

UNITED INSURANCE HOLDINGS CORP.  
Form 10-K  
February 24, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

Commission File Number 000-52833

United Insurance Holdings Corp.

Delaware

(State of Incorporation)

75-3241967

(IRS Employer Identification Number)

360 Central Avenue, Suite 900

St. Petersburg, Florida 33701

727-895-7737

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, \$0.0001 PAR VALUE PER  
SHARE

NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

PREFERRED SHARE PURCHASE RIGHTS

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | Smaller reporting company | <input type="checkbox"/>            |

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

Non-affiliates held common stock issued by the registrant with an aggregate market value of \$85,694,143 as of June 28, 2013, calculated using the closing sales price reported for such date on the NASDAQ Stock Market. For purposes

of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

As of February 24, 2014, 16,209,315 shares of common stock, par value \$0.0001 per share, were outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2013.

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Throughout this Form 10-K, 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 Annual Report, we show full values rounded to the nearest thousand.

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FORWARD-LOOKING STATEMENTS

Statements in this Form 10-K for the year ended December 31, 2013 or in documents incorporated by reference that are not historical fact are “forward-looking statements” within the meaning of the Private Securities Reform Litigation Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management’s beliefs and assumptions. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue” or the negative variations of comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the regulatory, economic and weather conditions present in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost 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 under "Risk Factors" below.

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

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us described in our filings with the SEC. The forward-looking events that we discuss in this Form 10-K are valid only as of the date of this Form 10-K and may not occur in light of the risks, uncertainties and assumptions that we describe 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 of this Form 10-K. 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.

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PART I

Item 1. Business

INTRODUCTION

Company Overview

United Insurance Holdings Corp. serves as the holding company for United Property & Casualty Insurance Company and its affiliated companies. Its business is conducted principally through the four wholly-owned subsidiaries shown below. 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 Florida, Massachusetts, New Jersey, North Carolina, Rhode Island, South Carolina, and Texas, and we are licensed to write in Georgia and New Hampshire. 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.

We conduct our operations under one business segment.

To achieve its goals in 2014, UPC Insurance seeks to:

- Grow premium base in existing states until target market share is obtained;
- Begin writing policies in several new states in support of our growth and diversification strategy;
- Improve the efficiency of our catastrophe reinsurance program; and
- Improve the cost-effectiveness of our operations.

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### Corporate Information

In 1999, we formed our original holding company, United Insurance Holdings, L.C., a Florida limited liability company, our insurance affiliate and our management affiliate and conducted operations under that structure until 2004. In 2004, we added our claims adjusting affiliate and continued operations under the new structure until we completed a merger with Fund Management Group (FMG) Acquisition Corp.

In May 2007, FMG Acquisition Corp, a blank-check company, was incorporated under the laws of Delaware. In September 2008, in a cash and stock transaction, we completed a reverse merger whereby United Subsidiary Corp., a wholly-owned subsidiary of FMG Acquisition Corp., merged with and into United Insurance Holdings, L.C., a Florida limited liability company, with United Insurance Holdings, L.C. remaining as the surviving entity. In connection with that merger, FMG Acquisition Corp. changed its name to United Insurance Holdings Corp. and became a public operating company trading in the over-the-counter market under the ticker symbol "UIHC". In April 2011, we founded our reinsurance affiliate, UPC Re. In August 2011, we merged United Insurance Holdings, L.C. into its parent corporation, United Insurance Holdings Corp. In December 2012, in connection with an underwritten public offering of 5,000,000 shares of our common stock, we applied to list our common stock on The Nasdaq Capital Market. Our application was approved, and our common stock began trading on The Nasdaq Capital Market on December 11, 2012.

Our principal executive offices are located at 360 Central Avenue, Suite 900, St. Petersburg, FL 33701 and our telephone number at that location is (727) 895-7737.

### Recent Events

On February 24, 2014, our Board of Directors declared a \$0.04 per share quarterly cash dividend payable on March 21, 2014, to stockholders of record on March 14, 2014.

On February 12, 2014, our insurance affiliate filed for a 4.3% average rate increase on all new and renewal homeowner business written in Florida, which is currently pending approval by the state regulatory authority.

On February 4, 2014, our insurance affiliate filed for a 17.0% average rate increase on all new and renewal homeowner business written in Rhode Island, currently pending approval by the state regulatory authority.

On November 5, 2013, our Board declared a \$0.03 per share cash dividend, which was paid on December 13, 2013, to stockholders of record on November 29, 2013.

Also on November 5, 2013, we assumed more than 18,000 policies from Citizens Property Insurance Corporation representing approximately \$63,047,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

### PRODUCTS AND DISTRIBUTION

Homeowners policies and related coverage account for essentially all of the business that we write. In 2013, homeowners policies (by which we mean both standard homeowners and dwelling fire policies) produced written premium of \$365,249,000 and accounted for 96% of our total written premium. In addition to homeowners policies, we write flood policies, which accounted for the majority of the remaining 4% of our 2013 written premium. On our

flood policies, we earn a commission while retaining no risk of loss, since all such risk is ceded to the federal government via the National Flood Insurance Program. Policies we issue under our homeowners programs in the various states where we do business provide both structure and content coverage. We offer standardized policies for a broad range of exposures, and our policies include coverage options for standard single-family homeowners, tenants (renters), and condominium unit owners.

We currently market and distribute our policies to consumers through nearly 2,500 independent agencies. Our insurance affiliate has been focused on the independent agency distribution channel since its inception, and we believe we have built significant credibility and loyalty with the independent agent community in the states in which we operate. In 2011, we became a Trusted Choice partner company. Trusted Choice is a group of unaffiliated independent agents around the country that seek to maintain the highest levels of service quality and product offerings to consumers. Our insurance affiliate is one of 70 insurance companies nationwide that have qualified to be Trusted Choice partner companies. We recruit, train and appoint the full-service insurance agencies that distribute our products. Typically, a full service agency is small to medium in size and

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represents several insurance companies for both personal and commercial product lines. We depend heavily upon our independent agents to produce new business for us. We compensate our independent agents primarily with fixed-rate commissions that are consistent with market practices. In addition to our relationships with individual agencies, we have important relationships with aggregators of underlying agency demand. The two most significant of these relationships are with Allstate in Florida, which, through its Ivantage program, refers homeowners to our insurance affiliate and other partner companies, and with the Florida Association of Insurance Agents (FAIA), which serves as a conduit between our insurance affiliate and many smaller agencies in Florida with whom we do not have direct appointments.

Our marketing representatives monitor and support our agents and also have the principal responsibility for recruiting and training our new agents. We manage our independent agents through periodic business reviews using established benchmarks/goals for premium volume and profitability.

## COMPETITION

The market for homeowners insurance is highly competitive. In our primary market, Florida, there are over 170 licensed insurance companies that write homeowners' policies. The table below shows year-to-date in-force premium volume and market share for the top 20 companies in Florida as of September 30, 2013, which is the most recent date that the information is publicly available. We compete to varying degrees with all of these companies and others, including large national carriers, the state-sponsored homeowners insurance entity, and single state or regional carriers. Similar competitive groups exist in our other geographic markets.

## Florida Property Insurance Market - Personal Residential and Commercial Residential - Ranked by DWP\*

| Company Name                                                  | Policies in-Force | Exposure          | Direct Written Premium in-Force | Percentage Distribution |
|---------------------------------------------------------------|-------------------|-------------------|---------------------------------|-------------------------|
| Citizens Property Insurance Corporation                       | 1,200,524         | \$352,313,493,978 | \$2,610,686,875                 | 23.5 %                  |
| Universal Property & Casualty Insurance Company               | 511,386           | 110,409,347,259   | 761,743,132                     | 6.9 %                   |
| State Farm Florida Insurance Company                          | 396,828           | 156,287,354,623   | 678,340,819                     | 6.1 %                   |
| Homeowners Choice Property & Casualty Insurance Company, Inc. | 135,263           | 37,102,064,672    | 324,398,004                     | 2.9 %                   |
| Florida Peninsula Insurance Company                           | 136,307           | 47,545,598,538    | 313,984,080                     | 2.8 %                   |
| American Coastal Insurance Company                            | 4,023             | 43,238,192,761    | 295,327,333                     | 2.7 %                   |
| United Services Automobile Association                        | 129,805           | 54,540,260,088    | 290,277,593                     | 2.6 %                   |
| St. Johns Insurance Company, Inc.                             | 171,957           | 63,000,936,058    | 279,490,211                     | 2.5 %                   |
| United Property & Casualty Insurance Company                  | 146,459           | 58,149,867,986    | 271,574,577                     | 2.5 %                   |
| Security First Insurance Company                              | 177,070           | 48,173,189,535    | 230,281,590                     | 2.1 %                   |
| American Integrity Insurance Company of Florida               | 163,971           | 47,803,075,185    | 196,797,511                     | 1.8 %                   |
| Tower Hill Prime Insurance Company                            | 119,365           | 48,130,932,038    | 195,461,316                     | 1.8 %                   |
| Federated National Insurance Company                          | 100,268           | 42,278,681,786    | 181,943,601                     | 1.6 %                   |
| Federal Insurance Company                                     | 31,264            | 46,007,973,686    | 167,542,444                     | 1.5 %                   |
| People's Trust Insurance Company                              | 72,799            | 21,837,383,315    | 159,483,890                     | 1.4 %                   |
| USAA Casualty Insurance Company                               | 55,498            | 21,469,831,690    | 151,019,655                     | 1.4 %                   |
| Tower Hill Signature Insurance Company                        | 86,966            | 27,519,887,292    | 142,864,077                     | 1.3 %                   |
| Castle Key Insurance Company                                  | 100,568           | 23,813,302,005    | 140,802,980                     | 1.3 %                   |
|                                                               | 85,627            | 24,227,056,655    | 137,804,147                     | 1.2 %                   |



Heritage Property & Casualty Insurance  
Company

|                                        |           |                     |                  |       |   |
|----------------------------------------|-----------|---------------------|------------------|-------|---|
| Tower Hill Preferred Insurance Company | 64,865    | 27,646,846,863      | 134,798,558      | 1.2   | % |
| Total - Top 20 Insurers                | 3,890,813 | 1,301,495,276,013   | 7,664,622,393    | 69.1  | % |
| Total - All Insurers                   | 6,100,328 | \$2,010,169,835,063 | \$11,104,579,184 | 100.0 | % |

\*The information displayed in the table above is compiled and published by the Florida Office of Insurance Regulation based on information filings submitted quarterly by all Florida licensed insurance companies. The information above is presented for each individual company and is not consolidated or aggregated.

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We compete primarily on the basis of product features, the strength of our distribution network, high-quality service to our agents and policyholders, and our reputation for long-term stability and commitment. In addition, our long and successful track record writing homeowners insurance in catastrophe-exposed areas has enabled us to develop sophisticated pricing techniques that endeavor to accurately reflect the risk of loss while allowing us to be competitive in our target markets.

We price our product at levels that we project will generate an acceptable underwriting profit. We try to be extremely granular in our approach, so that our price can accurately reflect the risk and profitability of each potential customer. In our pricing algorithm, we take into account historical loss costs (both attritional and catastrophic) for the rating territory in which the customer resides, as well as projected incremental reinsurance costs based on the specific geographic and structural characteristics of the home. In addition to the specific characteristics of the policy being priced, we also evaluate the effect of each incremental policy on our portfolio as a whole. In this regard, we seek to optimize our portfolio by diversifying our geographic exposure in order to limit our probable maximum loss, total insured value and average annual loss. We use the output from third-party modeling software to analyze our risk exposures, including wind exposures, by zip code or street address as part of the optimization process. We establish underwriting guidelines to provide a uniform approach to our risk selection and to achieve underwriting profitability. After we bind a new risk, with few exceptions, we physically inspect the property. Our underwriters review the property inspection report during their risk evaluation and if the policy does not meet our underwriting criteria, we have the right to cancel the policy within 90 days in Florida and within 60 days in other states.

We intend to compete by and commit ourselves to providing the highest possible level of service to our insurance agents and our policyholders. Our customized web-based policy processing interface affords our agents the ability to prepare and process new policies and policy changes online and deliver policy declarations quickly. We use Computer Science Corporation (CSC) to manage our policy-related information systems and to perform some of the administrative duties of processing a policy. CSC is a global IT services company, and one of the leading providers of outsourcing and technology solutions to the insurance industry. Using CSC allows us to obtain up-to-date technology at a reasonable cost and to achieve economies of scale without incurring significant fixed-overhead expenses. CSC provides us with integrated policy underwriting, billing, collection and reporting, and employs Internet-based systems for the on-line submission of applications, the underwriting of policies and the automated issuance of policies. We believe that the use of CSC in conjunction with our internal resources delivers a consistently high-quality user experience for our agents and policyholders.

## GEOGRAPHIC MARKETS

Our insurance affiliate began operations in Florida in 1999, and has operated continuously there since. In 2010, we began to expand to other states, beginning with South Carolina in 2010, Massachusetts in 2011 and Rhode Island in 2012. In 2013, we began writing business in North Carolina, New Jersey and Texas. We are also licensed to write business in Georgia and New Hampshire, though we have not yet begun to write policies there. It is a fundamental part of our strategy to diversify our operations outside of Florida and to write in multiple states where the perceived threat of natural catastrophes has caused large national insurance companies to reduce their concentration. In pursuit of this strategy, we have submitted applications for licensure in New York, Connecticut, and Louisiana.

The charts below show the geographic distribution of our 202,454 policies in-force as of December 31, 2013, and 135,297 policies in-force as of December 31, 2012.



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RESERVE FOR UNPAID LOSSES

We generally use the term loss(es) to collectively refer to both loss and loss adjusting expenses. We establish reserves for both reported and unreported unpaid losses that have occurred at or before the balance sheet date for amounts we estimate we will be required to pay in the future. Our policy is to establish these loss reserves after considering all information known to us at each reporting period. At any given point in time, our loss reserve represents our best estimate of the ultimate settlement and administration cost of our insured claims incurred and unpaid. Since the process of estimating loss reserves requires significant judgment due to a number of variables, such as fluctuations in inflation, judicial decisions, legislative changes and changes in claims handling procedures, our ultimate liability will likely differ from these estimates. We revise our reserve for unpaid losses as additional information becomes available, and reflect adjustments, if any, in our earnings in the periods in which we determine the adjustments are necessary.

Reserves for unpaid losses fall into two categories: case reserves and reserves for claims incurred but not reported. See our APPLICATION OF CRITICAL ACCOUNTING ESTIMATES section under Item 7 of this Form 10-K for a discussion of these two categories of reserves for unpaid losses and for a discussion of the methods we use to estimate those reserves.

On an annual basis, our consulting actuary issues a statement of actuarial opinion that documents the actuary's evaluation of the adequacy of our unpaid loss obligations under the terms of our policies. We review the analysis underlying the actuary's opinion and compare the projected ultimate losses per the actuary's analysis to our own projection of ultimate losses to ensure that our reserve for unpaid losses recorded at each annual balance sheet date is based upon our analysis of all internal and external factors related to known and unknown claims against us and to ensure our reserve is within guidelines promulgated by the National Association of Insurance Commissioners (NAIC).

We maintain an in-house claims staff that monitors and directs all aspects of our claims process. We assign the fieldwork to our wholly-owned claims subsidiary, or to third-party claims adjusting companies, none of whom have the authority to settle or pay any claims on our behalf. The claims adjusting companies conduct inspections of the damaged property and prepare initial estimates. We review the inspection reports and initial estimates to determine the amounts to be paid to the policyholder in accordance with the terms and conditions of the policy. We maintain strategic relationships with multiple claims adjusting companies which we can engage should we need additional non-catastrophe claims servicing capacity. As demonstrated during 2004 and 2005, as well as more recent events in 2012 when we had several catastrophic events, we believe all of our relationships provide an adequate level of claims servicing in the event catastrophes affect our policyholders.

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The table below shows the analysis of our reserve for unpaid losses for each of our last three years on a GAAP basis:

|                                                   | 2013     | 2012     | 2011     |
|---------------------------------------------------|----------|----------|----------|
| Balance at January 1                              | \$35,692 | \$33,600 | \$47,414 |
| Less: reinsurance recoverable on unpaid losses    | 1,935    | 3,318    | 23,814   |
| Net balance at January 1                          | \$33,757 | \$30,282 | \$23,600 |
| Incurred related to:                              |          |          |          |
| Current year                                      | 94,752   | 57,739   | 43,019   |
| Prior years                                       | 4,078    | 670      | (4,158)  |
| Total incurred                                    | \$98,830 | \$58,409 | \$38,861 |
| Paid related to:                                  |          |          |          |
| Current year                                      | 62,494   | 37,906   | 28,857   |
| Prior years                                       | 24,599   | 17,028   | 3,322    |
| Total paid                                        | \$87,093 | \$54,934 | \$32,179 |
| Net balance at December 31                        | \$45,494 | \$33,757 | \$30,282 |
| Plus: reinsurance recoverable on unpaid losses    | 1,957    | 1,935    | 3,318    |
| Balance at December 31                            | \$47,451 | \$35,692 | \$33,600 |
| Composition of reserve for unpaid losses and LAE: |          |          |          |
| Case reserves                                     | 28,054   | 20,438   | 18,315   |
| IBNR reserves                                     | 19,397   | 15,254   | 15,285   |
| Balance at December 31                            | \$47,451 | \$35,692 | \$33,600 |

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LOSS RESERVE DEVELOPMENT

The table on the next page displays UPC Insurance's loss reserve development, on a GAAP basis, for business written in each year from 2003 through 2013; it does not distinguish between catastrophe and attritional losses. The following explanations of the main sections of the table should provide a better understanding of the information displayed:

**Original net liability.** The original net liability represents the original estimated amount of reserves for unpaid losses recorded at the balance sheet date for each of the years indicated in the column headings, net of reinsured losses. We record reserves related to claims arising in the current year and in all prior years that remained unpaid at the balance sheet date for each of the years indicated, including estimated losses that had been incurred but not reported.

**Net cumulative paid as of.** This section displays the net cumulative payments we have made for losses, as of the balance sheet date of each succeeding year, related to claims incurred prior to the balance sheet date of the year indicated in the column heading.

**Net liability re-estimated as of.** This section displays the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year. An increase or decrease from the original reserve estimate is caused by a combination of factors, including (i) claims being settled for amounts different than originally estimated, (ii) reserves being increased or decreased for claims remaining open as more information becomes available on those individual claims and (iii) more or fewer claims being reported after the year end than estimated.

**Cumulative redundancy (deficiency) at December 31, 2013.** The cumulative redundancy or deficiency results from the comparison of the net liability re-estimated as of the current balance sheet date to the original net liability, and it indicates an overestimation of the original net liability (a redundancy) or an underestimation of the original net liability (a deficiency).

It is important to note that the table presents a run-off of balance sheet liability for the periods indicated rather than accident or policy loss development for those periods. Therefore, each amount in the table includes the cumulative effects of changes in liability for all prior periods. Conditions and trends that have affected liabilities in the past may not necessarily occur in the future.

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|                                                    | 2013     | 2012     | 2011     | 2010     | 2009     | 2008     | 2007     | 2006     | 2005     | 2004    |
|----------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|
| Original net liability                             | \$45,494 | \$33,757 | \$30,282 | \$23,600 | \$20,665 | \$19,192 | \$21,559 | \$23,735 | \$20,447 | \$8,444 |
| Net cumulative paid as of:                         |          |          |          |          |          |          |          |          |          |         |
| One year later                                     |          | 24,599   | 17,028   | 3,322    | 12,533   | 8,984    | 9,707    | 9,047    | 12,872   | 10,964  |
| Two years later                                    |          |          | 26,889   | 10,562   | 7,409    | 13,148   | 12,127   | 13,083   | 14,363   | 13,874  |
| Three years later                                  |          |          |          | 16,776   | 12,444   | 6,030    | 14,310   | 14,115   | 15,582   | 14,864  |
| Four years later                                   |          |          |          |          | 16,369   | 10,145   | 6,113    | 15,395   | 16,312   | 15,024  |
| Five years later                                   |          |          |          |          |          | 13,441   | 9,552    | 7,032    | 17,356   | 15,214  |
| Six years later                                    |          |          |          |          |          |          | 11,649   | 10,264   | 8,722    | 15,294  |
| Seven years later                                  |          |          |          |          |          |          |          | 12,219   | 11,787   | 15,324  |
| Eight years later                                  |          |          |          |          |          |          |          |          | 13,605   | 15,354  |
| Nine years later                                   |          |          |          |          |          |          |          |          |          | 15,364  |
| Ten years later                                    |          |          |          |          |          |          |          |          |          |         |
| Net liability re-estimated as of:                  |          |          |          |          |          |          |          |          |          |         |
| End of year                                        | \$45,494 | \$33,757 | \$30,282 | \$23,600 | \$20,665 | \$19,192 | \$21,559 | \$23,735 | \$20,447 | \$8,444 |
| One year later                                     |          | 37,835   | 30,952   | 19,442   | 21,674   | 16,556   | 16,864   | 17,652   | 18,802   | 12,984  |
| Two years later                                    |          |          | 33,960   | 18,382   | 18,129   | 17,472   | 15,759   | 16,707   | 17,675   | 15,264  |
| Three years later                                  |          |          |          | 20,395   | 17,123   | 14,400   | 16,505   | 16,337   | 17,355   | 15,584  |
| Four years later                                   |          |          |          |          | 18,395   | 13,590   | 13,688   | 16,781   | 17,814   | 15,584  |
| Five years later                                   |          |          |          |          |          | 14,838   | 12,568   | 14,140   | 18,052   | 15,674  |
| Six years later                                    |          |          |          |          |          |          | 12,854   | 12,943   | 15,604   | 15,404  |
| Seven years later                                  |          |          |          |          |          |          |          | 13,171   | 14,303   | 15,374  |
| Eight years later                                  |          |          |          |          |          |          |          |          | 14,525   | 15,424  |
| Nine years later                                   |          |          |          |          |          |          |          |          |          | 15,364  |
| Ten years later                                    |          |          |          |          |          |          |          |          |          |         |
| Cumulative redundancy (deficiency) at December 31, |          | (4,078 ) | (3,678 ) | 3,205    | 2,270    | 4,354    | 8,705    | 10,564   | 5,922    | (6,915) |

|                                                                                                |          |          |          |          |          |          |          |           |           |          |      |   |      |   |      |   |       |
|------------------------------------------------------------------------------------------------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|----------|------|---|------|---|------|---|-------|
| 2013                                                                                           |          |          |          |          |          |          |          |           |           |          |      |   |      |   |      |   |       |
| Cumulative<br>redundancy<br>(deficiency) as<br>a % of<br>reserves<br>originally<br>established | (12.1    | )%       | (12.1    | )%       | 13.6     | %        | 11.0     | %         | 22.7      | %        | 40.4 | % | 44.5 | % | 29.0 | % | (81.8 |
| Net reserves                                                                                   | \$45,494 | \$33,757 | \$30,282 | \$23,600 | \$20,665 | \$19,192 | \$21,559 | \$23,735  | \$20,447  | \$8,444  |      |   |      |   |      |   |       |
| Ceded<br>reserves                                                                              | 1,957    | 1,935    | 3,318    | 23,814   | 23,447   | 20,907   | 14,445   | 33,440    | 153,768   | 4,100    |      |   |      |   |      |   |       |
| Gross reserves                                                                                 | \$47,451 | \$35,692 | \$33,600 | \$47,414 | \$44,112 | \$40,099 | \$36,004 | \$57,175  | \$174,215 | \$12,544 |      |   |      |   |      |   |       |
| Net<br>re-estimated                                                                            | \$37,835 | \$33,960 | \$20,395 | \$18,395 | \$14,838 | \$12,854 | \$13,171 | \$14,525  | \$15,311  |          |      |   |      |   |      |   |       |
| Ceded<br>re-estimated                                                                          | 2,169    | 3,721    | 20,580   | 20,871   | 16,164   | 8,612    | 18,556   | 109,233   | 7,456     |          |      |   |      |   |      |   |       |
| Gross<br>re-estimated                                                                          | \$40,004 | \$37,681 | \$40,975 | \$39,266 | \$31,002 | \$21,466 | \$31,727 | \$123,758 | \$22,767  |          |      |   |      |   |      |   |       |

Note: The cash we received in relation to the commutation of our 2005 contract with the Florida Hurricane Catastrophe Fund caused the decrease in the net cumulative paid amounts beginning in the 2005 column in the table above.



