Underlying combined ratio <sup>4</sup>          | 83.8               | % 84.4    | % |

<sup>1</sup> Loss ratio, net is calculated as losses and loss adjustment expenses relative to net premiums earned.

<sup>2</sup> Expense ratio is calculated as the sum of all operating expenses less interest expense relative to net premiums earned.

<sup>3</sup> Combined ratio is the sum of the loss ratio, net and the expense ratio.

<sup>4</sup> Underlying combined ratio, a measure that is not based on U.S. generally accepted accounting principles (GAAP), is reconciled above to the combined ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this document is in "Definitions of Non-GAAP Measures" below.

## 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 and reserve development (underlying combined ratio) is a non-GAAP ratio, which is computed as the difference between four GAAP operating ratios: the combined ratio, the effect of current year catastrophe losses on the combined ratio and the effect of prior year development on 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 and prior year developments. Current year catastrophe losses

27

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UNITED INSURANCE HOLDINGS CORP.

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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 unexpected loss development on historical reserves. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. The most direct 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 reserve development (underlying Loss and LAE) is a non-GAAP measure which is computed as the difference between loss and LAE, current year catastrophe losses and prior year reserve development. 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 three items can have a significant impact on our loss trend in a given period. The most direct 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.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

When we prepare our consolidated financial statements and accompanying notes in conformity with U.S. GAAP, we must make estimates and assumptions about future events that affect the amounts we report. Certain of these estimates result from judgments that can be subjective and complex. As a result of that subjectivity and complexity, and because we continuously evaluate these estimates and assumptions based on a variety of factors, actual results could materially differ from our estimates and assumptions if changes in one or more factors require us to make accounting adjustments. During the three months ended March 31, 2016, we reassessed our critical accounting policies and estimates as disclosed in our 2015 Form 10-K; however, we have made no material changes or additions with regard to those policies and estimates.

#### RECENT ACCOUNTING STANDARDS

Please refer to Note 2 in the Notes to Unaudited Consolidated Financial Statements for a discussion of recent accounting standards that may affect us.

## UNITED INSURANCE HOLDINGS CORP.

## ANALYSIS OF FINANCIAL CONDITION - MARCH 31, 2016 COMPARED TO DECEMBER 31, 2015

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying unaudited consolidated interim financial statements and related notes, and in conjunction with the section entitled MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS in our 2015 Form 10-K.

## Investments

With respect to our investments, we primarily attempt 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. We must comply with applicable state insurance regulations that prescribe the type, quality and concentrations of investments our insurance affiliates 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. We direct our asset managers to make changes and to hold, buy or sell securities in our portfolio.

The Investment Committee of our Board of Directors reviews and approves our investment policy on a regular basis. Our cash, cash equivalents and investment portfolio totaled \$581,138,000 at March 31, 2016.

The following table summarizes our investments, by type:

|   | March 31, 2016       |                  | December 31, 2015    |                  |
|---|----------------------|------------------|----------------------|------------------|
|   | Estimated Fair Value | Percent of Total | Estimated Fair Value | Percent of Total |
| U.S. government and agency securities             | \$80,149             | 13.8 %           | \$81,647             | 15.2 %           |
| Foreign government                                | 2,118                | 0.4              | 2,075                | 0.4              |
| States, municipalities and political subdivisions | 160,083              | 27.5             | 155,905              | 29.0             |
| Public utilities                                  | 6,240                | 1.1              | 8,493                | 1.6              |
| Corporate securities                              | 150,613              | 25.9             | 146,758              | 27.2             |
| Redeemable preferred stocks                       | 1,816                | 0.3              | 1,820                | 0.3              |
| Total fixed maturities                            | 401,019              | 69.0             | 396,698              | 73.7             |
| Mutual fund                                       | 21,384               | 3.7              | 26,343               | 4.9              |
| Public utilities                                  | 1,518                | 0.3              | 1,352                | 0.3              |
| Other common stocks                               | 22,707               | 3.8              | 20,694               | 3.9              |
| Non-redeemable preferred stocks                   | 2,453                | 0.4              | 2,417                | 0.4              |
| Total equity securities                           | 48,062               | 8.2              | 50,806               | 9.5              |
| Other long-term investments                       | 5,648                | 1.0              | 5,210                | 1.0              |
| Total investments                                 | 454,729              | 78.2             | 452,714              | 84.2             |
| Cash and cash equivalents                         | 126,409              | 21.8             | 84,786               | 15.8             |
| Total cash, cash equivalents and investments      | \$581,138            | 100.0%           | \$537,500            | 100.0%           |



We classify all of our investments as available-for-sale. Our investments at March 31, 2016 and December 31, 2015 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 March 31, 2016, approximately 85% of our fixed maturities were U.S. Treasuries or corporate bonds rated "A" or better, and 15% were corporate bonds rated "BBB".

UNITED INSURANCE HOLDINGS CORP.

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At March 31, 2016, securities in an unrealized loss position for a period of twelve months or longer reflected unrealized losses of \$294,000; approximately \$245,000 of the total related to thirty fixed maturities, while five equity securities reflected an unrealized loss of \$49,000. We currently have no plans to sell these thirty-five securities, and we expect to fully recover our cost basis. We reviewed all of our securities and determined that we did not need to record any impairment charges at March 31, 2016. Similarly, we did not record impairment charges at December 31, 2015.

#### Reinsurance Payable

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 liable for the entire insured loss.

During the second quarter of 2015, we placed our reinsurance program for the 2015 hurricane season. We purchased catastrophe excess of loss reinsurance protection of \$1,243,122,000. The contracts reinsure for personal lines property excess catastrophe losses caused by multiple perils including hurricanes, tropical storms, and tornadoes. The agreements are effective June 1, 2015, for a one-year term and incorporate the mandatory coverage required by and placed with the Florida Hurricane Catastrophe Fund (FHCF). The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes. Effective January 1, 2016, we placed a new reinsurance agreement, that will expire on December 31, 2016.

See Note 7 in our Notes to Unaudited Consolidated Financial Statements for additional information regarding our reinsurance program.

## UNITED INSURANCE HOLDINGS CORP.

## RESULTS OF OPERATIONS - COMPARISON OF THE THREE-MONTH PERIODS ENDED MARCH 31, 2016 AND 2015

## Revenue

Net income for the quarter increased by \$2,753,000 or 1,390.4% to \$2,951,000 for the quarter ended March 31, 2016 from \$198,000 for the same period in 2015. The increase in net income was primarily due to increases in gross written premium for the first quarter of 2016 compared to the first quarter of 2015.

Our gross written premiums increased by \$29,340,000, or 27.5%, to \$135,956,000 for the quarter ended March 31, 2016 from \$106,616,000 for the same period in 2015, primarily due to the strong organic growth in new and renewal business generated both in and outside of Florida. The breakdown of the quarter-over-quarter changes in both written and assumed premiums by region and direct versus assumed is shown in the following table:

| Direct and Assumed Written Premium By Region <sup>(1)</sup> | Three Months Ended March 31, |           |          |
|---|------------------------------|-----------|----------|
|   | 2016                         | 2015      | Change   |
| Florida   | \$73,698                     | \$71,394  | \$2,304  |
| Gulf  | 29,669                       | 8,996     | 20,673   |
| Southeast   | 18,634                       | 14,004    | 4,630    |
| Northeast   | 17,245                       | 12,566    | 4,679    |
| Total direct written premium by region                      | 139,246                      | 106,960   | 32,286   |
| Assumed premium <sup>(2)</sup>                              | (3,290 )                     | (344 )    | (2,946 ) |
| Total gross written premium                                 | \$135,956                    | \$106,616 | \$29,340 |

<sup>(1)</sup> Each region is comprised of the following states: Gulf includes Hawaii, Louisiana and Texas, Northeast includes Connecticut, Massachusetts, New Jersey, New York and Rhode Island, and Southeast includes Georgia, North Carolina and South Carolina.