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The NAIC requires all property and casualty insurers to present current and historical loss information in an alternative format known as Schedule P, Part 2. This summary schedule in our insurance affiliate's statutory filings is designed to measure reserve adequacy by evaluating the inception-to-date loss and defense and cost containment (DCC) expenses incurred by calendar year and accident year and calculating the one and two year development on those expenses reported in prior periods.

The following table includes our insurance affiliate's Schedule P, Part 2 information, but was modified to also include all remaining loss adjustment expenses incurred, known as adjusting and other, as well as backing out loss payments from United Property & Casualty Insurance Company to Skyway Claims Services that are included in Schedule P, Part 2, but are eliminated in our consolidated GAAP results:

|             | CALENDAR YEAR |          |          |          |          |          |          |          |          |          |          | 1 YR<br>Developm | 2 YR<br>Develop |
|-------------|---------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|------------------|-----------------|
|             | 2003          | 2004     | 2005     | 2006     | 2007     | 2008     | 2009     | 2010     | 2011     | 2012     | 2013     |                  |                 |
| 2003<br>AY* | \$9,161       | \$10,281 | \$10,120 | \$10,357 | \$10,266 | \$10,569 | \$10,637 | \$10,520 | \$10,505 | \$10,504 | \$10,504 | \$—              | \$1             |
| 2004<br>AY  |               | 39,636   | 43,633   | 45,211   | 46,036   | 45,864   | 45,891   | 45,742   | 45,721   | 45,766   | 45,710   | 56               | 11              |
| 2005<br>AY  |               |          | 58,205   | 53,998   | 52,824   | 52,509   | 52,901   | 53,378   | 50,963   | 49,618   | 49,894   | (276)            | 1,069           |
| 2006<br>AY  |               |          |          | 36,386   | 31,195   | 30,570   | 29,728   | 29,946   | 29,753   | 29,857   | 29,864   | (7)              | (111)           |
| 2007<br>AY  |               |          |          |          | 31,465   | 27,432   | 26,696   | 27,000   | 26,824   | 26,901   | 26,958   | (57)             | (134)           |
| 2008<br>AY  |               |          |          |          |          | 33,039   | 31,157   | 31,338   | 31,083   | 31,394   | 32,356   | (962)            | (1,273)         |
| 2009<br>AY  |               |          |          |          |          |          | 43,732   | 43,826   | 43,406   | 43,155   | 43,179   | (24)             | 227             |
| 2010<br>AY  |               |          |          |          |          |          |          | 41,525   | 40,862   | 40,858   | 41,596   | (738)            | (734)           |
| 2011<br>AY  |               |          |          |          |          |          |          |          | 43,018   | 44,746   | 45,744   | (998)            | (2,726)         |
| 2012<br>AY  |               |          |          |          |          |          |          |          |          | 57,746   | 58,818   | (1,072)          | —               |
| 2013<br>AY  |               |          |          |          |          |          |          |          |          |          | 94,750   | —                | —               |
|             |               |          |          |          |          |          |          |          |          |          |          | \$(4,078)        | \$(3,670)       |

(unfavorable) favorable

\* Accident Year

As indicated above, the one-year development was \$4,078,000 unfavorable for 2013, and a reconciliation of these components is as follows:

|                                                                |           |   |
|----------------------------------------------------------------|-----------|---|
| Insurance affiliate schedule P, part 2 (loss and DCC) as filed | 2013      |   |
| Adjusting and other added to table above                       | \$(4,987) | ) |
| One year development total including adjusting and other       | 228       |   |
| Internal payment eliminations for consolidation                | (4,759)   | ) |
|                                                                | 681       |   |

Consolidated one year development

\$(4,078 )

**REGULATION**

We are subject to extensive regulation in the markets we serve, primarily at the state level. In general, these regulations are designed to protect the interests of insurance policyholders. These rules have a substantial effect on our business and relate to a wide variety of matters, including insurer solvency, reserve adequacy, insurance company licensing and examination, agent and adjuster licensing, policy forms, rate setting, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, transactions with affiliates, the payment of dividends, underwriting standards, statutory accounting methods, trade practices, and corporate governance. Some of these matters are discussed in more detail below. From time to time, individual states and/or the NAIC propose new regulations and/or legislation that affect us. We can neither predict whether any of these proposals in the various jurisdictions might be adopted, nor what effect, if any, their adoption may have on our results of operations or financial condition. For a discussion of statutory financial information and regulatory contingencies, see Note 10 to our Notes to Consolidated Financial Statements which is incorporated in this Part I, Item 1 by reference.

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Our insurance affiliate provides audited statutory financial statements to the various insurance regulatory authorities. With regard to periodic examinations of an insurance company's affairs, insurance regulatory authorities, in general, defer to the insurance regulatory authority in the state in which an insurer is domiciled; however, insurance regulatory authorities from any state in which we operate may conduct examinations at their discretion. Florida's insurance regulatory authority completed a limited-scope financial examination pertaining to our December 31, 2011 Annual Statement in November 2012. We received the results in September 2012, and there were no material adverse findings reported.

Florida state law requires our insurance affiliate to maintain adequate surplus as to policyholders such that 90% of written premiums divided by surplus does not exceed the ratio of 10:1 for gross written premiums or 4:1 for net written premiums. The ratio of gross and net written premium to surplus as of December 31, 2013, was 4.4:1 and 2.2:1, respectively, and our insurance affiliate's surplus as regards policyholders of \$78,362,000 exceeded the minimum capital of \$5,000,000 required by state laws.

We are subject to various assessments imposed by governmental agencies or certain quasi-governmental entities. While we may be able to recover from policyholders some of the assessments imposed upon us, our payment of the assessments and our recoveries through policy surcharges may not offset each other in the same fiscal period in our financial statements. See Note 2(j) and Note 10 in our Notes to Consolidated Financial Statements for additional information regarding the assessments that we are currently collecting.

#### Limitations on Dividends by Insurance Subsidiaries

As a holding company with no significant business operations of our own, we rely on payments from our insurance affiliate as one of the principal sources of cash to pay dividends and meet our obligations. Our insurance affiliate is regulated as an insurance company in Florida and its ability to pay dividends is restricted by Florida law. For additional information regarding those restrictions, see Part II, Item 5 of this report.

#### Risk-Based Capital Requirements

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

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The level of required risk-based capital is calculated and reported annually. There are five outcomes to the RBC calculation set forth by the NAIC which are as follows:

1. No Action Level - If RBC is greater than 200%, no further action is required.

Company Action Level - If RBC is between 150% -200%, the insurer must prepare a report to the regulator  
2. outlining a comprehensive financial plan that identifies conditions that contributed to the insurer's financial condition and proposes corrective actions.

Regulatory Action Level - If RBC is between 100% -150%, the state insurance commissioner is required to perform  
3. any examinations or analyses to the insurer's business and operations that he or she deems necessary as well as issuing appropriate corrective orders.

Authorized Control Level - If RBC is between 70% - 100%, this is the first point that the regulator may take control  
4. of the insurer even if the insurer is still technically solvent and is in addition to all the remedies available at the higher action levels.

Mandatory Control Level - If RBC is less than 70%, the regulator is required to take steps to place the insurer under  
5. its control regardless of the level of capital and surplus.

At December 31, 2013, our insurance affiliate's RBC ratio was 632%.

#### Insurance Holding Company Regulation

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

Insurance holding company regulations also govern the amount any affiliate of the holding company may charge our insurance affiliate for services (e.g., management fees and commissions). We have a long-term management agreement between our insurance affiliate and our management affiliate, which presently provides for monthly management fees. The Florida insurance regulatory authority must approve any changes to this agreement.

#### Underwriting and Marketing Restrictions

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

Most states also have insurance laws requiring that rate schedules and other information be filed with the insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The insurance regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory. On February 4, 2014, our insurance affiliate filed for a 17.0% average rate increase on all new and renewal homeowner business written in Rhode Island, currently pending approval by the state regulatory authority. On February 12, 2014, our insurance affiliate filed for a 4.3% average rate increase on all new and renewal homeowner business written in Florida, which is currently pending approval by the state regulatory authority.

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

#### FINANCIAL STABILITY RATING

Financial stability ratings are important to insurance companies in establishing their competitive position and such ratings may impact an insurance company's ability to write policies. Demotech maintains a letter-scale financial stability rating system ranging from A\*\* (A double prime) to L (licensed by insurance regulatory authorities); they have assigned our insurance affiliate a financial stability rating of A, which is the third highest of six rating levels. According to Demotech, "Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating of A possess Exceptional financial stability related to maintaining surplus as regards policyholders at an acceptable level." With a financial stability rating of A, we expect our property insurance policies will be acceptable to the secondary mortgage marketplace and mortgage lenders. This rating is intended to provide an independent opinion of an insurer's financial strength and is not an evaluation directed at our investors. At least annually, based on year-to-date results as of the third quarter, Demotech reviews our rating and may revise it upward or downward or revoke it at their sole discretion.

#### EMPLOYEES

As of February 2014, we have one part time employee, and a total of 89 full time employees, which includes our executive officers. We are neither party to any collective bargaining agreements nor have we experienced any work stoppages or strikes as a result of labor disputes. We believe we have good working relationships with our employees.

#### AVAILABLE INFORMATION

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

These reports may also be obtained at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1-800-SEC-0330. You may also access this information at the SEC's website ([www.sec.gov](http://www.sec.gov)). This site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

#### Item 1A. Risk Factors

Many factors affect our business and results of operations, some of which are beyond our control. Additional risks and uncertainties we are unaware of, or we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial conditions or results of operations may be materially and adversely affected. In that event, the trading price of our securities could decline, and our stockholders could lose all

or part of their investment in our securities. This discussion contains forward-looking statements. See the section entitled FORWARD-LOOKING STATEMENTS for a discussion of uncertainties, risks and assumptions associated with these statements.

#### RISKS RELATED TO OUR BUSINESS

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

Our property and casualty insurance operations expose us to claims arising from catastrophes. Catastrophes can be caused by various natural events, including hurricanes, windstorms, earthquakes, hail, severe winter weather and fires; they can also be

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man-made, such as terrorist attacks (including those involving nuclear, biological, chemical or radiological events) or consequences of war or political instability. We may incur catastrophe losses that exceed the amount of:

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

The incidence and severity of weather conditions are largely unpredictable, but the frequency and severity of property claims generally increase when severe weather conditions occur. A body of scientific evidence seems to indicate that climate change may be occurring. Climate change, to the extent that it may affect weather patterns, may cause an increase in the frequency and/or the severity of catastrophic events or severe weather conditions which, in addition to the attendant increase in claims-related costs, may also cause an increase in our reinsurance costs and/or negatively impact our ability to provide homeowners insurance to our policyholders in the future. Governmental entities may also respond to climate change by enacting laws and regulations that may adversely affect our cost of providing homeowners insurance in the future.

Catastrophes may cause a material adverse effect on our results of operations during any reporting period; they may also materially harm our financial condition, which in turn may materially harm our liquidity and impair our ability to raise capital on acceptable terms or at all. In addition to catastrophes, the accumulation of losses from smaller weather-related events in any reporting period may cause a material adverse effect on our results of operations and liquidity in that period.

Because we conduct the majority of our business in Florida, our financial results substantially depend on the regulatory, economic and weather conditions present in that state.

Though we began writing policies in South Carolina during 2010, Massachusetts in 2011, Rhode Island in 2012, and North Carolina, New Jersey, and Texas in 2013, we still write approximately 85% of our premium in Florida; therefore, prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in Florida affect our revenues and profitability. Changes in conditions could make doing business in Florida less attractive for us and would have a more pronounced effect on us than it would on other insurance companies that are more geographically diversified.

We are subject to increased exposure to certain catastrophic events such as hurricanes, as well as an increased risk of losses. The occurrence of one or more catastrophic events or other conditions affecting losses in Florida may cause a material adverse effect on our results of operations and financial condition.

We may enter new markets and there can be no assurance that our diversification strategy will be effective.

Although we intend to continue focusing on Florida as a key market for our insurance products, we also may seek to take advantage of prudent opportunities to expand our core business into other states where we believe the independent agent distribution channel is strong. As a result of a number of factors, including the difficulties of finding appropriate expansion opportunities and the challenges of operating in an unfamiliar market, we may not be



successful in this diversification. Additionally, in order to carry out any such strategy, we would need to obtain the appropriate licenses from the insurance regulatory authority of any such state.

Because we rely on insurance agents, the loss of these agent relationships or our ability to attract new agents could have an adverse impact on our business.

We currently market our policies to a broad range of prospective policyholders through nearly 2,500 independent agencies. Many of these agents are independent insurance agents that own their customer relationships, and our agency contracts with them limit our ability to directly solicit business from our existing policyholders. Independent agents most commonly represent other insurance companies and we do not control their activities. Historically, we have used marketing relationships with two well-known national insurance companies that do not write new homeowners insurance policies in Florida and two associations of independent insurance agents in Florida to attract and retain agents and agency groups. The loss of these marketing relationships could adversely impact our ability to attract new agents or retain our agency network.

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

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

The process of estimating our loss reserves involves a high degree of judgment and is subject to a number of variables. These variables can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends, legislative changes, and varying judgments and viewpoints of the individuals involved in the estimation process, among others.

Because of the inherent uncertainty in estimating loss reserves, including reserves for catastrophes, additional liabilities resulting from one insured event, or an accumulation of insured events, may exceed our existing loss reserves and cause a material adverse effect on our results of operations and our financial condition.

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

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

Violation(s) of certain debt covenants related to our note payable to the Florida State Board of Administration could allow the Florida SBA to call the note, which could cause a material adverse effect on our financial condition.

With regard to our note payable to the Florida SBA, we incurred additional interest expense during the first quarter of 2011 because we did not write enough premiums during the fourth quarter of 2010 to exceed the threshold required by the writing ratio covenants. As a remedy for covenant violations related to the note payable, the Florida SBA may make the note due and payable upon demand. Any demand by the Florida SBA for payment related to the note, whether immediate payment of the full balance or some other amount, is subject to approval by the insurance regulatory authority in Florida. Should the insurance regulatory authority grant approval of a demand for immediate full payment, such payment could cause a material adverse effect on our cash flows and financial condition. We were in compliance with the covenants under the note payable during the years ended December 31, 2013 and 2012.

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

We have complied with the provisions regarding annual management assessments of the effectiveness of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 during 2013 and 2012.

If we fail to achieve and maintain the adequacy of our internal controls in accordance with applicable standards as then in effect, and as supplemented or amended from time to time, we may be unable to conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. Moreover, effective internal controls are necessary for us to produce reliable financial reports. If we cannot produce reliable financial reports or otherwise maintain appropriate internal controls, our business, financial condition and results of operations could be harmed, investors could lose confidence in our reported financial information, and the market price for our stock could decline.

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If we experience difficulties with technology, data security and/or outsourcing relationships, our ability to conduct our business could be negatively impacted.

While technology can streamline many business processes and ultimately reduce the cost of operations, technology initiatives present certain risks. Our business is highly dependent upon our contractors' and third-party administrators' ability to perform, in an efficient and uninterrupted fashion, necessary business functions such as the processing of policies and the adjusting of claims. Because our information technology and telecommunications systems interface with and depend on these third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions. Computer viruses, hackers and other external hazards could expose our data systems to security breaches. These increased risks, and expanding regulatory requirements regarding data security, could expose us to data loss, monetary damages, damage to our reputation and significant increases in compliance costs. As a result, our ability to conduct our business might be adversely affected.

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

We rely on services and products provided by many vendors. These include, for example, vendors of computer hardware and software and vendors of services such as claim adjustment services and human resource benefits management services. In the event that one or more of our vendors suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect personal information of our customers, claimants or employees, we may suffer operational impairments and financial losses.

Our success has been and will continue to be greatly influenced by our ability to attract and retain the services of senior management.

Our senior executive officers play an integral role in the development and management of our business. We do not maintain any key person life insurance policies on any of our officers or employees. The loss of the services of any of our senior executive officers could have an adverse effect on our business, financial condition, results of operations, cash flows and/or future prospects.

#### RISKS RELATED TO THE INSURANCE INDUSTRY

Because we are smaller than many of our competitors, we may lack the resources to increase or maintain our market share.

The property and casualty insurance industry is highly competitive, and we believe it will remain highly competitive for the foreseeable future. The principal competitive factors in our industry are price, service, commission structure and financial condition. We compete with other property and casualty insurers that write coverage in the same territories in which we write coverage; some of those insurers have greater financial resources and have a longer operating history than we do. In addition, our competitors may offer products for alternative forms of risk protection. Competition could limit our ability to retain existing business or to write new business at adequate rates, and such limitation may cause a material adverse effect on our results of operations and financial position.

State regulations limiting rate increases and requiring us to underwrite business in certain areas are beyond our control and may adversely affect our results of operation and financial condition.

States have from time to time passed legislation, and regulators have taken action, that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from reducing exposures or withdrawing from catastrophe-prone areas, or mandating that insurers participate in residual markets. In addition, following catastrophes, there are sometimes legislative initiatives and court decisions which seek to expand insurance coverage for catastrophe claims beyond the original intent of the policies. Further, our ability to increase pricing to the extent necessary to offset rising costs of catastrophes requires approval of insurance regulatory authorities.

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One example of such legislation occurred following the 2004 and 2005 hurricane seasons, when the Florida legislature required all insurers issuing replacement cost policies to pay the full replacement cost of damaged properties without depreciation whether or not the insureds repaired or replaced the damaged property. Under prior law, insurers would have paid the depreciated amount of the property until insureds commenced repairs or replacement. This law has led to an increase in disagreements regarding the scope of damage. Despite our efforts to adjust claims and promptly pay meritorious amounts, our operating results have been affected by a claims environment in Florida that produces opportunities for fraudulent or overstated claims.

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

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

The insurance industry is extensively regulated and supervised. Insurance regulatory authorities generally design insurance rules and regulations to protect the interests of policyholders, and not necessarily the interests of insurers, their stockholders and other investors. Regulatory systems also address authorization for lines of business, capital and surplus requirements, limitations on the types and amounts of certain investments, underwriting limitations, licensing, transactions with affiliates, dividend limitations, changes in control, premium rates and a variety of other financial and non-financial components of an insurer's business.

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

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

Changes to insurance laws or regulations, or new insurance laws and regulations, may be more restrictive than current laws or regulations and could cause material adverse effects on our results of operations and our prospects for future growth. Additionally, our failure to comply with certain provisions of applicable insurance laws and regulations may

cause a material adverse effect on our results of operations or financial condition.

Our inability to obtain reinsurance on acceptable terms would increase our loss exposure or limit our ability to underwrite policies.

We use, and we expect to continue to use, reinsurance to help manage our exposure to property and casualty risks. The availability and cost of reinsurance are each subject to prevailing market conditions beyond our control which can affect business volume and profitability. We may be unable to maintain our current reinsurance coverage, to obtain additional reinsurance coverage in the event our current reinsurance coverage is exhausted by a catastrophic event, or to obtain other reinsurance coverage in adequate amounts or at acceptable rates. Similar risks exist whether we are seeking to replace coverage terminated during the applicable coverage period or to renew or replace coverage upon its expiration. We provide no assurance that we can obtain sufficient reinsurance to cover losses resulting from one or more storms in the future, or that we can obtain such reinsurance in a timely or cost-effective manner. If we are unable to renew our expiring coverage or to obtain

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new reinsurance coverage, either our net exposure to risk would increase or, if we are unwilling to accept an increase in net risk exposures, we would have to reduce the amount of risk we underwrite. Either increasing our net exposure to risk or reducing the amount of risk we underwrite may cause a material adverse effect on our results of operations and our financial condition.

In each of the past ten years, a portion of our reinsurance protection has been provided by the Florida Hurricane Catastrophe Fund (FHCF), a government sponsored entity that provides a layer of reinsurance protection at a price that is lower than otherwise available in the commercial market. The FHCF provides catastrophe reinsurance on a subsidized-basis as an incentive to make homeowners insurance available in the State of Florida. There is no assurance that FHCF will continue to make such reinsurance available on terms consistent with historical practice. The loss of reinsurance provided by FHCF would have an adverse impact on our results of operations and financial condition.

Our inability to collect from our reinsurers on our reinsurance claims could cause a material adverse affect on our results of operation and financial condition.

Although reinsurers are liable to us to the extent of the reinsurance coverage we purchase, we remain primarily liable as the direct insurer on all risks that we reinsure; therefore, our reinsurance agreements do not eliminate our obligation to pay claims. As a result, we are subject to risk with respect to our ability to recover amounts due from reinsurers. The risk could arise in two situations: (i) our reinsurers may dispute some of our reinsurance claims based on contract terms, and we may ultimately receive partial or no payment, or (ii) the amount of losses that reinsurers incur related to worldwide catastrophes may materially harm the financial condition of our reinsurers and cause them to default on their obligations.

While we will attempt to manage these risks through underwriting guidelines, collateral requirements and other oversight mechanisms, our efforts may not be successful. As a result, our exposure to credit risk may cause a material adverse effect on our results of operations, financial condition and cash flow.

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

We expect investment returns to contribute to our overall profitability. Accordingly, fluctuations in interest rates or in the fixed-maturity, equity or alternative-investment markets may cause a material adverse effect on our results of operations.

Changes in the general interest rate environment will affect our returns on, and the fair value of, our fixed maturities and short-term investments. A decline in interest rates reduces the returns available on new investments, thereby negatively impacting our net investment income. Conversely, rising interest rates reduce the fair value of existing fixed maturities. In addition, defaults under, or impairments of, any of these investments as a result of financial problems with the issuer and, where applicable, its guarantor of the investment could reduce our net investment income and net realized investment gains or result in investment losses.

We may decide to invest an additional portion of our assets in equity securities or other investments, which are subject to greater volatility than fixed maturities. General economic conditions, stock market conditions and many other factors beyond our control can adversely affect the fair value of our equity securities or other investments, and could adversely affect the realization of net investment income. As a result of these factors, we may not realize an adequate



return on our investments, we may incur losses on sales of our investments and we may be required to write down the value of our investments, which could reduce our net investment income and net realized investment gains or result in investment losses.

The fair value of our investment portfolio is also subject to valuation uncertainties. The valuation of investments is more subjective when the markets are illiquid and may increase the risk that the estimated fair value of our investment portfolio is not reflective of prices at which actual transactions would occur.

Our determination of the amount of other-than-temporary impairment to record varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective investment type. We revise our evaluations and assessments as conditions change and new information becomes available, and we reflect changes in other-than-temporary impairments in our Consolidated Statements of Comprehensive Income. We base our assessment of whether other-than-temporary impairments have occurred on our case-by-case evaluation of the underlying reasons for the decline in fair value. We can neither provide assurance that we have accurately assessed whether the impairment of one or more of our investments is temporary or other-than-temporary, nor that we have accurately recorded amounts for other-than-temporary impairments in our financial statements. Furthermore, historical trends may not be indicative of future impairments and additional impairments may need to be recorded in the future.

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Our portfolio may benefit from certain tax laws, including, but not limited to, those governing dividends-received deductions and tax credits. Federal and/or state tax legislation could be enacted that would lessen or eliminate some or all of these tax advantages and could adversely affect the value of our investment portfolio. This result could occur in the context of deficit reduction or various types of fundamental tax reform.

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

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

The effects of emerging claim and coverage issues are uncertain and may increase our loss exposure under the policies that we underwrite.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. Examples of emerging claims and coverage issues include, but are not limited to:

- adverse changes in loss cost trends, including inflationary pressures in home repair costs;

- judicial expansion of policy coverage and the impact of new theories of liability; and

- plaintiffs targeting property and casualty insurers in purported class-action litigation relating to claims-handling and other practices.

In some instances, these emerging issues may not become apparent to us for some time after our issuance of the affected insurance policies. As a result, we may not know the full extent of liability under insurance policies we issue for many years after the policies are issued.

It is very difficult for us to predict the effects of these and other unforeseen emerging claim and coverage issues that may cause a material adverse effect on our results of operations and financial condition.

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

Financial strength ratings have become increasingly important to an insurer's competitive position. Rating agencies review their ratings periodically, and our current ratings may not be maintained in the future. A downgrade in our rating could negatively impact our business volumes, as it is possible demand for our products in certain markets may be reduced or our ratings could fall below minimum levels required to maintain existing business. Additionally, we may find it more difficult to access the capital markets and we may incur higher borrowing costs. If significant losses,

such as those resulting from one or more major catastrophes, or significant reserve additions were to cause our capital position to deteriorate significantly, or if one or more rating agencies substantially increase their capital requirements, we may need to raise equity capital in the future to maintain our ratings or limit the extent of a downgrade. For example, a trend of more frequent and severe weather-related catastrophes may lead rating agencies to substantially increase their capital requirements.

We cannot guarantee that our insurance affiliate, United Property & Casualty Insurance Company, will maintain its current A (Exceptional) rating by Demotech. Any downgrade of this rating could impact the acceptability of our products to mortgage lenders that require homeowners to buy insurance, reduce our ability to retain and attract policyholders and agents and damage our ability to compete, which may cause a material adverse effect on our results of operations and financial condition.

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RISKS RELATED TO AN INVESTMENT IN OUR COMMON STOCK

Trading of our common stock is limited, which may make it difficult for you to sell your shares at times and at prices that you find appropriate.

Trading in our common stock has been limited. The lack of liquidity in our common stock results not only from limited trading, but also from delays in the timing of transactions and a dearth in security analysts' and the media's coverage of UIHC. As a result of the foregoing, it may be difficult to sell your shares of our common stock. You may obtain lower prices for our common stock than you might otherwise obtain in more liquid markets and you may experience a larger spread between the high and low prices for our common stock.

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

We have registered up to \$75,000,000 of our securities, which we may sell from time to time in one or more offerings. Additional equity financings or other share issuances by us could adversely affect the market price of our common stock. Sales by existing stockholders of a large number of shares of our common stock in the public trading market (or in private transactions), or the perception that such additional sales could occur, could cause the market price of our common stock to decrease.

Dividend payments on our common stock in the future is uncertain.

We have paid dividends on our common stock in the past; however, we provide no assurance or guarantee that we will continue to pay dividends in the future. Therefore, investors who purchase our common stock may only realize a return on their investment if the value of our common stock appreciates.

The declaration and payment of dividends will be at the discretion of our Board of Directors and will be dependent upon our profits, financial requirements and other factors, including legal and regulatory restrictions on the payment of dividends from our subsidiaries, general business conditions and such other factors as our Board of Directors deems relevant.

The substantial ownership of our common stock by our officers and directors allows them to exert significant control over us.

Our officers and directors beneficially owned approximately 25% of UPC Insurance at December 31, 2013. Our officers' and directors' interests may conflict with the interests of other holders of our common stock and our officers and directors may take action affecting us with which other stockholders may disagree. Our officers and directors, acting together, have the ability to exert significant influence over the following:

• the nomination, election and removal of our Board of Directors;

• the adoption of amendments to our charter documents;

• management and policies; and

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the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets.

Provisions in our charter documents and the shareholder rights plan that we adopted may make it harder for others to obtain control of us even though some stockholders might consider such a development to be favorable.

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

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stockholder proposals that may be in the best interests of our stockholders. Moreover, our Board of Directors has the ability to designate the terms of and issue a new series of preferred stock.

We have also adopted a shareholder rights plan that could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, our Company or a large block of our common stock. A third party that acquires 20% or more of our common stock could suffer substantial dilution of its ownership interest under the terms of the shareholder rights plan through the issuance of common stock to all stockholders other than the acquiring person. In certain circumstances the foregoing threshold may be reduced to 15%.

Together these provisions may make the removal of our management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our securities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We currently lease approximately 23,000 square feet of office space at 360 Central Avenue, St. Petersburg, Florida 33701, in Suites 900 and 600. Our rental payments for the 9th and 6th floors, respectively, were \$22.00 and \$21.50 per square foot, and will increase each year through the final year, in which we will pay rent of \$25.50 and \$24.92 per square foot for the 9th and 6th floors respectively, plus our percentage increase in the common area maintenance charge. Our lease agreement expires in November 2017; however, we have two options to terminate the lease with 180 days of advance notice after completing twenty-four or thirty-six months of tenancy. We consider our current office facility suitable for our business as it is presently conducted. We do not own any real estate or other physical properties. Our facility is in good condition.

Item 3. 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.

At December 31, 2013, we were not involved in any non claims-related legal actions.

Item 4. Mine Safety Disclosures

Not applicable.



## UNITED INSURANCE HOLDINGS CORP.

## PART II

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

## MARKET INFORMATION

Our common stock commenced trading on the Over-the-Counter Bulletin Board on November 7, 2007, and continued trading on the Over-the-Counter Bulletin Board until December 11, 2012, when it commenced trading on the Nasdaq Capital Market under the symbol "UIHC".

The table below sets forth, for the calendar quarter indicated, the high and low sales prices of our common stock as reported on the Over-the-Counter Bulletin Board or NASDAQ (as applicable). The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily reflect actual transactions.

|                | Sales Prices |         |
|----------------|--------------|---------|
|                | High         | Low     |
| 2013           |              |         |
| Fourth Quarter | \$ 14.48     | \$ 8.33 |
| Third Quarter  | 8.99         | 6.82    |
| Second Quarter | 7.10         | 5.53    |
| First Quarter  | 6.26         | 4.77    |
| 2012           |              |         |
| Fourth Quarter | 6.13         | 5.15    |
| Third Quarter  | 6.10         | 4.75    |
| Second Quarter | 5.95         | 4.60    |
| First Quarter  | 6.00         | 4.05    |

## HOLDERS OF COMMON EQUITY

As of February 24, 2014, we had 2,878 holders of record of our common stock.

## DIVIDENDS

During the twelve month period ended December 31, 2013, we declared and paid dividends of \$0.03 per share, each quarter, for total dividends paid of \$1,944,000. During 2012, we paid a \$0.03 per share dividend in the fourth quarter and a \$0.05 per share dividend in April, for total dividends paid of \$982,000. In conjunction with the fourth quarter 2012 dividend, our Board indicated its intention to consistently pay a quarterly dividend. However, any future dividend payments will be at the discretion of our Board of Directors and will depend upon our profits, financial requirements and other factors, including legal and regulatory restrictions on the payment of dividends, general business conditions and such other factors as our Board of Directors deems relevant.





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Under Florida law, a Florida-domiciled insurer like our insurance affiliate may not pay any dividend or distribute cash or other property to its stockholders except out of its available and accumulated surplus funds which is 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 stockholders 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 our insurance affiliate's capital surplus, or

b. 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, our insurance affiliate 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 our insurance affiliate's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains, or

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

2. our insurance affiliate 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

3. our insurance affiliate 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

4. the notice includes a certification by an officer of our insurance affiliate attesting that, after the payment of the dividend or distribution, our insurance affiliate 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.

See Note 10 to our Notes to Consolidated Financial Statements for further discussion of restrictions on future payments of dividends by our insurance affiliate.

#### SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

On June 14, 2012, John Forney began serving as our Chief Executive Officer. We awarded him 86,990 shares of restricted common stock in connection with his employment with our company. On June 14, 2013, 17,398 shares of Mr. Forney's restricted stock vested. The remaining restricted shares vest in twenty percent increments on each of the four anniversaries of June 14, 2013, provided that Mr. Forney is continuously employed by our company from June 14, 2012 through the applicable vesting dates. However, if Mr. Forney's employment with our company terminates due to either (a) our termination of Mr. Forney's employment without cause (as defined in the Employment Agreement, included as Exhibit 10.19 to this annual report

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## UNITED INSURANCE HOLDINGS CORP.

on Form 10-K), or (b) Mr. Forney's termination of his employment for good reason (as defined in the Employment Agreement), so long as (in either case) proper notice of such termination is timely provided in accordance with the Employment Agreement, the restricted shares that would vest on the vesting date that occurs during the year in which the termination occurs shall, if not already vested, automatically and immediately vest as of the later of (i) the date of the termination of Mr. Forney's employment with our company or (ii) the date on which a release of claims against our company (as described in Section 4.10 of the Employment Agreement) becomes effective. If Mr. Forney's employment with our company terminates for any other reason before the date that restricted shares have vested, the shares that have not yet vested as of the date of such termination will immediately be forfeited as of the date of such termination.

On October 1, 2012, B. Bradford Martz began serving as our Chief Financial Officer. In conjunction with his employment, we awarded him 3,900 shares of common stock that will vest on April 1, 2014.

Throughout 2013, we awarded shares of restricted common stock to Andrew Swenson, Deepak Menon and Jay Williams in connection with their employment agreements. The 2,167 and 2,110 shares of restricted common stock awarded to Messrs. Swenson and Menon, respectively, will vest on September 13, 2014, and Mr. Williams' 2,299 shares of restricted common stock will vest on October 1, 2014.

The shares of restricted stock for Messrs. Forney, Martz, Swenson and Menon were issued to newly appointed executive officers, who were not previously employed by or directors of our Company, as an inducement for entering into employment with our Company. The issuance of these shares of restricted stock was approved by our compensation committee.

The following table sets forth information as of December 31, 2013 regarding our 2013 Omnibus Incentive Plan. The 2,299 shares described in the following table were issued under our 2013 Omnibus Incentive Plan during the year ended December 31, 2013.

| Plan Category                                              | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|------------------------------------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders     | 2,299                                                                                       | 8.70                                                               | 997,701                                                                                      |
| Equity compensation plans not approved by security holders | 77,769                                                                                      | 5.47                                                               | —                                                                                            |
| Total                                                      | 80,068                                                                                      | 5.56                                                               | 997,701                                                                                      |

## RECENT SALES OF UNREGISTERED SECURITIES

During 2013, we did not have any unregistered sales of our equity securities.

## REPURCHASES OF EQUITY SECURITIES

During 2013, we did not repurchase any of our equity securities.

Item 6. Selected Financial Data

Pursuant to Regulation S-K, we are not required to make disclosures under this Item until we file our Form 10-Q for the first quarter of 2014.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those which are not within our control.

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of United Insurance Holdings Corp. and its subsidiaries (referred to in this document as we, our, us, the Company and UPC Insurance). This discussion should be read in conjunction with the consolidated financial statements and related notes found under Part II. Item 8 contained herein.

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.

2013 HIGHLIGHTS

Consolidated net income was \$20,342,000 in 2013 compared to \$9,705,000 in 2012. Net income per diluted share was \$1.26 in 2013 compared to \$0.91 in 2012.

Our combined ratio (calculated as operating expenses plus other income (expenses) less interest expense relative to net premiums earned) was 88% in 2013 compared to 95% in 2012.

Total revenues were \$208,080,000 in 2013 compared to \$131,234,000 in 2012.

Investment and cash holdings were \$323,814,000 at December 31, 2013, compared to \$223,385,000 at December 31, 2012.

Investment income was \$3,871,000 in 2013 compared to \$3,083,000 in 2012.

Realized losses were \$(129,000) in 2013 compared to realized gains of \$2,160,000 in 2012.

Book value per diluted share (ratio of stockholders' equity to total shares outstanding and dilutive potential shares outstanding) was \$6.64 at December 31, 2013, a 16% increase from \$5.70 at December 31, 2012.

Return on average equity for the twelve months ended December 31, 2013 was 21%, compared to 16% for the twelve months ended December 31, 2012.

Policies in-force were 202,454 at December 31, 2013, a 50% increase from 135,297 policies in-force at December 31, 2012.



## UNITED INSURANCE HOLDINGS CORP.

## CONSOLIDATED NET INCOME

| (\$ in thousands)                               | Year Ended December 31, |            |           |    |
|-------------------------------------------------|-------------------------|------------|-----------|----|
|                                                 | 2013                    | 2012       | 2011      |    |
| <b>REVENUE:</b>                                 |                         |            |           |    |
| Gross premiums written                          | \$381,352               | \$254,909  | \$203,806 |    |
| Increase in gross unearned premiums             | (64,644 )               | (28,655 )  | (22,969 ) |    |
| Gross premiums earned                           | 316,708                 | 226,254    | 180,837   |    |
| Ceded premiums earned                           | (119,330 )              | (104,286 ) | (90,757 ) |    |
| Net premiums earned                             | 197,378                 | 121,968    | 90,080    |    |
| Net investment income                           | 3,871                   | 3,083      | 2,823     |    |
| Net realized gains (losses)                     | (129 )                  | 2,160      | 158       |    |
| Other-than-temporary impairments                | —                       | —          | (31 )     |    |
| Other revenue                                   | 6,960                   | 4,023      | 3,388     |    |
| Total revenue                                   | 208,080                 | 131,234    | 96,418    |    |
| <b>EXPENSES:</b>                                |                         |            |           |    |
| Losses and loss adjustment expenses             | 98,830                  | 58,409     | 38,861    |    |
| Policy acquisition costs                        | 50,623                  | 36,877     | 29,054    |    |
| Operating expenses                              | 9,222                   | 8,630      | 5,090     |    |
| General and administrative expenses             | 14,552                  | 11,734     | 9,674     |    |
| Interest expense                                | 367                     | 355        | 548       |    |
| Total expenses                                  | 173,594                 | 116,005    | 83,227    |    |
| Income before other income (expenses)           | 34,486                  | 15,229     | 13,191    |    |
| Other income (expenses)                         | 1                       | 485        | (175 )    |    |
| Income before income taxes                      | 34,487                  | 15,714     | 13,016    |    |
| Provision for income taxes                      | 14,145                  | 6,009      | 4,928     |    |
| Net income                                      | \$20,342                | \$9,705    | \$8,088   |    |
| Net income per diluted share                    | \$1.26                  | \$0.91     | \$0.77    |    |
| Book value per share                            | \$6.64                  | \$5.70     | \$5.31    |    |
| Return on average equity                        | 20.8                    | % 16.1     | % 16.1    | %  |
| Loss ratio, net <sup>1</sup>                    | 50.0                    | % 47.9     | % 43.1    | %  |
| Expense ratio <sup>2</sup>                      | 37.7                    | % 46.9     | % 48.6    | %  |
| Combined ratio (CR) <sup>3</sup>                | 87.7                    | % 94.8     | % 91.7    | %  |
| Effect of current year catastrophe losses on CR | 1.8                     | % 3.0      | % —       | %  |
| Effect of prior year development on CR          | 2.1                     | % 0.6      | % (4.8 )  | )% |
| Underlying combined ratio <sup>4</sup>          | 83.8                    | % 91.2     | % 96.5    | %  |

<sup>1</sup> Loss ratio, net is 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 accounting principles generally accepted in the United States of America (GAAP), is reconciled above to the combined ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this document is in the "Definitions of Non-GAAP Measures" section of this document.

## 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.

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Combined ratio excluding the effects of current year catastrophe losses, reserve development and FIGA assessment (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, the effect of prior year development on the combined ratio and the effect of the FIGA assessment 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, prior year development and assessments. Current year catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on the combined ratio. Prior year development is caused by unexpected loss development on historical reserves. FIGA assessments primarily relate to amounts paid to the Florida Insurance Guaranty Association to cover claims paid by the association to policyholders from insolvent insurance companies. 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 two 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 figure should not be considered a substitute for net losses and LAE and does not reflect the overall profitability of our business.

Consolidated net loss ratio excluding the effects of current year catastrophe losses, reserve development (underlying loss ratio) is a non-GAAP ratio, which is computed as the difference between three GAAP operating ratios: the consolidated net loss ratio, the effect of current year catastrophe losses on the loss ratio, and the effect of prior year development on the loss ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our consolidated net loss ratio that may be obscured by current year catastrophe losses and prior year development. As discussed previously, these two items can have a significant impact on our consolidated net loss ratio in a given period. The most direct comparable GAAP ratio is our net consolidated Loss and LAE ratio. The underlying loss ratio should not be considered as a substitute for net consolidated loss ratio and does not reflect the overall profitability of our business.

## RECENT ACCOUNTING STANDARDS

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

## APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

- reserves for unpaid losses,
- fair value of investments, and

investment portfolio impairments.

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance industry. It is reasonably likely that changes in these estimates could occur from time to time and result in a material impact on our consolidated financial statements.

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## Reserves for Unpaid Losses

### General Discussion of Loss Reserving Process

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

We establish two categories of loss reserves as follows:

Case reserves – When a claim is reported, we establish an automatic minimum case reserve for that claim type that represents our initial estimate of the losses that will ultimately be paid on the reported claim. Our initial estimate for each claim is based upon averages of loss payments for our prior closed claims made for that claim type. Then, our claims personnel perform an evaluation of the type of claim involved, the circumstances surrounding each claim and the policy provisions relating to the loss and adjust the reserve as necessary. As claims mature, we increase or decrease the reserve estimates as deemed necessary by our claims department based upon additional information we receive regarding the loss, the results of on-site reviews and any other information we gather while reviewing the claims.

Reserves for loss incurred but not reported (IBNR reserves) – Our IBNR reserves include true IBNR reserves plus "bulk" reserves. Bulk reserves represent additional amounts that cannot be allocated to particular claims, but which are necessary to estimate ultimate losses on known claims. We estimate our IBNR reserves by projecting the ultimate losses using the methods discussed below and then deducting actual loss payments and case reserves from the projected ultimate losses. We review and adjust our IBNR reserves on a quarterly basis based on information available to us at the balance sheet date.

When we establish our reserves, we analyze various factors such as our historical loss experience and that of the insurance industry, claims frequency and severity, our business mix, our claims processing procedures, legislative enactments, judicial decisions and legal developments in imposition of damages, and general economic conditions, including inflation. A change in any of these factors from the assumptions implicit in our estimates will cause our ultimate loss experience to be better or worse than indicated by our reserves, and the difference could be material. Due to the interaction of the aforementioned factors, there is no precise method for evaluating the impact of any one specific factor in isolation, and an element of judgment is ultimately required. Due to the uncertain nature of any projection of the future, the ultimate amount we will pay for losses will be different from the reserves we record.

We determine our ultimate losses by using multiple actuarial methods to determine an actuarial estimate within a relevant range of indications that we calculate using generally accepted actuarial techniques. Our selection of the actuarial estimate is influenced by the analysis of our paid losses and incurred losses since inception. For each accident year, we estimate the ultimate incurred losses for both known and unknown claims. In establishing this estimate, we reviewed the results of various actuarial methods discussed below.

### Estimation of the Reserves for Unpaid Losses

We calculate our estimate of ultimate losses by using the following actuarial methods. We separately calculate the methods using paid loss data and incurred loss data. In the versions of these methods based on incurred loss data, the incurred losses are defined as paid losses plus case reserves. For this discussion of our loss reserving process, the word

"segment" refers to a subgrouping of our claims data, such as by geographic area and/or by particular line of business; it does not refer to operating segments.

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**Loss Development Method** – This method estimates ultimate losses based on the historical development patterns of losses by accident year. Data known as loss development factors drive the loss-development-based methods. We calculate loss development factors by age period (i.e., 12-24 months, 24-36 months, etc.) by taking the total incurred or paid losses for each accident year as of the current period's balance sheet date and dividing by the total incurred or paid losses for each accident year as of the prior period's balance sheet date. We then calculate averages of the resulting loss development factors in each age period, such as the three-year average, five-year average, cumulative average, and cumulative average excluding the high and low. Finally, we evaluate the calculated loss development factors and their resulting averages and use judgment to select a particular loss development factor per age period, which we then use to project expected ultimate losses by accident year.