<sup>(2)</sup> All assumed premiums are written in Florida due to policy assumptions from Citizens Property Insurance Corporation that are written in Florida and are shown net of opt-outs.

| New and Renewal Policies* By Region | Three Months Ended<br>March 31, |        |        |
|-------------------------------------|---------------------------------|--------|--------|
|                                     | 2016                            | 2015   | Change |
| Florida                             | 42,819                          | 40,706 | 2,113  |
| Gulf                                | 19,969                          | 6,081  | 13,888 |
| Southeast                           | 14,392                          | 10,083 | 4,309  |
| Northeast                           | 13,078                          | 9,268  | 3,810  |
| Total                               | 90,258                          | 66,138 | 24,120 |

\* Only includes new and renewal homeowner, commercial and dwelling fire policies written during the quarter.

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.

## UNITED INSURANCE HOLDINGS CORP.

## Expenses

Expenses for the three months ended March 31, 2016 increased \$21,070,000, or 25.6%, to \$103,252,000 for the first quarter of 2016 from \$82,182,000 for the same period in 2015, primarily due to increased losses, policy acquisition costs, operating costs and general and administrative expenses. The calculation of our underlying loss and combined ratios is shown below.

|   | Three Months Ended March 31, |          |             |
|---|------------------------------|----------|-------------|
|   | 2016                         | 2015     | Change      |
| Net Loss and LAE  | \$64,258                     | \$51,971 | \$12,287    |
| % of Gross earned premiums                                | 43.9                         | % 45.1   | % (1.2) pts |
| % of Net earned premiums                                  | 63.4                         | % 66.6   | % (3.2) pts |
| Less:   |                              |          |             |
| Current year catastrophe losses                           | \$15,056                     | \$15,259 | \$(203 )    |
| Prior year reserve development (favorable)                | 3,186                        | 945      | 2,241       |
| Underlying loss and LAE*                                  | \$46,016                     | \$35,767 | \$10,249    |
| % of Gross earned premiums                                | 31.4                         | % 31.1   | % 0.3 pts   |
| % of Net earned premiums                                  | 45.4                         | % 45.8   | % (0.4) pts |
| Policy acquisition costs                                  | \$27,032                     | \$19,186 | \$7,846     |
| Operating and underwriting                                | 3,954                        | 3,541    | 413         |
| General and administrative                                | 7,933                        | 7,401    | 532         |
| Total Operating Expenses                                  | \$38,919                     | \$30,128 | \$8,791     |
| % of Gross earned premiums                                | 26.6                         | % 26.2   | % 0.4 pts   |
| % of Net earned premiums                                  | 38.4                         | % 38.6   | % (0.2) pts |
| Interest Expense  | \$75                         | \$83     | \$(8 )      |
| Total Expenses  | \$103,252                    | \$82,182 | \$21,070    |
| Combined Ratio - as % of gross earned premiums            | 70.5                         | % 71.3   | % (0.8) pts |
| Underlying Combined Ratio - as % of gross earned premiums | 58.0                         | % 57.3   | % 0.7 pts   |
| Combined Ratio - as % of net earned premiums              | 101.8                        | % 105.2  | % (3.4) pts |
| Underlying Combined Ratio - as % of net earned premiums   | 83.8                         | % 84.4   | % (0.6) pts |

Underlying Loss and LAE is a non-GAAP 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 document is in the "Definitions of Non-GAAP Measures" section of this document.

Loss and LAE increased \$12,287,000, or 23.6%, to \$64,258,000 for the first quarter of 2016 from \$51,971,000 for the first quarter of 2015. Loss and LAE expense as a percentage of net earned premiums decreased 3.2 points resulting in a net loss ratio of 63.4% for the quarter, compared to a net loss ratio of 66.6% for the same period last year. Excluding catastrophe losses and reserve development, our gross underlying loss and LAE ratio for the quarter was 31.4%, an increase of 0.3 points from 31.1% during the first quarter of 2015.