**Expected Loss Cost Method** – This method relies on exposures and an estimate of the expected loss cost, and is used primarily for determining an estimate of the recent years' ultimate loss. We calculate loss costs for each prior accident year based on the ratio of ultimate loss to earned house years and perform a regression analysis to develop an annual fitted loss trend. An estimate of the expected current year loss cost is based on various trended averages to apply to the actual earned house years in the current year to arrive at estimated losses.

**Bornhuetter-Ferguson Method** – This method estimates ultimate losses based on earned exposures, expected loss costs and the historical development patterns of losses. We use earned exposures as a proxy for the number of risks insured, and we calculate loss costs as described above. This method combines the results of the loss development method with an estimate of ultimate losses based on an expected loss cost. The Bornhuetter-Ferguson method assumes that the unreported losses are a function of the expected losses at a given point of development. The key assumptions are (1) the expected payment (incurred) pattern, and (2) the expected loss cost. An estimate of the individual accident year's initial ultimate losses is determined by multiplying the earned exposures by the expected loss cost. Each year's expected ultimate loss liability is then separated into expected paid (incurred) and expected unpaid components using development factors derived in the paid (incurred) loss development method. The expected paid (incurred) losses are replaced with actual paid (incurred) losses to calculate estimated ultimate losses.

**Paid-to-Paid Method** - In addition to the aforementioned methods, we also rely upon the paid-to-paid development method to project estimates of ultimate allocated loss adjustment expense (ALAE). Ratios of paid ALAE to paid loss ratios are compiled and loss development factors are selected to project an ultimate paid-to-paid ratio. The ultimate paid-to-paid ratio is multiplied by the selected ultimate losses to calculate estimated ultimate ALAE. This puts the ALAE in context, and generally results in a more stability in the ALAE projections.

The loss-development-based methods are easy to use and comparable to industry benchmarks, but potential volatility in the calculated factors, as well as an element of subjectivity in the selected factors, slightly weakens the effectiveness of the method. The volatility arises from a number of factors such as inflation, changes in reserving practices, changes in underwriting criteria and geographic concentration.

The expected loss cost method is generally more stable than the loss-development-based methods, but this relative strength comes at the cost of less responsiveness to actual changes in loss experience.

The Bornhuetter-Ferguson method is a blend of the loss development and expected loss cost methods.

#### Reliance and Selection of Methods

The various methods we use have strengths and weaknesses that depend upon the circumstances of the segment and the age of the claims experience we analyze. The nature of our book of business allows us to place substantial, but not

exclusive, reliance on the loss-development-based methods. Ultimately, this means the main assumptions of the loss-development-based methods, the selected loss development factors, represent the most critical aspect of our loss reserving process. We use the same set of loss development factors in the methods during our loss reserving process that we also use to calculate the premium necessary to pay expected ultimate losses.

#### Reasonably-Likely Changes in Variables

As previously noted, we evaluate several factors when exercising our judgment in the selection of the loss development factors that ultimately drive the determination of our loss reserves. The process of establishing our reserves is complex and necessarily imprecise, as it involves using judgment that is affected by many variables. We believe a reasonably-likely change

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in almost any of these aforementioned factors could have an impact on our reported results, financial condition and liquidity. However, we do not believe any reasonably likely changes in the frequency or severity of claims would have a material impact on us.

#### Fair Value of Investments

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

As discussed in Note 2(c) in our Notes to Consolidated Financial Statements, we value our investments at fair value using quoted prices from active markets, to the extent available. For securities for which quoted prices in active markets are unavailable, we use observable inputs such as quoted prices in inactive markets, quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs. We do not have any investments in our available for sale portfolio or in any other assets which require us to use unobservable inputs.

As discussed above, the fair value for 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.

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 Consolidated Balance Sheets.

#### Investment Portfolio Impairments

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



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

If we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's original or current effective rate, as appropriate, to calculate a recovery value and determine whether a credit loss exists. The determination of cash flow estimates is inherently subjective and methodologies may vary depending on facts and circumstances specific to the security. All reasonably available information relevant to the collectability of the security, including past events, current conditions, and reasonable and

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supportable assumptions and forecasts, are considered when developing the estimate of cash flows expected to be collected. That information generally includes, but is not limited to, the remaining payment terms of the security, prepayment speeds, the financial condition and future earnings potential of the issue or issuer, expected defaults, expected recoveries, the value of underlying collateral, vintage, geographic concentration, available reserves or escrows, current subordination levels, third party guarantees and other credit enhancements. Other information, such as industry analyst reports and forecasts, sector credit ratings, financial condition of the bond insurer for insured fixed income securities, and other market data relevant to the realizability of contractual cash flows, may also be considered. The estimated fair value of collateral will be used to estimate recovery value if we determine that the security is dependent on the liquidation of collateral for ultimate settlement. If the estimated recovery value is less than the amortized cost of the security, a credit loss exists and an other-than-temporary impairment for the difference between the estimated recovery value and amortized cost is recorded in earnings. The portion of the unrealized loss related to factors other than credit remains classified in accumulated other comprehensive income. If we determine that the fixed income security does not have sufficient cash flow or other information to estimate a recovery value for the security, we may conclude that the entire decline in fair value is deemed to be credit related and the loss is recorded in earnings.

There are a number of assumptions and estimates inherent in evaluating impairments of equity securities and determining if they are other than temporary, including: (1) our ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; (2) the length of time and extent to which the fair value has been less than cost; (3) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; and (4) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity.

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

The determination of the amount of other-than-temporary impairment is an inherently subjective process based on periodic evaluations of the factors described above. Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in other-than-temporary impairments in results of operations as such evaluations are revised. The use of different methodologies and assumptions in the determination of the amount of other-than-temporary impairments may have a material effect on the amounts presented within the consolidated financial statements

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



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## ANALYSIS OF FINANCIAL CONDITION - DECEMBER 31, 2013 COMPARED TO DECEMBER 31, 2012

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying consolidated financial statements and related notes.

## 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 affiliate 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.

An outside asset management company, which has authority and discretion to buy and sell securities for us, manages our investments subject to (i) the guidelines established by our Board of Directors, and (ii) the direction of management. We direct our asset manager 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 \$323,814,000 at December 31, 2013.

The following table summarizes our investments, by type:

|                                                   | December 31, 2013    |                  | December 31, 2012    |                  |   |
|---------------------------------------------------|----------------------|------------------|----------------------|------------------|---|
|                                                   | Estimated Fair Value | Percent of Total | Estimated Fair Value | Percent of Total |   |
| U.S. government and agency securities             | \$97,480             | 30.1             | % \$95,208           | 42.6             | % |
| Foreign governments                               | 3,227                | 1.0              | % —                  | —                | % |
| States, municipalities and political subdivisions | 45,777               | 14.1             | % 19,035             | 8.5              | % |
| Corporate securities                              | 126,540              | 39.1             | % 34,654             | 15.5             | % |
| Redeemable preferred stocks                       | —                    | —                | % 260                | 0.1              | % |
| Total fixed maturities                            | 273,024              | 84.3             | % 149,157            | 66.7             | % |
| Common stocks                                     | 15,353               | 4.7              | % 2,465              | 1.1              | % |
| Nonredeemable preferred stocks                    | 249                  | 0.1              | % 258                | 0.1              | % |
| Total equity securities                           | 15,602               | 4.8              | % 2,723              | 1.2              | % |
| Other long-term investments                       | 300                  | 0.1              | % 300                | 0.2              | % |
| Total investments                                 | \$288,926            | 89.2             | % \$152,180          | 68.1             | % |
| Cash and cash equivalents                         | \$34,888             | 10.8             | % \$71,205           | 31.9             | % |
| Total cash, cash equivalents and investments      | \$323,814            | 100.0            | % \$223,385          | 100.0            | % |

We classify all of our investments as available-for-sale. Our investments at December 31, 2013 and 2012 consisted mainly of U.S. government and agency securities and securities of high-quality corporate issuers. Our equity holdings consist mainly of securities issued by companies in the energy, consumer products, healthcare, technology and telecommunications industries. Most of the corporate bonds we hold reflect a similar diversification. At December 31, 2013, approximately 85% of our fixed maturities were U.S. Treasuries, states, municipalities and political subdivisions, or corporate bonds rated "A" or better, and 15% were corporate bonds rated "BBB".

At December 31, 2013, securities in an unrealized loss position for a period of twelve months or longer reflected unrealized losses of \$336,000; approximately \$319,000 of the total related to seven fixed maturities, while one equity security reflected an unrealized loss of \$17,000. We currently have no plans to sell these eight securities, and we expect to fully recover our cost basis. We reviewed these securities and determined that we did not need to record impairment charges at December 31, 2013. Similarly, we did not record impairment charges at December 31, 2012.

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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 2013, we placed our reinsurance program for the 2013 hurricane season. 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, 2013, for a one-year term and 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 to Florida property insurers for covered hurricane losses. UPC Insurance's total 2013-2014 catastrophe reinsurance coverage included \$441,540,000 of coverage from the FHCF and \$360,060,000 of coverage from private reinsurers. The contracts include provisions which are designed to protect us from losses sustained in a single event as well as losses from multiple events in a single hurricane season.

In addition to FHCF coverage, we purchased private reinsurance below, alongside, and above the FHCF layer. The contracts comprising our program are described below:

• Below FHCF - provides coverage on \$167,200,000 of losses in excess of \$20,000,000 and is 100% placed. The first reinstatement of limits is prepaid and the second and final reinstatement requires additional premium.

• Mandatory FHCF - provides 90% of \$490,600,000 of losses in excess of \$187,200,000 with no reinstatement of limits.

• Excess - provides coverage on \$172,860,000 of losses in excess of the private and FHCF reinsurance coverage and is 100% placed.

See [Note 6](#) in our Notes to Consolidated Financial Statements for additional information regarding our reinsurance program.

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## RESULTS OF OPERATIONS - 2013 COMPARED TO 2012

## Revenues

Revenues for the year ended December 31, 2013 increased \$76,846,000, or 59%, to \$208,080,000, from \$131,234,000 for the twelve-months ended December 31, 2012, primarily due to a \$75,410,000, or 62%, increase in net premiums earned. In 2013, our gross written premiums increased \$126,443,000, or 50%, to \$381,352,000, from \$254,909,000 in 2012 because we wrote approximately 54,800 more new and renewal policies in 2013 compared to 2012 as we expanded our business in Florida and in other states. In addition to our organic growth, gross written premiums increased because we assumed over 33,000 policies, representing approximately \$51,578,000 of assumed premiums from Citizens Property Insurance Corporation during 2013. Our year-over-year growth in written premiums and new and renewal policies by state are shown below:

| States         | 2013 GWP  | 2012 GWP  | YOY Growth | % YOY Growth |
|----------------|-----------|-----------|------------|--------------|
| Florida        | \$325,048 | \$228,280 | \$96,768   | 77           |
| South Carolina | 24,666    | 16,678    | 7,988      | 6            |
| Massachusetts  | 16,156    | 6,334     | 9,822      | 8            |
| Rhode Island   | 11,381    | 3,617     | 7,764      | 6            |
| North Carolina | 3,386     | —         | 3,386      | 3            |
| New Jersey     | 565       | —         | 565        | —            |
| Texas          | 150       | —         | 150        | —            |
| Total          | \$381,352 | \$254,909 | \$126,443  | 100          |

| States         | 2013 Policies* | 2012 Policies* | YOY Growth | % YOY Growth |
|----------------|----------------|----------------|------------|--------------|
| Florida        | 163,314        | 117,233        | 46,081     | 68           |
| South Carolina | 15,186         | 10,569         | 4,617      | 7            |
| Massachusetts  | 10,900         | 4,247          | 6,653      | 10           |
| Rhode Island   | 9,990          | 3,248          | 6,742      | 10           |
| North Carolina | 2,533          | —              | 2,533      | 4            |
| New Jersey     | 429            | —              | 429        | 1            |
| Texas          | 102            | —              | 102        | —            |
| Total          | 202,454        | 135,297        | 67,157     | 100          |

\* Includes homeowner and dwelling fire policies in-force only

We expect our gross written premium growth to continue as we increase our policies in-force in the states in which we currently write, as we commence operations in Georgia and New Hampshire in the current year and as we expand into the other states discussed previously.

Realized gains decreased \$2,289,000 in 2013 because we sold fixed maturities in an unrealized gain position during the fourth quarter of 2012 to reposition our portfolio, whereas in 2013 our realized losses were driven by sales of our short-term investments.

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## Expenses

Expenses for the twelve months ended December 31, 2013 increased \$57,589,000, or 50%, primarily due to increased losses, policy acquisition costs and general and administrative expenses. Our GAAP net combined ratio improved 7.1 points for the year compared to the same period in 2012. Our underlying net combined ratio, which excludes losses from catastrophes and reserve development, also improved 7.4 points for the year signaling a significant improvement in our core operating results over the same period in 2012. Both the combined and underlying combined ratios decreased primarily due to strong premium growth and a lower ceded reinsurance premium percentage for the year compared to the prior year. As a result of these factors, net premiums earned increased \$75,410,000, or 62%, to \$197,378,000 for the year ended December 31, 2013, compared to \$121,968,000 for the year ended December 31, 2012 as we continued to generate new policies in Florida and in other states and assumed policies from Citizens. The increase in net premiums earned was partially offset by the increase in our underlying loss costs, which increased approximately \$40,421,000 during 2013 compared to the same period in 2012. The increase in underlying loss costs for the year ended December 31, 2013, was driven primarily by the growth of policies in-force and increased frequency and severity of water-related losses throughout Florida as shown below:

|                                                           | Year Ended December 31, |          |            |
|-----------------------------------------------------------|-------------------------|----------|------------|
|                                                           | 2013                    | 2012     | Change     |
| Net Loss and LAE                                          | \$98,830                | \$58,409 | \$40,421   |
| % of Gross earned premiums                                | 31.2                    | % 25.8   | % 5.4 pts  |
| % of Net earned premiums                                  | 50.0                    | % 47.9   | % 2.1 pts  |
| Less:                                                     |                         |          |            |
| Current year catastrophe losses                           | \$3,602                 | \$3,666  | \$(64)     |
| Prior year reserve development                            | 4,078                   | 670      | 3,408      |
| Underlying loss and LAE*                                  | \$91,150                | \$54,073 | \$37,077   |
| % of Gross earned premiums                                | 28.8                    | % 23.9   | % 4.9 pts  |
| % of Net earned premiums                                  | 46.1                    | % 44.3   | % 1.8 pts  |
| Policy acquisition costs                                  | \$50,623                | \$36,877 | \$13,746   |
| Operating and underwriting                                | 9,222                   | 8,630    | 592        |
| General and administrative                                | 14,552                  | 11,734   | 2,818      |
| Total Operating Expenses                                  | \$74,397                | \$57,241 | \$17,156   |
| % of Gross earned premiums                                | 23.5                    | % 25.3   | % -1.8 pts |
| % of Net earned premiums                                  | 37.7                    | % 46.9   | % -9.2 pts |
| Combined Ratio - as % of gross earned premiums            | 54.7                    | % 51.1   | % 3.6 pts  |
| Underlying Combined Ratio - as % of gross earned premiums | 52.3                    | % 49.2   | % 3.1 pts  |
| Combined Ratio - as % of net earned premiums              | 87.7                    | % 94.8   | % -7.1 pts |
| Underlying Combined Ratio - as % of net earned premiums   | 83.8                    | % 91.2   | % -7.4 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.





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Our gross underlying loss ratio increased to 28.8% for the year ended December 31, 2013, which was up 4.9 points from 23.9% for the year ended December 31, 2012. The increase in our gross underlying loss ratio was primarily due to an approximate 12% increase in the frequency of water related losses over the same period in 2012.

Losses and loss adjustment expenses increased to \$98,830,000 for the year ended December 31, 2013, from \$58,409,000 for the same period in 2012. Prior year adverse development for the year ended December 31, 2013, was \$4,078,000 compared to \$670,000 for the same period in 2012. Our net loss and loss adjustment expense ratio history along with the impact of reserve development and catastrophe losses is as follows:

| (\$ in thousands, except ratios)                         | Historical Reserve Development |          |            |         |          |            |
|----------------------------------------------------------|--------------------------------|----------|------------|---------|----------|------------|
|                                                          | 2008                           | 2009     | 2010       | 2011    | 2012     | 2013       |
| Reserve development (unfavorable)                        | \$4,977                        | \$2,976  | \$(1,006 ) | \$4,158 | \$(670 ) | \$(4,078 ) |
| Development as a % of earnings before interest and taxes | 12.0                           | % 47.4   | % 71.0     | % 32.3  | % 4.3    | % 11.7     |
| Consolidated net loss ratio (LR)                         | 34.6                           | % 52.1   | % 63.6     | % 43.1  | % 47.9   | % 50.0     |
| Reserve (unfavorable) favorable development on LR        | 6.2                            | % 3.8    | % (1.5 )   | % 3.9   | % (0.6 ) | % (2.1 )   |
| Current year catastrophe losses on LR                    | (4.0 )                         | % (0.2 ) | % —        | % —     | % (3.0 ) | % (1.8 )   |
| Underlying net loss ratio*                               | 36.8                           | % 55.7   | % 62.1     | % 47.0  | % 44.3   | % 46.1     |

\* Underlying Net Loss Ratio is a non-GAAP measure and is reconciled above to the Consolidated Net Loss Ratio, 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.

Overall our attritional loss experience by accident year excluding catastrophes has been stable or trending downwards for the past several years, but did increase in the 2013 accident year due to higher overall frequency and severity of water related losses and lower premiums per unit of exposure resulting from our growth outside of Florida as shown in the following table:

| Accident Year | Paid Loss & LAE | Case Loss & LAE Reserves | IBNR Reserves | Expected Ultimate Loss & LAE | Expected Ultimate Gross Loss & LAE Ratio | Expected Ultimate Loss & LAE per Exposure <sup>(1)</sup> | Premium per Exposure <sup>(2)</sup> |
|---------------|-----------------|--------------------------|---------------|------------------------------|------------------------------------------|----------------------------------------------------------|-------------------------------------|
| 2005          | \$37,491,785    | \$20,252                 | \$4,172       | \$37,516,209                 | 31.9                                     | % \$592                                                  | \$1,857                             |
| 2006          | 29,523,003      | 26,334                   | 5,376         | 29,554,713                   | 22.2                                     | % 392                                                    | 1,751                               |
| 2007          | 26,307,616      | 187,440                  | 47,877        | 26,542,933                   | 18.5                                     | % 400                                                    | 2,160                               |
| 2008          | 26,696,816      | 15,309                   | 8,742         | 26,720,867                   | 20.7                                     | % 376                                                    | 1,820                               |
| 2009          | 42,616,461      | 308,018                  | 174,977       | 43,099,456                   | 29.9                                     | % 472                                                    | 1,577                               |
| 2010          | 40,232,515      | 1,011,984                | 589,578       | 41,834,077                   | 28.6                                     | % 478                                                    | 1,670                               |
| 2011          | 42,033,616      | 2,360,372                | 1,070,011     | 45,463,999                   | 26.6                                     | % 477                                                    | 1,793                               |
| 2012          | 49,254,868      | 2,517,267                | 2,813,809     | 54,585,944                   | 25.3                                     | % 469                                                    | 1,851                               |
| 2013          | 59,276,905      | 19,735,933               | 11,878,462    | 90,891,300                   | 29.9                                     | % 534                                                    | 1,786                               |

<sup>1</sup> Defined as the total sum we expect to pay for fully developed losses and loss adjusting expenses (i.e. paid losses, incurred losses and incurred but not reported losses) divided by earned house years.

<sup>2</sup> Defined as gross earned premiums divided by earned house years.



UNITED INSURANCE HOLDINGS CORP.

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As indicated above, our case loss & LAE and IBNR reserves by accident year (AY) excluding catastrophes are \$26,183,000 and \$16,593,000, respectively, and a reconciliation of these reserves to our total reserves is as follows:

|                                                                | Case<br>Loss & LAE<br>Reserves | IBNR<br>Reserves |
|----------------------------------------------------------------|--------------------------------|------------------|
| Loss reserves from table above                                 | \$26,183                       | \$16,593         |
| Catastrophe reserves                                           | 1,617                          | 1,095            |
| 2004 AY reserves, flood reserves and other reserve adjustments | 254                            | 1,709            |
| Total case and IBNR reserves                                   | \$28,054                       | \$19,397         |

Policy acquisition costs increased to \$50,623,000 for the year ended December 31, 2013, from \$36,877,000 for the same period of 2012, or 37%. These costs vary directly with the growth in gross premiums earned which increased 40% over the prior year.

General and administrative expenses increased \$2,818,000 to \$14,552,000 compared to \$11,734,000 in 2012 due primarily to an increase in salaries and related expenses to support our growth.

UNITED INSURANCE HOLDINGS CORP.

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RESULTS OF OPERATIONS - 2012 COMPARED TO 2011

Revenues

Revenues for the year ended December 31, 2012 increased \$34,816,000, or 36%, to \$131,234,000, from \$96,418,000 for the twelve-months ended December 31, 2011. The increase in revenues was primarily driven by a \$31,888,000, or 35%, increase in net premiums earned. The growth in net premiums earned for 2012 was fueled by continued growth in new business in Florida and other states.

Expenses

Expenses for the twelve months ended December 31, 2012 increased \$32,778,000, or 39%, primarily due to increased losses. Losses and loss adjustment expenses increased to \$58,409,000 for the full year ended 2012, from \$38,861,000 during 2011. Our losses for the year were impacted by catastrophe losses and development on prior accident years. In 2012, our current year catastrophe losses were \$3,666,000, compared to \$792,000 in 2011. The \$2,678,000 year-over-year increase resulted from current year catastrophe losses incurred from Tropical Storms Debby and Issac and Superstorm Sandy. In 2012, we experienced unfavorable reserve development of \$670,000 on 2011 and prior accident years, while in 2011, we experienced \$4,158,000 of favorable reserve development on 2010 and prior accident years.

Policy acquisition costs increased \$7,823,000, or 27%, in 2012. These costs vary directly with and as a percentage of gross premiums earned, which increased 25%. Operating costs increased \$3,540,000, or 70%, in 2012 due to the FIGA assessment and company growth. General and administrative expenses increased \$2,060,000, or 21%, in 2012 due to increased personnel costs and related expenses to support our 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 affiliate, including restricting any dividends paid by our insurance affiliate and requiring approval of any management fee our insurance affiliate pays to our management affiliate 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 affiliate subsidiary pays us dividends primarily using cash from the collection of management fees from our insurance affiliate, pursuant to a management agreement in effect between those entities.

Operating Activities

During the year ended December 31, 2013, our operations generated cash of \$107,766,000, compared to generating \$34,312,000 of cash during the same period in 2012. The \$73,454,000 increase in operating cash was primarily driven by increased premium collections of \$102,267,000 due to the increased writings we experienced during 2013 compared to the same period in 2012 and by the \$51,578,000 of assumed premiums received from Citizens Property Insurance Corporation for the assumption of over 33,000 policies during 2013. The increase in cash inflows described above was partially offset by increased claims payments, reinsurance payments, agent commission payments, tax payments and increased operating expense payments. Claim payments increased approximately \$33,124,000 primarily due to the increase in exposures and payments on claims from current and prior accident years. Reinsurance payments increased approximately \$30,342,000 because we purchased more reinsurance coverage under our 2013-2014 contracts than we purchased under our 2012-2013 contracts. Agent commission payments, operating expense payments and income tax payments increased \$11,450,000, \$1,962,000 and \$3,114,000, respectively, due to the overall growth in the business during 2013 compared to the same period in 2012.

UNITED INSURANCE HOLDINGS CORP.

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### Investing Activities

During the year ended December 31, 2013, our investing activities used \$144,154,000 of cash compared to using \$25,894,000 of cash in 2012 because purchases of investments increased \$165,980,000 in 2013 compared to 2012 as we invested our excess operating cash.

See Note 3 in our Notes to Consolidated Financial Statements for a table that summarizes our fixed maturities at December 31, 2013, by contractual maturity periods.

### Financing Activities

During the year ended December 31, 2013, our financing activities provided cash of \$71,000 compared to providing \$21,148,000 of cash in 2012. The decrease occurred primarily because we raised \$23,947,000 from the issuance of 5,000,000 shares of common stock in December 2012, whereas we raised \$3,591,000 in January 2013 from the underwriters exercise of the over-allotment. In addition, we paid \$1,944,000 of dividends in 2013, compared to \$982,000 paid in 2012. See Note 16 in our Notes to Consolidated Financial statements for additional information on the underwritten offering.

Our holding company has no business operations of its own and is largely dependent on liquidity from its subsidiaries. Our management affiliate's primary source of revenue and liquidity is the management fee and commissions it receives from our insurance affiliate. Our insurance affiliate is subject to extensive state regulation, including approval of any management fee it pays to our management affiliate for services rendered. In accordance with Florida law, our insurance affiliate may pay dividends or make distributions out of that part of its statutory surplus derived from its net operating profit and its net realized capital gains. Florida law further provides calculations to determine the amount of dividends or distributions that can be made without the prior approval of the insurance regulatory authority and the amount of dividends or distributions that would require prior approval of the insurance regulatory authority. The risk-based capital guidelines published by the National Association of Insurance Commissioners may further restrict our insurance affiliate's ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause its surplus as regards policyholders to fall below minimum risk-based capital guidelines. Most states, including Florida, have adopted the NAIC requirements, and insurers having less surplus as regards policyholders than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. State insurance regulatory authorities could require us to cease operations in the event we fail to maintain the statutory surplus required in our insurance affiliate.

We prepare our consolidated financial statements in accordance with GAAP; which differs in some respects from reporting practices prescribed or permitted by insurance regulatory authorities. To retain our certificate of authority, Florida law requires our insurance affiliate to maintain surplus as regards policyholders equal to the greater of 10% of our total liabilities or \$5,000,000. At December 31, 2013, our insurance affiliate's surplus as regards policyholders was \$78,362,000, exceeding the minimum requirements. Florida law also requires our insurance affiliate to adhere to prescribed premium-to-capital surplus ratios, with which we were in compliance at December 31, 2013.

We repurchased 212,083 shares of our common stock in May of 2011. While we have not adopted a formal stock repurchase plan at this time, we may repurchase additional shares of our common stock from time to time as financial conditions permit. We consider several factors in determining whether to make share repurchases, including among other things, our cost of equity, our after-tax cost of borrowing, our debt-to-total-capitalization targets and our expected future cash needs.

On November 5, 2013, our Board declared a \$0.03 per share quarterly dividend, paid on December 13, 2013 to stockholders of record on November 29, 2013. On August 7, 2013, our Board declared a \$0.03 per share quarterly dividend, paid on September 14, 2013 to stockholders of record on August 30, 2013. On May 7, 2013, our Board declared a \$0.03 per share quarterly dividend, paid on June 14, 2013 to stockholders of record on May 31, 2013. On March 6, 2013, our Board declared a \$0.03 quarterly dividend, paid on March 27, 2013 to stockholders of record on March 20, 2013. Any future dividends will depend upon circumstances at the time, and our Board must approve and declare any such dividends.

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.



UNITED INSURANCE HOLDINGS CORP.

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OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2013, we had no off-balance-sheet arrangements.

RELATED PARTY TRANSACTIONS

See Note 13 in our Notes to Consolidated Financial Statements for a discussion of our related party transactions, including those with Hamilton Risk Management (HRM) and 1347 Advisors, that were terminated during 2012.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Pursuant to Regulation S-K, we are not required to make disclosures under this Item until our Form 10-Q for the first quarter of 2014.

UNITED INSURANCE HOLDINGS CORP.

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Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
United Insurance Holdings Corp.

We have audited the accompanying consolidated balance sheets of United Insurance Holdings Corp. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules of United Insurance Holdings Corp. listed in Item 15. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Insurance Holdings Corp. and subsidiaries as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), United Insurance Holdings Corp. and subsidiaries internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992, and our report dated February 24, 2014 expressed an unqualified opinion on the effectiveness of United Insurance Holdings Corp's internal control over financial reporting.

/s/ McGladrey LLP

Raleigh, North Carolina  
February 24, 2014

## UNITED INSURANCE HOLDINGS CORP.

## Consolidated Balance Sheets

|                                                                                                                                                       | December 31, |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------|
|                                                                                                                                                       | 2013         | 2012      |
| <b>ASSETS</b>                                                                                                                                         |              |           |
| Investments available for sale, at fair value:                                                                                                        |              |           |
| Fixed maturities (amortized cost of \$274,651 and \$145,089, respectively)                                                                            | \$273,024    | \$149,157 |
| Equity securities (adjusted cost of \$13,825 and \$2,537 respectively)                                                                                | 15,602       | 2,723     |
| Other long-term investments                                                                                                                           | 300          | 300       |
| Total investments                                                                                                                                     | 288,926      | 152,180   |
| Cash and cash equivalents                                                                                                                             | 34,888       | 71,205    |
| Accrued investment income                                                                                                                             | 1,752        | 760       |
| Premiums receivable, net                                                                                                                              | 26,076       | 17,154    |
| Reinsurance recoverable on paid and unpaid losses                                                                                                     | 2,426        | 2,272     |
| Prepaid reinsurance premiums                                                                                                                          | 55,268       | 49,916    |
| Deferred policy acquisition costs                                                                                                                     | 25,186       | 16,978    |
| Other assets                                                                                                                                          | 6,708        | 3,149     |
| Total Assets                                                                                                                                          | \$441,230    | \$313,614 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                           |              |           |
| Liabilities:                                                                                                                                          |              |           |
| Unpaid losses and loss adjustment expenses                                                                                                            | \$47,451     | \$35,692  |
| Unearned premiums                                                                                                                                     | 193,428      | 128,785   |
| Reinsurance payable                                                                                                                                   | 39,483       | 26,063    |
| Other liabilities                                                                                                                                     | 38,575       | 19,206    |
| Notes payable                                                                                                                                         | 14,706       | 15,882    |
| Total Liabilities                                                                                                                                     | 333,643      | 225,628   |
| Commitments and contingencies ( <u>Note 11</u> )                                                                                                      |              |           |
| Stockholders' Equity:                                                                                                                                 |              |           |
| Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued or outstanding                                                          | —            | —         |
| Common stock, \$0.0001 par value; 50,000,000 shares authorized; 16,421,398 and 15,660,922 issued; 16,209,315 and 15,448,839 outstanding, respectively | 2            | 2         |
| Additional paid-in capital                                                                                                                            | 27,800       | 24,076    |
| Treasury shares, at cost; 212,083 shares                                                                                                              | (431         | ) (431    |
| Accumulated other comprehensive income                                                                                                                | 92           | 2,613     |
| Retained earnings                                                                                                                                     | 80,124       | 61,726    |
| Total Stockholders' Equity                                                                                                                            | 107,587      | 87,986    |
| Total Liabilities and Stockholders' Equity                                                                                                            | \$441,230    | \$313,614 |

See accompanying notes to consolidated financial statements.

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## UNITED INSURANCE HOLDINGS CORP.

## Consolidated Statements of Comprehensive Income

|                                                                             | Year Ended December 31, |            |            |
|-----------------------------------------------------------------------------|-------------------------|------------|------------|
|                                                                             | 2013                    | 2012       | 2011       |
| <b>REVENUE:</b>                                                             |                         |            |            |
| Gross premiums written                                                      | \$381,352               | \$254,909  | \$203,806  |
| Increase in gross unearned premiums                                         | (64,644 )               | (28,655 )  | (22,969 )  |
| Gross premiums earned                                                       | 316,708                 | 226,254    | 180,837    |
| Ceded premiums earned                                                       | (119,330 )              | (104,286 ) | (90,757 )  |
| Net premiums earned                                                         | 197,378                 | 121,968    | 90,080     |
| Net investment income                                                       | 3,871                   | 3,083      | 2,823      |
| Net realized gains (losses)                                                 | (129 )                  | 2,160      | 158        |
| Other-than-temporary impairments                                            | —                       | —          | (31 )      |
| Other revenue                                                               | 6,960                   | 4,023      | 3,388      |
| Total revenue                                                               | 208,080                 | 131,234    | 96,418     |
| <b>EXPENSES:</b>                                                            |                         |            |            |
| Losses and loss adjustment expenses                                         | 98,830                  | 58,409     | 38,861     |
| Policy acquisition costs                                                    | 50,623                  | 36,877     | 29,054     |
| Operating expenses                                                          | 9,222                   | 8,630      | 5,090      |
| General and administrative expenses                                         | 14,552                  | 11,734     | 9,674      |
| Interest expense                                                            | 367                     | 355        | 548        |
| Total expenses                                                              | 173,594                 | 116,005    | 83,227     |
| Income before other income (expenses)                                       | 34,486                  | 15,229     | 13,191     |
| Other income (expenses)                                                     | 1                       | 485        | (175 )     |
| Income before income taxes                                                  | 34,487                  | 15,714     | 13,016     |
| Provision for income taxes                                                  | 14,145                  | 6,009      | 4,928      |
| Net income                                                                  | \$20,342                | \$9,705    | \$8,088    |
| <b>OTHER COMPREHENSIVE INCOME:</b>                                          |                         |            |            |
| Change in net unrealized gain (loss) on investments                         | (4,233 )                | 2,602      | 4,291      |
| Reclassification adjustment for net realized investment gains (losses)      | 129                     | (2,160 )   | (158 )     |
| Reclassification adjustment for other-than-temporary impairments            | —                       | —          | 31         |
| Income tax benefit (expense) related to items of other comprehensive income | 1,583                   | (170 )     | (1,607 )   |
| Total comprehensive income                                                  | \$17,821                | \$9,977    | \$10,645   |
| <b>Weighted average shares outstanding</b>                                  |                         |            |            |
| Basic                                                                       | 16,100,882              | 10,607,751 | 10,442,034 |
| Diluted                                                                     | 16,183,098              | 10,655,524 | 10,442,034 |
| <b>Earnings per share</b>                                                   |                         |            |            |
| Basic                                                                       | \$1.26                  | \$0.91     | \$0.77     |
| Diluted                                                                     | 1.26                    | 0.91       | 0.77       |
| Dividends declared per share                                                | \$0.12                  | \$0.08     | \$0.05     |

See accompanying notes to consolidated financial statements.



## UNITED INSURANCE HOLDINGS CORP.

## Consolidated Statements of Stockholders' Equity

|                                                           | Common Stock |        | Additional<br>Paid-in<br>Capital | Treasury<br>Stock | Accumulated<br>Other<br>Comprehensive<br>Income (loss) | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|-----------------------------------------------------------|--------------|--------|----------------------------------|-------------------|--------------------------------------------------------|----------------------|----------------------------------|
|                                                           | Shares       | Amount |                                  |                   |                                                        |                      |                                  |
| December 31, 2010                                         | 10,573,932   | \$1    | \$75                             | \$—               | \$(216 )                                               | \$45,433             | \$45,293                         |
| Net income                                                | —            | —      | —                                | —                 | —                                                      | 8,088                | 8,088                            |
| Net unrealized<br>change in<br>investments, net of<br>tax | —            | —      | —                                | —                 | 2,557                                                  | —                    | 2,557                            |
| Acquisition of<br>treasury stock                          | (212,083 )   | —      | —                                | (431 )            | —                                                      | —                    | (431 )                           |
| Cash dividends on<br>common stock                         | —            | —      | —                                | —                 | —                                                      | (518 )               | (518 )                           |
| December 31, 2011                                         | 10,361,849   | 1      | 75                               | (431 )            | 2,341                                                  | 53,003               | 54,989                           |
| Net income                                                | —            | —      | —                                | —                 | —                                                      | 9,705                | 9,705                            |
| Net unrealized<br>change in<br>investments, net of<br>tax | —            | —      | —                                | —                 | 272                                                    | —                    | 272                              |
| Restricted stock<br>award                                 | 86,990       | —      | 55                               | —                 | —                                                      | —                    | 55                               |
| Issuance of common<br>stock, net of costs                 | 5,000,000    | 1      | 23,946                           | —                 | —                                                      | —                    | 23,947                           |
| Cash dividends on<br>common stock                         | —            | —      | —                                | —                 | —                                                      | (982 )               | (982 )                           |
| December 31, 2012                                         | 15,448,839   | 2      | 24,076                           | (431 )            | 2,613                                                  | 61,726               | 87,986                           |
| Net income                                                | —            | —      | —                                | —                 | —                                                      | 20,342               | \$20,342                         |
| Net unrealized<br>change in<br>investments, net of<br>tax | —            | —      | —                                | —                 | (2,521 )                                               | —                    | (2,521 )                         |
| Restricted stock<br>award                                 | 10,476       | —      | 133                              | —                 | —                                                      | —                    | 133                              |
| Issuance of common<br>stock, net of costs                 | 750,000      | —      | 3,591                            | —                 | —                                                      | —                    | 3,591                            |
| Cash dividends on<br>common stock                         | —            | —      | —                                | —                 | —                                                      | (1,944 )             | (1,944 )                         |
| December 31, 2013                                         | 16,209,315   | \$2    | \$27,800                         | \$(431 )          | \$92                                                   | \$80,124             | \$107,587                        |

See accompanying notes to consolidated financial statements.

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## UNITED INSURANCE HOLDINGS CORP.

## Consolidated Statements of Cash Flows

|                                                                                   | Year Ended December 31, |          |           |
|-----------------------------------------------------------------------------------|-------------------------|----------|-----------|
|                                                                                   | 2013                    | 2012     | 2011      |
| <b>OPERATING ACTIVITIES</b>                                                       |                         |          |           |
| Net income                                                                        | \$20,342                | \$9,705  | \$8,088   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |          |           |
| Depreciation and amortization                                                     | 697                     | 684      | 719       |
| Bond amortization and accretion                                                   | 1,323                   | 576      | 499       |
| Net realized (gains) losses                                                       | 129                     | (2,160)  | (158)     |
| Other-than-temporary impairments                                                  | —                       | —        | 31        |
| Provision for uncollectible premiums                                              | 59                      | 37       | 23        |
| Deferred income taxes, net                                                        | 1,150                   | (661)    | (600)     |
| Stock based compensation                                                          | 133                     | 55       | —         |
| Changes in operating assets and liabilities:                                      |                         |          |           |
| Accrued investment income                                                         | (992)                   | 226      | (572)     |
| Premiums receivable                                                               | (8,981)                 | (5,986)  | (3,403)   |
| Reinsurance recoverable on paid and unpaid losses                                 | (154)                   | 2,186    | 22,846    |
| Prepaid reinsurance premiums                                                      | (5,352)                 | (8,948)  | (2,660)   |
| Deferred policy acquisition costs, net                                            | (8,208)                 | (4,654)  | (2,982)   |
| Other assets                                                                      | (1,972)                 | 1,035    | 371       |
| Unpaid losses and loss adjustment expenses                                        | 11,759                  | 2,092    | (13,814)  |
| Unearned premiums                                                                 | 64,644                  | 28,655   | 22,969    |
| Reinsurance payable                                                               | 13,420                  | 9,492    | 1,589     |
| Other liabilities                                                                 | 19,769                  | 1,978    | 5,703     |
| Net cash provided by operating activities                                         | 107,766                 | 34,312   | 38,649    |
| <b>INVESTING ACTIVITIES</b>                                                       |                         |          |           |
| Proceeds from sales and maturities of investments available for sale              | 102,210                 | 52,640   | 36,594    |
| Purchases of investments available for sale                                       | (244,514)               | (78,534) | (102,464) |
| Purchase of note receivable                                                       | —                       | —        | (2,250)   |
| Cost of property and equipment acquired                                           | (288)                   | —        | (20)      |
| Cost of capitalized software acquired                                             | (1,562)                 | —        | (15)      |
| Net cash used in investing activities                                             | (144,154)               | (25,894) | (68,155)  |
| <b>FINANCING ACTIVITIES</b>                                                       |                         |          |           |
| Repayments of borrowings                                                          | (1,176)                 | (1,177)  | (1,176)   |
| Repurchases of common stock                                                       | —                       | —        | (431)     |
| Dividends                                                                         | (1,944)                 | (982)    | (518)     |
| Bank overdrafts                                                                   | (400)                   | (640)    | 1,626     |
| Proceeds from issuance of common stock, net of costs                              | 3,591                   | 23,947   | —         |
| Net cash provided by (used in) financing activities                               | 71                      | 21,148   | (499)     |
| Increase (decrease) in cash                                                       | (36,317)                | 29,566   | (30,005)  |
| Cash and cash equivalents at beginning of period                                  | 71,205                  | 41,639   | 71,644    |
| Cash and cash equivalents at end of period                                        | \$34,888                | \$71,205 | \$41,639  |
| <b>Supplemental Cash Flows Information</b>                                        |                         |          |           |
| Interest paid                                                                     | \$341                   | \$311    | \$553     |
| Income taxes paid                                                                 | \$9,867                 | \$6,753  | \$4,360   |
| See accompanying notes to consolidated financial statements.                      |                         |          |           |



UNITED INSURANCE HOLDINGS CORP.  
Notes to Consolidated Financial Statements  
December 31, 2013

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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 and UPC Insurance) is a property and casualty insurance holding company that sources, writes, and services residential property and casualty insurance policies using a network of agents and a group of wholly-owned insurance subsidiaries. Our primary insurance subsidiary is United Property & Casualty Insurance Company, our insurance affiliate, which was formed in Florida in 1999 and has operated continuously since that time. Our other subsidiaries include United Insurance Management, L.C., our management affiliate, the managing general agent that manages substantially all aspects of our insurance affiliate's business; Skyway Claims Services, LLC, our claims adjusting affiliate, that provides services to our insurance affiliate; and UPC Re, our reinsurance affiliate, that provides a portion of the reinsurance protection purchased by our insurance affiliate.

Our primary product is homeowners' insurance, which we currently offer in Florida, 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 Georgia and New Hampshire; however, we have not commenced writing in these states. Our insurance affiliate has also applied to insurance regulatory authorities in three additional states to write property and casualty lines.

We conduct our operations under one business segment.

(b) Consolidation and Presentation

We prepare our consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP). While preparing our consolidated 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. Accordingly, actual results could differ from those estimates. 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. Except for the captions on our Consolidated Balance Sheets and 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 consolidated financial statements, eliminating all significant intercompany balances and transactions during consolidation.

We reclassified certain amounts in the 2012 and 2011 financial statements to conform to the 2013 presentation. These reclassifications had no impact on our results of operations, cash flows, or stockholders' equity, as previously reported.

2) SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Our cash and cash equivalents include demand deposits with financial institutions and short-term, highly-liquid instruments with original maturities of three months or less when purchased.

(b) Investments

We currently classify all of our investments in fixed maturities and equity securities as available-for-sale, and report them at fair value. Subsequent to our acquisition of available-for-sale securities, we record changes in value through the date of disposition as unrealized holding gains and losses, net of tax effects, and include them as a component of comprehensive income. We include realized gains and losses, which we calculate using the specific-identification method for determining the cost of securities sold, in net income. We amortize any premium or discount on fixed maturities over the remaining maturity

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period of the related securities using the effective interest method, and we report the amortization in net investment income. We recognize dividends and interest income when earned.

Quarterly, we perform an assessment of our investments to determine if any are other-than-temporarily impaired. An investment is impaired when the fair value of the investment declines to an amount less than the cost or amortized cost of that investment. As part of our assessment process, we determine whether the impairment is temporary or other-than-temporary. We base our assessment on both quantitative criteria and qualitative information, considering a number of factors including, but not limited to: how long the security has been impaired; the amount of the impairment; whether, in the case of equity securities, we intend to hold, and have the ability to hold, the security for a period sufficient for us to recover our cost basis, or whether, in the case of debt securities, we intend to sell the security or it is more likely than not that we will have to sell the security before we recover the amortized cost; the financial condition and near-term prospects of the issuer; whether the issuer is current on contractually-obligated interest and principal payments; key corporate events pertaining to the issuer and whether the market decline was affected by macroeconomic conditions.

If we determine that an equity security has incurred an other-than-temporary impairment, we permanently reduce the cost of the security to fair value and recognize an impairment charge in net income. If a debt security is impaired and we either intend to sell the security or it is more likely than not that we will have to sell the security before we are able to recover the amortized cost, then we record the full amount of the impairment in net income. If we determine that an impairment of a debt security is other-than-temporary and we neither intend to sell the security nor it is more likely than not that we will have to sell the security before we are able to recover its cost or amortized cost, then we separate the impairment into (a) the amount of impairment related to credit loss and (b) the amount of impairment related to all other factors. We record the amount of the impairment related to the credit loss as an impairment charge in net income, and we record the amount of the impairment related to all other factors in accumulated other comprehensive income.