Policy acquisition costs increased \$7,846,000, or 40.9%, to \$27,032,000 for the first quarter of 2016 from \$19,186,000 for the first quarter of 2015. These costs vary 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 expenses increased by \$413,000, or 11.7% for the first quarter of 2016 to \$3,954,000 from \$3,541,000 for the first quarter of 2015, primarily due to increased investments in information technology systems and equipment.

UNITED INSURANCE HOLDINGS CORP.

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General and administrative expenses increased \$532,000, or 7.2% for the first quarter of 2016 to \$7,933,000 from \$7,401,000 for the first quarter of 2015, primarily due to increases in personnel, depreciation and amortization costs related to our continued growth.

## LIQUIDITY AND CAPITAL RESOURCES

We generate cash through premium collections, reinsurance recoveries, investment income, the sale or maturity of invested assets 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, as well as to 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 affiliate to pay our general and administrative expenses. Insurance regulatory authorities in the states in which we operate heavily regulate our insurance affiliates, including restricting any dividends paid by our insurance affiliates and requiring approval of any management fees our insurance affiliates pay to our management affiliates for services rendered; however, nothing restricts our non-insurance company subsidiaries from paying us dividends other than state corporate laws regarding solvency. Our non-insurance company subsidiaries may pay us dividends from any positive net cash flows that they generate. Our management affiliates pay us dividends primarily using cash from the collection of management fees from our insurance affiliates, pursuant to the management agreements in effect between those entities.

On April 29, 2016, we acquired all of the outstanding common stock of Interboro for \$57,000,000. We paid \$48,500,000 in cash at closing and issued an \$8,500,000 promissory note to the Seller, which will mature in 18 months and bear interest at an annual rate of 6%.

During the first quarter of 2016, we contributed \$5,000,000 of capital to Family Security Insurance Company, Inc. and we will continue to contribute capital throughout the year as required to fund the growing operations of our insurance affiliates.

### Operating Activities

During the three months ended March 31, 2016, our operations generated cash of \$40,860,000, compared to generating cash of \$18,783,000 during the same period in 2015. The \$22,077,000 increase in operating cash was primarily driven by a \$35,903,000 increase in premium collections during the first three months of 2016 compared to the same period in 2015 and by an increase of \$5,838,000 in assumptions during the first three months of 2016 compared to the same period last year. In addition, we paid \$200,000 of income taxes during the first three months of 2016 compared to paying \$425,000 of income taxes for the same period last year. Partially offsetting this increase in cash inflows was an increase in cash outflows related to claims payments, reinsurance payments and agent commission expenses. Claims payments increased approximately \$6,446,000, primarily due to the increase in exposures and payments on claims from current and prior accident years. Agents' commission payments increased \$5,088,000 due to our continuing growth. Reinsurance payments increased \$7,603,000 because we purchased more reinsurance coverage under our 2015-2016 contracts than we purchased under our 2014-2015 contracts.

### Investing Activities

During the three months ended March 31, 2016, our investing activities provided \$2,235,000 of cash compared to using \$7,686,000 of cash in the same period of the prior year. The increase in cash provided primarily relates to a \$15,026,000 decrease in the amount of investments purchased and a \$6,574,000 increase in the amount of investments sold during the three months ended March 31, 2016 compared to the same period in 2015. In addition, there was a decline in our investments in property and equipment of \$1,066,000 primarily due to the increased purchases of capitalized software during the first quarter of 2015. Partially offsetting the increase in net cash provided during the three months was the \$12,745,000 in cash acquired from the acquisition of FSH and its subsidiaries during the first quarter of 2015, while no such acquisition occurred during the first three months of 2016.