A large portion of our investment portfolio consists of fixed maturities, which may be adversely affected by changes in interest rates as a result of governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would decrease the net unrealized holding gains of our investment portfolio, offset by our ability to earn higher rates of return on funds reinvested. Conversely, a decline in interest rates would increase the net unrealized holding gains of our investment portfolio, offset by lower rates of return on funds reinvested.

(c) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 Audited 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 observable inputs such as quoted prices in inactive markets, quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs. We do not have any investments in our

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available for sale portfolio or in any other assets which require us to use unobservable inputs. Our estimates of fair value reflect the interest rate environment that existed as of the close of business on December 31, 2013 and 2012. Changes in interest rates subsequent to December 31, 2013 may affect the fair value of our investments.

The carrying amounts for the following financial instrument categories approximate their fair values at December 31, 2013 and 2012 because of their short-term nature: cash and cash equivalents, accrued investment income, premiums receivable, reinsurance recoverable, reinsurance payable, and accounts payable and accrued expenses. The carrying amount of notes payable also approximates its fair value as the interest rate on the note payable is variable.

(d) Premiums

We recognize premiums as revenue, net of ceded reinsurance amounts, on a daily pro rata basis over the contract period of the related policies that are in force. For any portion of premiums not earned at the end of the reporting period, we record an unearned premium liability.

Premiums receivable represents amounts due from our policyholders for billed premiums and related policy fees. We perform a policy-level evaluation to determine the extent to which the balance of premium receivable exceeds the balance of unearned premium. We then age any resulting exposure based on the last date the policy was billed to the policyholder, and we establish an allowance for credit losses for any amounts outstanding for more than 90 days. When we receive payments on amounts previously charged off, we credit bad debt expense in the period we receive the payment. The balances of our allowance for uncollectible premiums totaled \$29,000 and \$24,000 at December 31, 2013 and 2012, respectively.

When we receive premium payments from policyholders prior to the effective date of the related policy, we record an advance premiums liability. On the policy effective date, we reduce the advance premium liability and record the premiums as described above.

(e) Policy Acquisition Costs

We incur policy acquisition costs that vary with, and are directly related to, the production of new business. Policy acquisition costs consist primarily of the following three items: (i) commissions paid to outside agents at the time of policy issuance; (ii) policy administration fees paid to a third-party administrator at the time of policy issuance; and (iii) premium tax. We capitalize policy acquisition costs to the extent recoverable, then we amortize those costs over the contract period of the related policy.

At each reporting date, we determine whether we have a premium deficiency. A premium deficiency would result if the sum of our expected losses, deferred policy acquisition costs, and policy maintenance costs (such as costs to store records and costs incurred to collect premiums and pay commissions) exceeded our related unearned premiums plus investment income.

Should we determine that a premium deficiency exists, we would write off the unrecoverable portion of deferred policy acquisition costs and record a liability to the extent the deficiency exceeded the deferred policy acquisition costs.

(f) Long-lived Assets

i) Property and Equipment

We classify our property and equipment, which we record at cost less accumulated depreciation and amortization, within other assets on our Consolidated Balance Sheets because the total net amount (\$592,000 at December 31, 2013 and \$548,000 at December 31, 2012) is not material to our consolidated financial statements. We use the straight-line method of calculating depreciation over the estimated useful lives of the assets, which are three to five years. We also use the straight-line method to calculate amortization of leasehold improvements over the estimated useful lives of the assets or the term of the lease, whichever is shorter. We periodically review estimated useful lives and, where appropriate, we make changes prospectively. We charge maintenance and repair costs to expense as incurred.



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ii)Capitalized Software

We capitalize certain direct development costs associated with internal-use software and we classify these costs within other assets on our Consolidated Balance Sheets because the total amount (\$1,816,000 at December 31, 2013 and \$553,000 at December 31, 2012) is not material to our consolidated financial statements. We expect to amortize the capitalized software costs related to policy administration system over an initial six year period which coincides with the length of our contract term with our policy administrator and the amount of time we expect the software to be useful to us. We expect to amortize the costs related to our new claims processing system over its expected 5 year useful life, beginning in the second quarter of 2014.

iii)Impairment of Long-lived Assets

We annually review our long-lived assets, including intangible assets, to determine if their carrying amounts are recoverable. If the non-discounted future cash flows expected to result from the use and eventual disposition of the assets are less than their carrying amounts, we reduce their carrying amounts to fair value and recognize an impairment loss.

(g)Unpaid Losses and Loss Adjustment Expenses

Our reserves for unpaid losses represent the estimated ultimate cost of settling all reported claims plus all claims we incurred related to insured events that have occurred as of the reporting date, but that policyholders have not yet reported to us (incurred but not reported, or IBNR).

We estimate our reserves for unpaid losses using individual case-basis estimates for reported claims and actuarial estimates for IBNR claims, and we continually review and adjust our estimated losses as necessary based on our historical experience and as we obtain new information. If our unpaid loss reserves prove to be deficient or redundant, we increase or decrease the liability in the period in which we identify the difference, thereby impacting net income. Though our estimate of the ultimate cost of settling all reported and unreported claims may change at any point in the future, a reasonable possibility exists that our estimate may vary significantly in the near term from the estimated amounts included in our consolidated financial statements.

On our Consolidated Balance Sheets, we report our reserves for unpaid losses gross of the amounts related to unpaid losses recoverable from reinsurers. On our Consolidated Statements of Comprehensive Income, we report losses net of amounts ceded to reinsurers. We do not discount our loss reserves for financial statement purposes.

(h)Managing General Agent Fees and Policy Fees

Our policy fees consist of the managing general agent fee and a pay-plan fee. Regulatory authorities in Florida and Rhode Island allow managing general agents to charge policyholders a \$25 fee on each policy written, while the regulatory authority in Texas allows managing general agents to charge policyholders a \$25 or \$75 fee, depending on the type of policy issued. We defer such fees as unearned revenue and then include them in income on a pro rata basis over the term of the underlying policies. We record our pay-plan fees, which we charge to all policyholders that pay their premium in more than one installment, as income when collected. We report all policy-related fees in other revenue on our Consolidated Statements of Comprehensive Income.

(i)Reinsurance

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

Our reinsurance agreements are short-term, prospective contracts. We record an asset, prepaid reinsurance premiums, and a liability, reinsurance payable, for the entire contract amount upon commencement of our new reinsurance agreements. We amortize our prepaid reinsurance premiums over the 12-month contract period.

We record amounts recoverable from our reinsurers on paid losses plus an estimate of amounts recoverable on unpaid losses. The estimate of amounts recoverable on unpaid losses is a function of our liability for unpaid losses associated with the reinsured policies; therefore, the amount changes in conjunction with any changes to our estimate of unpaid losses. Though our

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estimate of amounts recoverable from reinsurers on unpaid losses may change at any point in the future because of its relation to our reserves for unpaid losses, a reasonable possibility exists that our estimate may change significantly in the near term from the amounts included in our consolidated financial statements.

We estimate uncollectible amounts receivable from reinsurers based on an assessment of factors including the creditworthiness of the reinsurers and the adequacy of collateral obtained, where applicable. We recorded no bad debt expense related to reinsurance during the years ended December 31, 2013, 2012 or 2011.

(j)Assessments

We record guaranty fund and other insurance-related assessments imposed upon us as an expense in the period the regulatory agency imposes the assessment. To recover Florida Insurance Guaranty Association (FIGA) assessments, we calculate and begin collecting a policy surcharge that will allow us to collect the entire assessment over a 12-month period, based on our estimate of the number of policies we expect to write. We then submit an information only filing, pursuant to Florida Statute 631.57(3)(h), to the insurance regulatory authority requesting formal approval of the policy FIGA surcharge. The process may be repeated in successive 12-month periods until we collect the entire assessment. We record the recoveries as revenue in the period that we collect the cash. While current regulations allow us to recover from policyholders the amount of assessments imposed upon us, our payment of the assessments and our recoveries may not offset each other in the same fiscal period in our consolidated financial statements.

Where permitted by law or regulatory authority, we collect assessments imposed upon policyholders as a policy surcharge and we record the amounts collected as a liability until we remit the amounts to the regulatory agency that imposed the assessment. During 2013 we did not receive any significant assessments from the regulatory authorities in the states in which our insurance affiliate operates.

(k)Income Taxes

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect to recover or settle those temporary differences. Should a change in tax rates occur, we recognize the effect on deferred tax assets and liabilities in operations in the period that includes the enactment date. Realization of our deferred income tax assets depends upon our generation of sufficient future taxable income.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority.

We record any income tax penalties and income-tax-related interest as income tax expense in the period incurred. We did not incur any material tax penalties or income-tax-related interest during the years ended December 31, 2013, 2012 or 2011.

(l)Advertising Costs

We expense all advertising costs when we incur those costs. For the years ended December 31, 2013, 2012 and 2011, we incurred advertising costs of \$1,801,000, \$1,395,000, and \$1,041,000, respectively.

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(m) Earnings Per Share

We report both basic earnings per share and diluted earnings per share. To calculate basic earnings per share, we divide net income attributable to common stockholders by the weighted-average number of common stock shares outstanding during the period. We calculate diluted earnings per share by dividing net income attributable to common stockholders by the weighted-average number of common stock shares, common stock equivalents, and restricted shares outstanding during the period. Prior to the expiration of our warrants, we used the treasury stock method to calculate common stock equivalents.

(n) Concentrations of Risk

Our current operations subject us to the following concentrations of risk:

- a concentration of revenue because we write primarily homeowners policies

- a geographic concentration resulting from the fact that, though we now operate in seven states, we still write approximately 85% of our premium in Florida

- a group concentration of credit risk with regard to our reinsurance recoverable, since all of our reinsurers engage in similar activities and have similar economic characteristics that could cause their ability to repay us to be similarly affected by changes in economic or other conditions

- a concentration of credit risk with regard to our cash, because we choose to deposit all our cash at two financial institutions

We mitigate our geographic and group concentrations of risk by entering into reinsurance contracts with financially-stable reinsurers, and by securing irrevocable letters of credit from reinsurers when necessary.

With regard to our cash balances held at financial institutions, we had \$40,843,000 and \$5,211,000 in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits at December 31, 2013 and 2012, respectively. The \$35,632,000 increase in excess of FDIC insurance limits is the result of (1) \$19,925,000 of reinsurance payments due in the beginning of January 2014 and (2) in 2013, the FDIC insurance limit expired and deposits held in non-interest-bearing transaction accounts are combined with interest-bearing accounts and insured up to \$250,000.

(o) Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income, which finalizes Proposed ASU No. 2012-240, requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The ASU is effective prospectively for reporting periods beginning after December 15, 2012, and early adoption is permitted.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740)—Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward or Tax Credit Carryforward Exists, which finalizes Proposed ASU No. EITF-13C, and requires an entity's unrecognized tax benefit to be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with one exception. That exception states that, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The ASU applies prospectively for reporting periods beginning after December 15, 2013. Retrospective application and early adoption are also permitted. We do not expect ASU No. 2013-02 or ASU No. 2013-11 to have a material impact on our consolidated financial statements.

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On January 1, 2012, two new Accounting Standards Updates became effective: ASU No. 2010-26, Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts which was issued in October 2010, and ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which was June 2011. The amendments in ASU No. 2010-26 addressed diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral; they clarified which costs should be deferred and which costs should be expensed when incurred. The amendments in ASU No. 2011-05 gave entities the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The two pronouncements did not require us to change our significant accounting policies; therefore, they did not have a material effect on our consolidated financial statements.

### 3) INVESTMENTS

The following table details the difference between cost or adjusted/amortized cost and estimated fair value, by major investment category, at December 31, 2013 and 2012:

|                                                   | Cost or<br>Adjusted/Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|---------------------------------------------------|---------------------------------------|------------------------------|-------------------------------|------------|
| December 31, 2013                                 |                                       |                              |                               |            |
| U.S. government and agency securities             | \$ 98,621                             | \$28                         | \$1,169                       | \$97,480   |
| Foreign governments                               | 3,287                                 | —                            | 60                            | 3,227      |
| States, municipalities and political subdivisions | 45,556                                | 654                          | 433                           | 45,777     |
| Public utilities                                  | 9,103                                 | 122                          | 92                            | 9,133      |
| All other corporate securities                    | 118,084                               | 792                          | 1,469                         | 117,407    |
| Total fixed maturities                            | 274,651                               | 1,596                        | 3,223                         | 273,024    |
| Public utilities                                  | 804                                   | 23                           | 20                            | 807        |
| All other common stocks                           | 12,749                                | 1,894                        | 97                            | 14,546     |
| Nonredeemable preferred stocks                    | 272                                   | —                            | 23                            | 249        |
| Total equity securities                           | 13,825                                | 1,917                        | 140                           | 15,602     |
| Other long-term investments                       | 300                                   | —                            | —                             | 300        |
| Total investments                                 | \$ 288,776                            | \$3,513                      | \$3,363                       | \$288,926  |
| December 31, 2012                                 |                                       |                              |                               |            |
| U.S. government and agency securities             | \$ 95,296                             | \$201                        | \$289                         | \$95,208   |
| States, municipalities and political subdivisions | 17,117                                | 1,918                        | —                             | 19,035     |
| Public utilities                                  | 4,135                                 | 225                          | —                             | 4,360      |
| All other corporate securities                    | 28,282                                | 2,013                        | 1                             | 30,294     |
| Redeemable preferred stocks                       | 259                                   | 2                            | 1                             | 260        |
| Total fixed maturities                            | 145,089                               | 4,359                        | 291                           | 149,157    |
| Public utilities                                  | 316                                   | 16                           | 6                             | 326        |
| All other common stocks                           | 1,949                                 | 228                          | 38                            | 2,139      |
| Nonredeemable preferred stocks                    | 272                                   | —                            | 14                            | 258        |
| Total equity securities                           | 2,537                                 | 244                          | 58                            | 2,723      |

|                             |            |         |       |           |
|-----------------------------|------------|---------|-------|-----------|
| Other long-term investments | 300        | —       | —     | 300       |
| Total investments           | \$ 147,926 | \$4,603 | \$349 | \$152,180 |



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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 tables detail our realized gains (losses) by major investment category for the years ended December 31, 2013, 2012 and 2011:

|                                        | 2013              |                       | 2012              |                       | 2011              |                       |
|----------------------------------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|-----------------------|
|                                        | Gains<br>(Losses) | Fair Value<br>at Sale | Gains<br>(Losses) | Fair Value at<br>Sale | Gains<br>(Losses) | Fair Value<br>at Sale |
| Fixed maturities                       | \$103             | \$23,187              | \$2,043           | \$28,999              | \$231             | \$21,803              |
| Equity securities                      | 31                | 155                   | 279               | 1,907                 | 10                | 65                    |
| Total realized gains                   | 134               | 23,342                | 2,322             | 30,906                | 241               | 21,868                |
| Fixed maturities                       | (261              | ) 43,751              | (141              | ) 9,243               | (58               | ) 3,191               |
| Equity securities                      | (2                | ) 28                  | (21               | ) 391                 | (25               | ) 335                 |
| Total realized losses                  | (263              | ) 43,779              | (162              | ) 9,634               | (83               | ) 3,526               |
| Net realized investment gains (losses) | \$(129            | ) \$67,121            | \$2,160           | \$40,540              | \$158             | \$25,394              |

The table below summarizes our fixed maturities at year end 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.

|                                        | December 31, 2013            |                     |   |            |                     |   |
|----------------------------------------|------------------------------|---------------------|---|------------|---------------------|---|
|                                        | Cost or<br>Amortized<br>Cost | Percent of<br>Total |   | Fair Value | Percent of<br>Total |   |
| Due in one year or less                | \$30,268                     | 11.0                | % | \$30,283   | 11.1                | % |
| Due after one year through five years  | 148,920                      | 54.2                | % | 148,253    | 54.3                | % |
| Due after five years through ten years | 77,632                       | 28.3                | % | 76,462     | 28.0                | % |
| Due after ten years                    | 17,831                       | 6.5                 | % | 18,026     | 6.6                 | % |
| Total                                  | \$274,651                    | 100.0               | % | \$273,024  | 100.0               | % |

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

|                           | Year Ended December 31, |         |         |
|---------------------------|-------------------------|---------|---------|
|                           | 2013                    | 2012    | 2011    |
| Fixed maturities          | \$3,512                 | \$2,902 | \$2,628 |
| Equity securities         | 280                     | 138     | 142     |
| Cash and cash equivalents | 31                      | 43      | 19      |
| Other investments         | 48                      | —       | 34      |
| Gross investment income   | \$3,871                 | \$3,083 | \$2,823 |
| Investment expenses       | (206                    | ) (142  | ) (140  |
| Net investment income     | \$3,665                 | \$2,941 | \$2,683 |

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#### 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-temporarily impaired. 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, contractual or regulatory purposes, 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 not more likely than not that 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.

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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 |
| December 31, 2013                                 |                         |                         |            |                       |                         |            |
| U.S. government and agency securities             | 47                      | \$850                   | \$64,369   | 7                     | \$319                   | \$5,913    |
| Foreign governments                               | 4                       | 60                      | 3,227      | —                     | —                       | —          |
| States, municipalities and political subdivisions | 23                      | 433                     | 27,106     | —                     | —                       | —          |
| Public utilities                                  | 4                       | 92                      | 3,830      | —                     | —                       | —          |
| All other corporate securities                    | 49                      | 1,469                   | 60,348     | —                     | —                       | —          |
| Total fixed maturities                            | 127                     | 2,904                   | 158,880    | 7                     | 319                     | 5,913      |
| Public utilities                                  | 5                       | 20                      | 357        | —                     | —                       | —          |
| All other common stocks                           | 15                      | 97                      | 1,626      | —                     | —                       | —          |
| Nonredeemable preferred stocks                    | 1                       | 6                       | 125        | 1                     | 17                      | 125        |
| Total equity securities                           | 21                      | 123                     | 2,108      | 1                     | 17                      | 125        |
| Total                                             | 148                     | \$3,027                 | \$160,988  | 8                     | \$336                   | \$6,038    |
| December 31, 2012                                 |                         |                         |            |                       |                         |            |
| U.S. government and agency securities             | 13                      | \$289                   | \$44,174   | —                     | \$—                     | \$—        |
| All other corporate securities                    | 1                       | 1                       | 2,000      | —                     | —                       | —          |
| Redeemable preferred stocks                       | —                       | —                       | —          | 1                     | 1                       | 102        |
| Total fixed maturities                            | 14                      | 290                     | 46,174     | 1                     | 1                       | 102        |
| Public utilities                                  | 3                       | 6                       | 178        | —                     | —                       | —          |
| All other common stocks                           | 13                      | 35                      | 442        | 1                     | 3                       | 53         |
| Nonredeemable preferred stocks                    | —                       | —                       | —          | 2                     | 14                      | 258        |
| Total equity securities                           | 16                      | 41                      | 620        | 3                     | 17                      | 311        |
| Total                                             | 30                      | \$331                   | \$46,794   | 4                     | \$18                    | \$413      |

\* This amount represents the actual number of discrete securities, not the number of shares of those securities. The number is 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 and have not suffered any credit rating reductions. 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. All the issuers of the equity securities we own had near-term prospects that indicated we could recover our cost basis, and we also have the ability and the intent to hold these securities until their value equals or exceeds their cost.

During the years ended December 31, 2013, 2012 and 2011, we recorded other-than-temporary impairment charges of \$0, \$0, and \$31,000, respectively, related to our equity positions. We have never recorded an OTTI charge on our debt-security investments.



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The following table presents the fair value measurements of our financial instruments by level at December 31, 2013 and December 31, 2012:

|                                                   | Total     | Level 1  | Level 2   |
|---------------------------------------------------|-----------|----------|-----------|
| December 31, 2013                                 |           |          |           |
| U.S. government and agency securities             | \$97,480  | \$—      | \$97,480  |
| Foreign governments                               | 3,227     | —        | 3,227     |
| States, municipalities and political subdivisions | 45,777    | —        | 45,777    |
| Public utilities                                  | 9,133     | —        | 9,133     |
| All other corporate securities                    | 117,407   | —        | 117,407   |
| Total fixed maturities                            | 273,024   | —        | 273,024   |
| Public utilities                                  | 807       | 807      | —         |
| All other common stocks                           | 14,546    | 14,546   | —         |
| Nonredeemable preferred stocks                    | 249       | 249      | —         |
| Total equity securities                           | 15,602    | 15,602   | —         |
| Other long-term investments                       | 300       | 300      | —         |
| Total investments                                 | \$288,926 | \$15,902 | \$273,024 |
| December 31, 2012                                 |           |          |           |
| U.S. government and agency securities             | \$95,208  | \$66,710 | \$28,498  |
| States, municipalities and political subdivisions | 19,035    | —        | 19,035    |
| Public utilities                                  | 4,360     | —        | 4,360     |
| All other corporate securities                    | 30,294    | —        | 30,294    |
| Redeemable preferred stocks                       | 260       | 260      | —         |
| Total fixed maturities                            | 149,157   | 66,970   | 82,187    |
| Public utilities                                  | 326       | 326      | —         |
| All other common stocks                           | 2,139     | 2,139    | —         |
| Nonredeemable preferred stocks                    | 258       | 258      | —         |
| Total equity securities                           | 2,723     | 2,723    | —         |
| Other long-term investments                       | 300       | 300      | —         |
| Total investments                                 | \$152,180 | \$69,993 | \$82,187  |

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. See Footnote 2(c) for additional information regarding fair value levels.

We do not hold any available for sale investments that require unobservable inputs to determine their fair value. 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. We made no such transfers during the year ended December 31, 2013.

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

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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.

#### Limited partnerships

On September 27, 2013, we acquired an investment in a limited partnership, recorded in other assets, that is currently being accounted for at cost. Our total investment in the partnership of \$1,000,000, is currently bifurcated between a capital contribution of \$500,000 and a note receivable of \$500,000 that will be utilized to fund our future capital contributions. We are not required to fund any additional amounts in excess of our initial \$1,000,000 commitment. As the limited partnership is still in the acquisition phase, the cost basis of our investment approximated its fair value at December 31, 2013.

On September 25, 2012, we acquired an investment in a limited partnership, recorded in other assets, that is currently being accounted for at cost. Our total investment in the partnership is \$750,000, which has been reduced by capital distributions received during the year ended 2013 totaling \$16,000. Our investment in the partnership is currently bifurcated between capital contributions of \$562,500 and a note receivable of \$187,500 that will be utilized to fund our future capital contribution. We are not required to fund any additional amounts in excess of our initial investment. As the limited partnership is still in the acquisition phase, the cost basis of our investment approximated its fair value of \$734,000 at December 31, 2013.

#### Other investments

On October 31, 2013, we entered into a participation agreement with United Capital Funding (UC Funding), that is currently being held in other assets, at cost. We invested \$1,000,000 in cash with UC Funding which they utilized to factor receivables from another company. At December 31, 2013, the cost basis of our investment approximated its fair value.

On February 4, 2014, UC Funding returned \$500,000 of our investment as they were unable to fully utilize our investment.

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#### 4) 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 units. The following table shows the computation of basic and diluted EPS for the years ended December 31, 2013 and December 31, 2012:

|                                                | Year Ended<br>December 31, |            |
|------------------------------------------------|----------------------------|------------|
|                                                | 2013                       | 2012       |
| Numerator:                                     |                            |            |
| Net income attributable to common stockholders | \$20,342                   | \$9,705    |
| Denominator:                                   |                            |            |
| Weighted-average shares outstanding            | 16,100,882                 | 10,607,751 |
| Effect of dilutive securities                  | 82,216                     | 47,773     |
| Weighted-average diluted shares                | 16,183,098                 | 10,655,524 |
| Basic earnings per share                       | \$1.26                     | \$0.91     |
| Diluted earnings per share                     | \$1.26                     | \$0.91     |

See [Note 17](#) for additional information on the stock grants related to dilutive securities.

We had 7,077,375 warrants outstanding, which expired on October 4, 2011. All of the warrants outstanding were anti-dilutive during that period. Prior to their expiration, each warrant could have been exercised for one share of common stock.

#### 5) DEFERRED POLICY ACQUISITION COSTS

We anticipate that our deferred policy acquisition costs will be fully recoverable in the near term. The table below depicts the activity with regard to deferred policy acquisition costs:

|                                   | 2013     | 2012     |
|-----------------------------------|----------|----------|
| Balance at January 1              | \$16,978 | \$12,324 |
| Policy acquisition costs deferred | 56,950   | 38,431   |
| Amortization                      | (48,742) | (33,777) |
| Balance at December 31            | \$25,186 | \$16,978 |

#### 6) REINSURANCE

Our reinsurance program is designed, utilizing our risk management methodology, to address our exposure to catastrophes. We define "catastrophe" as an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, winter storms, tornadoes, hailstorms,



wildfires, tropical storms, hurricanes, earthquakes and volcanoes. The nature and level of catastrophes in any period cannot be reliably predicted.

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 stockholders an

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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 2013, we placed our reinsurance program for the 2013 hurricane season. 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, 2013, for a one-year term and 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 to Florida property insurers for covered hurricane losses. For UPC Insurance, the FHCF coverage includes an estimated maximum provisional limit of 90% of \$490,600,000 or \$441,540,000, in excess of our retention and private reinsurance of \$360,060,000, and also includes reimbursement of eligible loss adjustment expenses of 5%. The limit and retention of the FHCF coverage are subject to re-measurement based on June 30th exposure data. In addition, the FHCF's retention is subject to adjustment upward or downward to an actual retention based on submitted exposures to the FHCF by all participants.

In addition to FHCF coverage, we purchase private reinsurance below, alongside, and above the FHCF layer. The contracts comprising our program are described below:

• **Below FHCF** - provides coverage on \$167,200,000 of losses in excess of \$20,000,000 and is 100% placed. The first reinstatement of limits is prepaid and the second and final reinstatement requires additional premium.

• **Mandatory FHCF** - provides 90% of \$490,600,000 of losses in excess of \$187,200,000 with no reinstatement limits.

• **Excess** - provides coverage on \$172,860,000 of losses in excess of the private and FHCF reinsurance coverage and is 100% placed.

We amortize our prepaid reinsurance premiums over the annual agreement period, and we record that amortization in ceded premiums earned on our 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:

|                                     | Year Ended December 31, |              |             |
|-------------------------------------|-------------------------|--------------|-------------|
|                                     | 2013                    | 2012         | 2011        |
| Excess-of-loss                      | \$(108,696 )            | \$(100,549 ) | \$(82,832 ) |
| Equipment & identity theft          | (2,608 )                | (1,540 )     | (587 )      |
| Flood                               | (13,378 )               | (11,145 )    | (9,999 )    |
| Ceded premiums written              | \$(124,682 )            | \$(113,234 ) | \$(93,418 ) |
| Increase in ceded unearned premiums | 5,352                   | 8,948        | 2,661       |
| Ceded premiums earned               | \$(119,330 )            | \$(104,286 ) | \$(90,757 ) |

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Current year catastrophe losses by the event magnitude are shown in the following table.

|                                                                          | 2013             |                                      |                       | 2012             |                                      |                       |   |
|--------------------------------------------------------------------------|------------------|--------------------------------------|-----------------------|------------------|--------------------------------------|-----------------------|---|
|                                                                          | Number of Events | Incurred Loss and LAE <sup>(3)</sup> | Combined Ratio Impact | Number of Events | Incurred Loss and LAE <sup>(3)</sup> | Combined Ratio Impact |   |
| Year Ended December 31,<br>Current period catastrophe losses<br>incurred |                  |                                      |                       |                  |                                      |                       |   |
| \$ 1 million to \$5 million                                              | (1) 1            | 1,839                                | 0.9                   | % 2              | 2,896                                | 2.4                   | % |
| Less than \$1 million                                                    | (2) 2            | 1,763                                | 0.9                   | % 1              | 770                                  | 0.6                   | % |
| Total                                                                    | 3                | 3,602                                | 1.8                   | % 3              | 3,666                                | 3.0                   | % |

Note: A storm can be in one loss size for the quarter and a different loss size for the year dependent upon the losses paid for that particular storm during the specified time frame.

(1) Reflects losses from Winterstorm Nemo in 2013 and Tropical Storms Debby and Isaac in 2012.

(2) Reflects losses from the Orlando weather event and Tropical Storm Andrea in 2013, and Superstorm Sandy in 2012.

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

Reinsurance recoverable at the balance sheet dates consists of the following:

|                                                  | December 31, |         |
|--------------------------------------------------|--------------|---------|
|                                                  | 2013         | 2012    |
| Reinsurance recoverable on unpaid losses and LAE | \$1,957      | \$1,935 |
| Reinsurance recoverable on paid losses and LAE   | 469          | 337     |
| Reinsurance recoverable                          | \$2,426      | \$2,272 |

During the years ended December 31, 2013 and 2012, we realized recoveries under our reinsurance agreements totaling \$2,521,000 and \$2,753,000, respectively. These recoveries were primarily related to losses from Hurricane Wilma, which occurred in October 2005.

During the fourth quarter of 2013, we placed our non-catastrophe reinsurance agreement, which will expire on December 31, 2014. The non-catastrophe reinsurance agreement provides excess-of-loss coverage for losses arising out of property business up to \$500,000 in excess of \$500,000 per risk. Should a loss recovery, or series of loss recoveries, exhaust the coverage provided under the agreement for losses arising out of property-only business, excluding catastrophes, three reinstatements of the full coverage amount is included at no additional premium.

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 \$570,000, \$267,000, and \$377,000 for the years ended December 31, 2013, 2012, and 2011, respectively.



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The following table depicts written premiums, earned premiums and losses, showing the effects that our reinsurance transactions have on these components of our Consolidated Statements of Comprehensive Income:

|                              | Year ended December 31, |             |             |
|------------------------------|-------------------------|-------------|-------------|
|                              | 2013                    | 2012        | 2011        |
| Premium written:             |                         |             |             |
| Direct                       | \$339,765               | \$254,913   | \$199,606   |
| Assumed                      | 41,587                  | (4          | ) 4,200     |
| Ceded                        | (124,682                | ) (113,234  | ) (93,418   |
| Net premium written          | \$256,670               | \$141,675   | \$110,388   |
| Change in unearned premiums: |                         |             |             |
| Direct                       | \$(44,422               | ) \$(28,743 | ) \$(23,666 |
| Assumed                      | (20,222                 | ) 88        | 697         |
| Ceded                        | 5,352                   | 8,948       | 2,661       |
| Net increase                 | \$(59,292               | ) \$(19,707 | ) \$(20,308 |
| Premiums earned:             |                         |             |             |
| Direct                       | \$295,343               | \$226,170   | \$175,940   |
| Assumed                      | 21,365                  | 84          | 4,897       |
| Ceded                        | (119,330                | ) (104,286  | ) (90,757   |
| Net premiums earned          | \$197,378               | \$121,968   | \$90,080    |
| Losses and LAE incurred:     |                         |             |             |
| Direct                       | \$92,526                | \$60,248    | \$35,774    |
| Assumed                      | 9,240                   | (335        | ) 2,554     |
| Ceded                        | (2,936                  | ) (1,504    | ) 533       |
| Net losses and LAE incurred  | \$98,830                | \$58,409    | \$38,861    |

Ceded losses incurred increased by \$1,432,000 during the year ended December 31, 2013, compared to the year ended December 31, 2012, primarily because we ceded more per risk losses in 2013. The losses we incurred in 2013, 2012 and 2011 related to storms that occurred in those same years but did not exceed our retained loss thresholds.

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The following table highlights the effects that our reinsurance transactions have on unpaid losses and loss adjustment expenses and unearned premiums in our Consolidated Balance Sheets:

|                             | December 31,<br>2013 | 2012      |
|-----------------------------|----------------------|-----------|
| Unpaid losses and LAE:      |                      |           |
| Direct                      | \$42,954             | \$34,503  |
| Assumed                     | 4,497                | 1,189     |
| Gross unpaid losses and LAE | 47,451               | 35,692    |
| Ceded                       | (1,957)              | (1,935)   |
| Net unpaid losses and LAE   | \$45,494             | \$33,757  |
| Unearned premiums:          |                      |           |
| Direct                      | \$173,206            | \$128,785 |
| Assumed                     | 20,222               | —         |
| Gross unearned premiums     | 193,428              | 128,785   |
| Ceded                       | (55,268)             | (49,916)  |
| Net unearned premiums       | \$138,160            | \$78,869  |

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## 7) RESERVE FOR UNPAID LOSSES

We determine the reserve for unpaid losses on an individual-case basis for all incidents reported. The liability also includes amounts for IBNR claims as of the balance sheet date.

The table below summarizes the activity related to our reserve for unpaid losses:

|                                                | 2013     | 2012     | 2011     |
|------------------------------------------------|----------|----------|----------|
| Balance at January 1                           | \$35,692 | \$33,600 | \$47,414 |
| Less: reinsurance recoverable on unpaid losses | 1,935    | 3,318    | 23,814   |
| Net balance at January 1                       | \$33,757 | \$30,282 | \$23,600 |
| Incurred related to:                           |          |          |          |
| Current year                                   | 94,752   | 57,739   | 43,019   |
| Prior years                                    | 4,078    | 670      | (4,158)  |
| Total incurred                                 | \$98,830 | \$58,409 | \$38,861 |
| Paid related to:                               |          |          |          |
| Current year                                   | 62,494   | 37,906   | 28,857   |
| Prior years                                    | 24,599   | 17,028   | 3,322    |
| Total paid                                     | \$87,093 | \$54,934 | \$32,179 |
| Net balance at December 31                     | \$45,494 | \$33,757 | \$30,282 |
| Plus: reinsurance recoverable on unpaid losses | 1,957    | 1,935    | 3,318    |
| Balance at December 31                         | \$47,451 | \$35,692 | \$33,600 |

Based upon our internal analysis and our review of the statement of actuarial opinion provided by our actuarial consultants, we believe that the reserve for unpaid losses reasonably represents the amount necessary to pay all claims and related expenses which may arise from incidents that have occurred as of the balance sheet date.

As reflected by our losses incurred related to prior years, we had a reserve deficiency in 2013 and in 2012, and a redundancy in 2011. Since we place substantial reliance on loss-development-based actuarial models when determining our estimate of ultimate losses, the deficiencies in 2013 and 2012 resulted from additional development on prior accident years which caused our ultimate losses to increase whereas the redundancy we experienced in 2011 resulted from reductions to our estimate of ultimate losses because of continued favorable loss development on claims incurred in prior years. The adverse development experienced in 2013 was primarily the result of higher overall frequency and severity of water related losses.

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## 8) LONG-TERM DEBT

Our long-term debt at December 31, 2013 and 2012 consisted of a note payable to the Florida State Board of Administration. As of December 31, 2013 and 2012, we owed \$14,706,000 and \$15,882,000, respectively, on the note and the interest rate was 2.64% and 1.66%, respectively.

At December 31, 2013, the annual maturities of our long-term debt were as follows:

|            | Amount   |
|------------|----------|
| 2014       | \$1,176  |
| 2015       | 1,176    |
| 2016       | 1,176    |
| 2017       | 1,176    |
| 2018       | 1,176    |
| Thereafter | 8,826    |
| Total debt | \$14,706 |

We executed the 20-year, \$20,000,000 note payable to the SBA under its Insurance Capital Build-Up Incentive Program, effective October 1, 2006. The stated rate for the SBA note is a rate equivalent to the 10-year U.S. Treasury Bond rate. We made quarterly interest-only payments for the first three years, then, as of October 1, 2009, we began making quarterly principal and interest payments.

The note payable to Florida's State Board of Administration (SBA note) requires our insurance affiliate to maintain surplus as regards policyholders at or above a calculated level, which was \$32,808,000 at December 31, 2013. We monitor our insurance affiliate's surplus as regards policyholders each quarter and, for various reasons, we occasionally provide additional capital to our insurance affiliate. We contributed \$15,000,000 of capital during 2012; however, we did not contribute any capital to our insurance affiliate in 2013. We currently do not foresee a need for any material contributions of capital to our insurance affiliate; however, any future contributions of capital will depend on circumstances at the time.

Our SBA note requires that we maintain a 2:1 ratio of net written premium to surplus, or net writing ratio, (the SBA note agreement defines surplus for the purpose of calculating the required ratios as the \$20,000,000 of capital contributed to our insurance affiliate under the agreement plus the outstanding balance of the note) or a 6:1 ratio of gross written premium to surplus, or gross writing ratio, to avoid additional interest penalties. At December 31, 2013, our net written premium to surplus ratio was 4.5:1, which is well above the 2:1 required ratio. Our gross written premium to surplus ratio was 9.5:1, which exceeds the required gross ratio of 6:1. Should we fail to exceed either a net writing ratio of 1.5:1 or a gross writing ratio of 4:1, our interest rate will increase by 450 basis points above the 10-year Constant Maturity Treasury rate which was 3.04% at the end of December. Any other writing ratio deficiencies result in an interest rate penalty of 25 basis points above the stated rate of the note, which is 2.64% at December 31, 2013. 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 December 31, 2013, and during the three and twelve months then ended, we complied with all covenants as specified in the SBA note.





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## 9) INCOME TAXES

The following table summarizes the provision for income taxes:

|                                          | Year Ended December 31, |         |         |
|------------------------------------------|-------------------------|---------|---------|
|                                          | 2013                    | 2012    | 2011    |
| Federal:                                 |                         |         |         |
| Current                                  | \$11,413                | \$5,704 | \$4,864 |
| Deferred                                 | 1,026                   | (526)   | ) (656) |
| Provision for Federal income tax expense | 12,439                  | 5,178   | 4,208   |
| State:                                   |                         |         |         |
| Current                                  | 1,581                   | 966     | 664     |
| Deferred                                 | 125                     | (135)   | ) 56    |
| Provision for State income tax expense   | 1,706                   | 831     | 720     |
| Provision for income taxes               | \$14,145                | \$6,009 | \$4,928 |

The actual income tax expense differs from the expected income tax expense computed by applying the combined applicable effective federal and state tax rates to income before the provision for income taxes as follows:

|                                                     | Year Ended December 31, |         |         |
|-----------------------------------------------------|-------------------------|---------|---------|
|                                                     | 2013                    | 2012    | 2011    |
| Expected income tax expense at federal rate         | \$12,070                | \$5,500 | \$4,425 |
| State tax expense, net of federal deduction benefit | 1,140                   | 547     | 472     |
| Dividend received deduction                         | (47)                    | ) (42)  | ) (38)  |
| Prior period adjustment                             | 699                     | —       | —       |
| Other, net                                          | 283                     | 4       | 69      |
| Reported income tax expense                         | \$14,145                | \$6,009 | \$4,928 |

Deferred income taxes, which are included in other assets or other liabilities as appropriate, reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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The table below summarizes the significant components of our net deferred tax asset:

|                                      | December 31,<br>2013 | 2012     |   |
|--------------------------------------|----------------------|----------|---|
| Deferred tax assets:                 |                      |          |   |
| Unearned premiums                    | \$11,370             | \$6,478  |   |
| Assessments                          | 30                   | 636      |   |
| Tax-related discount on loss reserve | 682                  | 495      |   |
| Bad debt expense                     | 11                   | 9        |   |
| Other-than-temporary impairment      | 56                   | 56       |   |
| Other                                | 873                  | 672      |   |
| Total deferred tax assets            | 13,022               | 8,346    |   |
| Deferred tax liabilities:            |                      |          |   |
| Unrealized gain                      | (58                  | ) (1,641 | ) |
| Deferred acquisitions costs          | (11,061              | ) (6,453 | ) |
| Capitalized software                 | (294                 | ) (207   | ) |
| Other                                | (1,317               | ) (185   | ) |
| Total deferred tax liabilities       | (12,730              | ) (8,486 | ) |
| Net deferred tax asset (liability)   | \$292                | \$(140   | ) |

In assessing the net realizable value of deferred tax assets, we consider whether it is more likely than not that we will not realize some portion or all of the deferred tax assets. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

The statute of limitations related to our consolidated Federal income tax returns and our Florida income tax returns expired for all tax years up to and including 2009; therefore, only the 2010 through 2013 tax years remain subject to examination by taxing authorities. No taxing authorities are currently examining any of our federal or state income tax returns.

UPC Insurance's reinsurance affiliate, which is based in the Cayman Islands, made an irrevocable election under section 953(d) of the U.S. Internal Revenue Code of 1986, as amended, to be treated as a domestic insurance company for U.S. Federal income tax purposes. As a result of this election, our reinsurance subsidiary is subject to United States income tax on its worldwide income as if it were a U.S. corporation.

As of December 31, 2013, we have not taken any uncertain tax positions with regard to our tax returns.

## 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 affiliate. The various laws and regulations require that insurers maintain minimum amounts of statutory surplus and risk-based capital, they restrict insurers' ability to pay dividends, they specify allowable investment types and investment mixes, and they subject insurers to assessments. At December 31, 2013, and during the twelve months then ended, our insurance affiliate met all

regulatory requirements of the states in which it operates, and did not incur any significant assessments.

Governmental agencies or certain quasi-governmental entities can levy assessments upon us in the states in which we write policies. See Note 2(j) for a description of how we recover assessments imposed upon us.

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The table below summarizes the activity related to assessments levied upon our insurance affiliate:

|                                                 | 2013    | 2012    | 2011  |
|-------------------------------------------------|---------|---------|-------|
| Expected recoveries of assessments, January 1   | \$1,646 | \$10    | \$413 |
| Assessments expensed                            | 31      | 1,646   | —     |
| Assessments recovered                           | (1,457  | ) —     | (403  |
| Assessments not recoverable                     | (141    | ) (10   | ) —   |
| Expected recoveries of assessments, December 31 | \$79    | \$1,646 | \$10  |

We expense an assessment when the particular governmental agency or quasi-governmental entity levies it upon us; therefore, expected recoveries in the table above are not assets and we will record the amounts as income when collected from policyholders.

During 2012, our insurance affiliate received a mandatory assessment from the Florida Insurance Guaranty Association, Inc. (FIGA), a nonprofit corporation created by the Florida legislature. The assessment, which was approved by the Florida Office of Insurance Regulation, is equal to 0.9% of our insurance affiliate's net direct written premiums in Florida for the 2011 calendar year and is applicable to all members of FIGA's "All Other Account," which includes our insurance affiliate.

The assessment resulted in a pre-tax charge to consolidated operations of \$1,646,000 in the fourth quarter of 2012. The mandatory assessment was recouped through a surcharge on our insurance affiliate's Florida policies during 2013. The remaining \$79,000 assessment will be recouped during 2014.

Governmental agencies or certain quasi-governmental entities can also levy assessments upon policyholders, and we collect the amount of the assessments from policyholders as surcharges for the benefit of the assessing agency. We currently collect assessments levied upon policyholders on behalf of Citizens in the amount of 1.0%, and on behalf of FHCF in the amount of 1.3%. We multiply the premium written on each policy, except our flood policies, by these assessment percentages to determine the additional amount that we will collect from the policyholder and remit to the assessing agencies.

Our insurance subsidiary is domiciled in Florida, and the laws of that state require that our insurance affiliate maintain capital and surplus equal to the greater of 10% of its total liabilities or \$5,000,000. Our statutory capital surplus was \$78,362,000 at December 31, 2013. State law also requires our insurance affiliate to adhere to prescribed premium-to-capital surplus ratios, with which we were in compliance at December 31, 2013.

The National Association of Insurance Commissioners published risk-based capital guidelines for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policy holders. Most states, including Florida, have enacted the NAIC guidelines as statutory requirements, and insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. State insurance regulatory authorities could require an insurer to cease operations in the event the insurer fails to maintain the required statutory capital.

Florida law limits an insurer's investment in equity instruments and also restricts investments in medium to low quality debt instruments. We were in compliance with all investment restrictions at December 31, 2013 and 2012.

Florida law permits 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 law further provides calculations to determine the amount of dividends or distributions that can be made without the prior approval of the insurance regulatory authority and the amount of dividends or distributions that would require prior approval of the insurance regulatory authority. Statutory risk-based capital requirements may further restrict our insurance affiliate's 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 note payable to the SBA is considered a surplus note pursuant to statutory accounting principles. As a result, our insurance affiliate is subject to the authority of the Insurance Commissioner of the State of Florida with regard to its ability to

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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 subsidiary's 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 recoverable and amortize policy acquisition costs over the estimated life of the policies.

Statutory accounting dictates how much of a deferred income tax asset that we can admit on a statutory balance sheet.

Statutory accounting requires that we record certain investments at cost or amortized cost, while we record other investments at fair value; however, GAAP requires that we record investments at fair value.

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 bonds 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.

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 a provision for reinsurance liability be established for reinsurance recoverable on paid losses aged over ninety 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 outlined in Statements on Statutory Accounting Principles, No. 101 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.