UNITED INSURANCE HOLDINGS CORP.

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Financing Activities

During the three months ended March 31, 2016, our financing activities used cash of \$1,472,000 compared to using cash of \$3,686,000 during the three months ended March 31, 2015. The decrease in cash used by financing activities primarily relates to the repayments of borrowings decrease of \$2,246,000 because we paid off the outstanding loan payable balance acquired in the Family Security Holdings, LLC transaction during the first quarter of 2015, while no such repayment occurred in 2016.

Our insurance affiliates are subject to extensive state regulation, including approval of any management fees they pay to our management affiliates for services rendered. In accordance with state laws, our insurance affiliates 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 affiliates' ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause their respective surplus as regards policyholders to fall below minimum RBC guidelines. See Note 10 in our Notes to Unaudited Consolidated Financial Statements for additional information.

We believe our current capital resources, together with cash provided from our operations, will be sufficient to meet currently anticipated working capital requirements. We cannot provide assurance, however, that such will be the case in the future.

OFF-BALANCE SHEET ARRANGEMENTS

At March 31, 2016, we had no off-balance-sheet arrangements.



UNITED INSURANCE HOLDINGS CORP.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, including changes to interest rates, the financial condition of the issuer of our fixed-maturities and equity security prices. These risks were disclosed in Part 1, Item 1A of our 2015 Form 10-K; we have no material changes or additions to that disclosure.

Item 4. Controls and Procedures

We maintain a set of disclosure controls and procedures designed to ensure that the information we must disclose in reports we file or submit under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We designed our disclosure controls with the objective of ensuring we accumulate and communicate this information to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act, as of the end of the period covered by this report. Based on our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

During the fiscal quarter ended March 31, 2016, we made no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

UNITED INSURANCE HOLDINGS CORP.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in 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.

Item 1A. Risk Factors

Part I, Item 1A (Risk Factors) of our 2015 Form 10-K sets forth information relating to various risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Those risk factors continue to be relevant to an understanding of our business, financial condition and operating results. No material changes have occurred with respect to those risk factors.

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

Unregistered Sales of Equity Securities. During the three months ended March 31, 2016, we did not sell any unregistered equity securities.

Working Capital Restrictions and Other Limitations on Payment of Dividends. Under Florida law, a Florida-domiciled insurer like United Property & Casualty Insurance Company 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. ten percent of capital surplus, or

b. net gain from operations, or

c. net income, not including realized capital gains, plus a two-year carryforward,

2. ten percent of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains, or

3. the lesser of:

a. ten percent of capital surplus, or

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

Alternatively, United Property & Casualty Insurance Company 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. ten percent of the insurer's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains, or

UNITED INSURANCE HOLDINGS CORP.

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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, a Florida-domiciled insurer 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. At March 31, 2016, we were in compliance with these requirements.

Under the insurance regulations of Hawaii, the maximum amount of dividends that Family Security Insurance Company may pay to its parent company without prior approval from the Insurance Commissioner is:

1. the lesser of:

a. ten percent (10%) of Family Security Insurance Company's surplus as of December 31 of the preceding year, or

b. ten percent (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.

Repurchases. During the three months ended March 31, 2016, we did not repurchase equity securities.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.



UNITED INSURANCE HOLDINGS CORP.

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## Item 6. Exhibits

The following exhibits are filed herewith or are incorporated herein by reference:

| Exhibit | Description   |
|---------|---|
| 31.1    | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act. |
| 31.2    | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act. |
| 32.1    | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act. |
| 32.2    | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act. |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase   |

UNITED INSURANCE HOLDINGS CORP.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED INSURANCE HOLDINGS CORP.

May 4, 2016 By: /s/ John Forney

John Forney, Chief Executive Officer

(principal executive officer and duly authorized officer)

May 4, 2016 By: /s/ B. Bradford Martz

B. Bradford Martz, Chief Financial Officer

(principal financial officer and principal accounting officer)