The level of required risk-based capital (RBC) is calculated and reported annually. There are five outcomes to the RBC calculation set forth by the NAIC which are as follows:

1. No Action Level - If RBC is greater than 200%, no further action is required.
- 2.

Company Action Level - If RBC is between 150% -200%, the insurer must prepare a report to the regulator outlining a comprehensive financial plan that identifies conditions that contributed to the insurer's financial condition and proposes corrective actions.

Regulatory Action Level - If RBC is between 100% -150%, the state insurance commissioner is required to perform 3.any examinations or analyses to the insurer's business and operations that he or she deems necessary as well as issuing appropriate corrective orders.



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Authorized Control Level - If RBC is between 70% - 100%, this is the first point that the regulator may take control of the insurer even if the insurer is still technically solvent and is in addition to all the remedies available at the higher action levels.

5. Mandatory Control Level - If RBC is less than 70%, the regulator is required to take steps to place the insurer under its control regardless of the level of capital and surplus.

At December 31, 2013, our insurance affiliate's RBC ratio was 632%.

Our insurance subsidiary 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 stockholders' equity under GAAP.

The table below reconciles our consolidated GAAP net income to the statutory net income (loss) of our insurance affiliate:

|                                                    | Year Ended December 31, |           |             |
|----------------------------------------------------|-------------------------|-----------|-------------|
|                                                    | 2013                    | 2012      | 2011        |
| Consolidated GAAP net income                       | \$20,342                | \$9,705   | \$8,088     |
| Increase (decrease) due to:                        |                         |           |             |
| Commissions                                        | 2,281                   | 10,438    | 56          |
| Deferred income taxes                              | (3,992)                 | ) (4,262  | ) (1,278 )  |
| Deferred policy acquisition costs                  | (868)                   | ) (688    | ) (98 )     |
| Allowance for doubtful accounts                    | 5                       | (53       | ) 16        |
| Assessments                                        | (1,567                  | ) 1,636   | (453 )      |
| Prepaid expenses                                   | 22                      | 131       | 187         |
| Premium deficiency reserve                         | —                       | (302      | ) 302       |
| Operations of non-statutory subsidiaries           | (9,023                  | ) (10,696 | ) (11,452 ) |
| Statutory net income (loss) of insurance affiliate | \$7,200                 | \$5,909   | \$(4,632 )  |

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The table below reconciles our consolidated GAAP stockholders' equity to the surplus as regards policyholders of our insurance affiliate:

|                                                                   | December 31, |           |
|-------------------------------------------------------------------|--------------|-----------|
|                                                                   | 2013         | 2012      |
| Consolidated GAAP stockholders' equity                            | \$107,587    | \$87,986  |
| Increase (decrease) due to:                                       |              |           |
| Deferred policy acquisition costs                                 | (3,281       | ) (2,413  |
| Deferred income taxes                                             | (4,861       | ) (4,162  |
| Investments                                                       | 1,478        | (2,427    |
| Non-admitted assets                                               | (247         | ) (354    |
| Surplus debentures                                                | 14,706       | 15,882    |
| Provision for reinsurance                                         | (341         | ) (225    |
| Equity of non-statutory subsidiaries                              | (49,531      | ) (38,397 |
| Commissions                                                       | 12,796       | 10,515    |
| Assessments                                                       | 79           | 1,646     |
| Prepaid expenses                                                  | (23          | ) (44     |
| Statutory surplus as regards policyholders of insurance affiliate | \$78,362     | \$68,007  |

#### 11) 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.

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## 12) LEASES

We lease office space and office equipment under operating leases. In October of 2012, we renegotiated the lease for office space for our corporate headquarters. Our revised lease agreement expires in November 2017; however, we have two options to terminate the lease with 180 days of advance notice after completing twenty-four or thirty-six months of tenancy.

We have office equipment leases with various expiration dates. Lease expense amounted to \$698,000, \$560,000, and \$508,000 for the years ended December 31, 2013, 2012, and 2011, respectively. At December 31, 2013, our minimum future lease payments under non-cancellable operating leases are:

|      | Amount |
|------|--------|
| 2014 | \$619  |
| 2015 | 676    |
| 2016 | 686    |
| 2017 | 619    |
| 2018 | —      |

## 13) RELATED PARTY TRANSACTIONS

In 2003, we entered into an investment-management agreement, in effect until terminated by either party, with Synovus Trust. Synovus Financial Corporation (Synovus) owns Synovus Trust, which provides investment-management services for the investment accounts of our subsidiaries. On September 28, 2011, Synovus, which owned 14.9% of our common stock outstanding, sold all shares of our common stock that it owned. For the year ended December 31, 2011, our subsidiaries incurred combined fees under the agreement of \$85,000.

Effective March 30, 2011, our insurance affiliate purchased \$2,250,000 of promissory notes offered by Hamilton Risk Management Co. (HRM), a Florida corporation engaged in the business of providing automobile insurance in Florida through its wholly-owned subsidiaries. The interest rate on the HRM notes was two percent per annum. All outstanding principal of and interest on the HRM notes was to be due on March 30, 2014. In consideration for its purchase of the HRM notes, our insurance affiliate received a Class A limited partnership interest in Acadia Acquisition Partners, L.P., the parent company of Hamilton Risk Management. One of our former directors acts as Executive Chairman of Hamilton Risk Management on an interim basis, and another of our former directors serves as one of two managers of the limited liability company that serves as general partner of Acadia Acquisition Partners. We bifurcated the cash consideration of \$2,250,000 by allocating \$1,948,000 to the note receivable based on its fair value (using a discounted cash flow model) and allocating the residual amount of \$302,000 to our limited partnership interest. We reduced the carrying amount of the limited partnership interest to zero by recording a charge to other expenses because our share of Acadia's losses for the second quarter of 2011 exceeded the carrying amount of the partnership interest.

During the second quarter ended June 30, 2012, it came to our attention that Hamilton Risk Management breached a covenant contained in the Note Purchase Agreement, by reason of Kingsway Amigo Insurance Company's Surplus falling below \$13,000,000. On July 17, 2012, we notified HRM of the breach and requested that HRM remedy the breach. On July 20, 2012, our Board of Directors unanimously agreed to enter into negotiations with HRM to settle the outstanding note receivable and to terminate our partnership interest in Acadia Acquisition Partners, L.P. We

settled the total outstanding note receivable and the partnership interest at an amount equal to \$1,750,000 and received the funds from HRM on August 13, 2012. We recorded a \$316,000 impairment on the note receivable in June to reflect the difference between the carrying amount and the proposed settlement amount, which was recorded in other expenses on the income statement.

Effective August 29, 2011, we entered into a Management Services Agreement (MSA) with 1347 Advisors, LLC, a wholly-owned subsidiary of Kingsway Financial Services, Inc., a property and casualty insurance company. During the term of the agreement, one of our former directors, Mr. Swets, served as the President and Chief Executive Officer of Kingsway, and served as a Managing Director of 1347 Advisors. The MSA, which was effective for a six-month period with automatic three-month extensions unless otherwise terminated, stipulated that 1347 Advisors shall provide us with the services of an interim

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CFO, in addition to actuarial and other services. Hassan Baqar served as our interim CFO under the MSA until April 2, 2012, when he submitted his resignation effective concurrently with the termination of the MSA described in the final paragraph of this section. During the term of the MSA, Mr. Baqar served as a Managing Director of 1347 Advisors and as a Vice President of Kingsway America, Inc., a wholly-owned subsidiary of Kingsway Financial Services, Inc. In exchange for the services, we paid 1347 Advisors a monthly consulting fee of \$60,000 plus any reasonable expenses. For the twelve months ended December 31, 2012, and 2011, we incurred fees of \$180,000 and \$240,000, respectively under the MSA.

In response to a letter our insurance affiliate received from Florida's insurance regulatory authority more fully described in our Current Report on Form 8-K filed with the SEC on April 5, 2012, our management affiliate notified 1347 Advisors on April 2, 2012, of its desire to terminate the MSA. Effective April 2, 2012, our management affiliate and 1347 Advisors entered into a Termination Agreement and Release (Termination Agreement) pursuant to which the parties agreed to a mutual termination of the Management Services Agreement effective immediately. As a result of the foregoing, our management affiliate will no longer be obligated to pay 1347 Advisors the management services fee described above. The Termination Agreement provides that 1347 shall cooperate with our management affiliate to effect the transition of certain actuarial services to our management affiliate or another company.

On November 14, 2011, we entered into an employment and advisor agreement (the Agreement), with Mr. Cronin, our former Chief Executive Officer, which provided that Mr. Cronin would remain in his position as Chief Executive Officer until the earlier of May 1, 2012, or the appointment of his successor. While Mr. Cronin served as our CEO, Mr. Cronin would continue to receive his current base salary and benefits, which have not been adjusted from the amounts reported in our SEC filings for our 2010 fiscal year. During this period, Mr. Cronin was eligible to receive discretionary bonuses, if any, paid to senior management. After January 1, 2012, if Mr. Cronin relocated his primary residence outside the State of Florida, we would reimburse Mr. Cronin for reasonable travel expenses incurred by him to perform his duties as our CEO.

The Agreement further provided that we would retain Mr. Cronin's services as a consultant and advisor for a period of 24 months after he ceased serving as our Chief Executive Officer. Mr. Cronin would receive an amount equal to his current base salary plus benefits, as described above, as compensation for performing such services. Mr. Cronin may terminate the Agreement for any reason upon 30 days advance written notice. We may terminate the Agreement for cause upon 30 days advance written notice. The Agreement also contains provisions restricting Mr. Cronin's ability to compete with us or solicit our employees. In December 2012, we received notice that Mr. Cronin would be unable to continue serving as a consultant and advisor and as a result of the notice we recorded an accrual in the amount of \$480,000 for the remaining salary and benefits owed to Mr. Cronin for the remainder of the contract term that expires in April 2014. As of the end of December 31, 2013, the remaining balance owed to Mr. Cronin was \$121,000.

#### 14) EMPLOYEE BENEFIT PLAN

We provide a 401(k) plan for substantially all of our employees. We match 100% of the first 5% of employees' contributions to the plan. For the years ended December 31, 2013, 2012, and 2011, our contributions to the plan on behalf of the participating employees were \$180,000, \$111,000, and \$97,000, respectively.



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## 15) ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

|                                                                             | Pre-Tax<br>Amount | Tax<br>(Expense)Benefit | Net-of-Tax<br>Amount |
|-----------------------------------------------------------------------------|-------------------|-------------------------|----------------------|
| December 31, 2010                                                           | \$(352            | ) \$ 136                | \$(216 )             |
| Changes in net unrealized gain (loss) on investments                        | 4,291             | (1,656 )                | 2,635                |
| Reclassification adjustment for realized gains                              | (158              | ) 61                    | (97 )                |
| Reclassification adjustment for recognized other-than-temporary impairments | 31                | (12 )                   | 19                   |
| December 31, 2011                                                           | 3,812             | (1,471 )                | 2,341                |
| Changes in net unrealized gain (loss) on investments                        | 2,602             | (1,004 )                | 1,598                |
| Reclassification adjustment for realized gains                              | (2,160            | ) 834                   | (1,326 )             |
| December 31, 2012                                                           | 4,254             | (1,641 )                | 2,613                |
| Changes in net unrealized gain (loss) on investments                        | (4,233            | ) 1,633                 | (2,600 )             |
| Reclassification adjustment for realized losses                             | 129               | (50 )                   | 79                   |
| December 31, 2013                                                           | \$ 150            | \$ (58 )                | \$ 92                |

## 16) STOCKHOLDERS' EQUITY

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 of Directors (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 December 31, 2013, we had not issued any shares of preferred stock.

On November 5, 2013, our Board declared a \$0.03 per share quarterly cash dividend. We paid the \$486,000 dividend on December 13, 2013, to stockholders of record on November 29, 2013.

On October 1, 2013, we awarded Jay Williams, Vice President - Marketing, 2,299 shares of restricted common stock in connection with his employment with our Company.

On September 13, 2013, we awarded Andy Swenson, Chief Information Officer, and Deepak Menon, Vice President - Operations and Business Development, 2,167 and 2,110 shares of restricted common stock, respectively, in connection with their employment with our Company.

On August 7, 2013, our Board declared a \$0.03 per share quarterly cash dividend. We paid the \$486,000 dividend on September 13, 2013, to stockholders of record on August 30, 2013.

On May 7, 2013, our Board declared a \$0.03 per share quarterly cash dividend. We paid the \$486,000 dividend on June 14, 2013, to stockholders of record on May 31, 2013.

On March 6, 2013, our Board declared a \$0.03 per share quarterly cash dividend. We paid the \$486,000 dividend on March 27, 2013, to stockholders of record on March 20, 2013.



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On January 11, 2013, Raymond James, the lead underwriter on our public offering, exercised their over-allotment option to purchase 750,000 shares of our common stock and we received net proceeds less underwriting expenses of \$3,591,000 from the exercise.

On December 18, 2012, our Board declared a \$0.03 per share cash dividend. We paid the \$464,000 dividend on December 31, 2012, to stockholders of record on December 28, 2012.

On December 14, 2012, we closed an underwritten public offering of 5,000,000 shares of our common stock. Certain of our stockholders sold an additional 300,075 shares of our common stock in that offering. Our total net proceeds from the offering were approximately \$23,947,000.

On October 1, 2012, Brad Martz began serving as our Chief Financial Officer and we awarded him 3,900 shares of restricted common stock in connection with his employment with our Company.

On July 20, 2012, our Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of common stock, \$0.0001 par value per share, of the Company. The dividend was payable to the stockholders of record on August 3, 2012. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, \$0.0001 par value (Preferred Shares), of the Company, at a price of \$27.00 per one one-hundredth of a Preferred Share, subject to adjustment. The Rights are not exercisable until the distribution date, and will expire on July 20, 2022, unless the Rights are earlier redeemed or exchanged by us.

On June 14, 2012, John Forney began serving as our Chief Executive Officer and we awarded him 86,990 shares of restricted common stock in connection with his employment with our Company.

On March 14, 2012, our Board declared a \$0.05 per share cash dividend. We paid the \$518,000 dividend on April 5, 2012, to stockholders of record on March 26, 2012.

On November 9, 2011, our Board declared a \$0.05 per share dividend. We paid the \$518,000 dividend on December 15, 2011, to stockholders of record on November 30, 2011.

On October 4, 2011, all outstanding warrants to purchase shares of our common stock expired.

On May 19, 2011, we purchased a total of 212,083 shares of our common stock at a per-share price of \$2.00. Inclusive of fees and commissions, we paid a total of \$431,000, or \$2.03 per share.

## 17) STOCK-BASED COMPENSATION

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

Share-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 share-based compensation cost over the award's requisite service period on a straight-line basis for time-based restricted stock grants.

We granted 10,476 restricted stock awards during the twelve-month period ended December 31, 2013, which had a weighted-average grant date fair value of \$7.64 per share. We granted 86,990 shares of restricted stock during the twelve-month period ended December 31, 2012, which had a weighted-average grant date fair value of \$5.25.

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The following table presents certain information related to non-vested shares:

|                                     | Non-Vested Shares   |                                           |
|-------------------------------------|---------------------|-------------------------------------------|
|                                     | Number of<br>Shares | Weighted Average<br>Grant Date Fair Value |
| Outstanding as of December 31, 2012 | 86,990              | \$5.25                                    |
| Granted                             | 10,476              | 7.64                                      |
| Vested                              | 17,398              | 5.25                                      |
| Outstanding as of December 31, 2013 | 80,068              | \$5.56                                    |

We have approximately \$347,000 of unrecognized stock compensation expense related to non-vested compensation granted, which we expect to recognize over the next three and a half years. We recognized \$133,000 and \$55,000 of compensation expense during the twelve months ended December 31, 2013 and 2012, respectively.

#### 18) SUBSEQUENT EVENTS

We evaluate all subsequent events and transactions for potential recognition or disclosure in our financial statements.

On February 4, 2014, our insurance affiliate filed for a 17.0% average rate increase on all new and renewal homeowner business written in Rhode Island, which is currently pending approval by the state regulatory authority.

On February 12, 2014, our insurance affiliate filed for a 4.3% average rate increase on all new and renewal homeowner business written in Florida, which is currently pending approval by the state regulatory authority.

On February 24, 2014, our Board of Directors declared a \$0.04 per share quarterly cash dividend payable on March 21, 2014, to stockholders of record on March 14, 2014.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure 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 to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. Internal control over financial reporting includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth in the Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on the criteria set forth in the Internal Control-Integrated Framework, our management believes that as of December 31, 2013, our internal control over our financial reporting is effective.

McGladrey LLP, our independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K, has issued their attestation report on our internal control over financial reporting, which is included herein.

### Changes in Internal Control over Financial Reporting

During the fiscal quarter ended December 31, 2013, 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.

### Limitations on Controls

Because of the inherent limitations of internal controls, we do not expect our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that our

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objectives will be met. Further, no evaluation of controls can provide absolute assurance that we will prevent all misstatements due to error or fraud or that we will detect all control issues and instances of fraud, if any, within our company.

Item 9B. Other Information

None.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

United Insurance Holdings Corp.

We have audited United Insurance Holding Corp. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, United Insurance Holdings Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Insurance Holdings Corp. and subsidiaries as of December 31, 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the year then ended, and our report dated February 24, 2014 expressed an unqualified opinion.

/s/ McGladrey LLP

Raleigh, North Carolina

February 24, 2014





UNITED INSURANCE HOLDINGS CORP.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Other than the information regarding our Code of Conduct and Ethics set forth below, all information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2014 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2013.

CODE OF CONDUCT AND ETHICS

We have adopted a code of ethics (our Code of Conduct and Ethics) that applies to our officers, directors and employees, including our principal executive officer and our principal financial and accounting officer, in accordance with applicable federal securities laws. We have filed a copy of our Code of Conduct and Ethics with the SEC (filed as Exhibit 14 to the Form S-1, Registration No. 333-143466, filed June 4, 2007). This document may be reviewed by accessing our public filings at the SEC's web site at [www.sec.gov](http://www.sec.gov). In addition, a copy of our Code of Conduct and Ethics will be provided without charge upon written request submitted to us via regular mail or via electronic mail to [investorrelations@upcinsurance.com](mailto:investorrelations@upcinsurance.com). We intend to post notice of any waiver from, or amendment to, any provision in our Code of Conduct and Ethics on our website at [www.upcinsurance.com](http://www.upcinsurance.com).

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2014 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2013.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding our equity compensation plans is incorporated herein by reference to Item 5 of Part II of this Form 10-K. All other information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2014 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2013.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2014 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2013.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2014 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2013.



UNITED INSURANCE HOLDINGS CORP.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Report:

(1) Consolidated Financial Statements. In Part II, Item 8, we have included our consolidated financial statements, the notes thereto and the report of the Independent Registered Public Accounting Firm.

(2) Financial Statement Schedules. Schedule I – Summary of Investments, Schedule IV – Reinsurance, and Schedule V – Valuation and Qualifying Accounts are filed as a part hereof along with the related report of the Independent Registered Public Accounting Firm included in Part II, Item 8. All other schedules have been omitted because the information required to be set forth therein is not applicable or is included in the consolidated financial statements or notes thereto.

(3) Exhibits. We hereby file as part of this Annual Report on Form 10-K the Exhibits listed on the attached Exhibit Index. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference facilities maintained by the SEC, 100 F Street, N.E., Room 1580, Washington D.C. 20549, at prescribed rates or on the SEC website at [www.sec.gov](http://www.sec.gov).

## UNITED INSURANCE HOLDINGS CORP.

## SCHEDULE I. SUMMARY OF INVESTMENTS

|                                                      | December 31, 2013         |            | Amount Shown<br>in Consolidated<br>Balance Sheet |
|------------------------------------------------------|---------------------------|------------|--------------------------------------------------|
|                                                      | Cost or<br>Amortized Cost | Fair Value |                                                  |
| <b>Bonds:</b>                                        |                           |            |                                                  |
| U.S. government, government agencies and authorities | \$98,621                  | \$97,480   | \$97,480                                         |
| Foreign governments                                  | 3,287                     | 3,227      | 3,227                                            |
| States, municipalities and political subdivisions    | 45,556                    | 45,777     | 45,777                                           |
| Public utilities                                     | 9,103                     | 9,133      | 9,133                                            |
| All other corporate bonds                            | 118,084                   | 117,407    | 117,407                                          |
| Total fixed maturities                               | 274,651                   | 273,024    | 273,024                                          |
| <b>Common stocks:</b>                                |                           |            |                                                  |
| Public utilities                                     | 804                       | 807        | 807                                              |
| Industrial, miscellaneous and all other              | 12,749                    | 14,546     | 14,546                                           |
| Nonredeemable preferred stocks                       | 272                       | 249        | 249                                              |
| Total equity securities                              | 13,825                    | 15,602     | 15,602                                           |
| Other long-term investments                          | 300                       | 300        | 300                                              |
| Total investments                                    | \$288,776                 | \$288,926  | \$288,926                                        |

## UNITED INSURANCE HOLDINGS CORP.

## SCHEDULE IV. REINSURANCE

| Years Ended December 31, | Property and Casualty Insurance |                                            |                                                |           | Net Premiums<br>Written | Percentage of                 |  |
|--------------------------|---------------------------------|--------------------------------------------|------------------------------------------------|-----------|-------------------------|-------------------------------|--|
|                          | Direct<br>Premium<br>Written    | Premiums<br>Ceded to<br>Other<br>Companies | Premiums<br>Assumed<br>from Other<br>Companies |           |                         | Premiums<br>Assumed to<br>Net |  |
| 2013                     | \$339,765                       | 124,682                                    | 41,587                                         | \$256,670 | 16.2                    | %                             |  |
| 2012                     | 254,913                         | 113,234                                    | (4                                             | ) 141,675 | —                       | %                             |  |
| 2011                     | 199,606                         | 93,418                                     | 4,200                                          | 110,388   | 3.8                     | %                             |  |

UNITED INSURANCE HOLDINGS CORP.

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SCHEDULE V. VALUATION AND QUALIFYING ACCOUNTS

| Years Ended December 31, | Uncollectible Premium Liability      |                                     |            | Balance at<br>End of<br>Period |
|--------------------------|--------------------------------------|-------------------------------------|------------|--------------------------------|
|                          | Balance at<br>Beginning of<br>Period | Charged to<br>Costs and<br>Expenses | Deductions |                                |
| 2013                     | \$24                                 | 21                                  | (16 )      | \$29                           |
| 2012                     | 77                                   | 16                                  | (69 )      | 24                             |
| 2011                     | 61                                   | 16                                  | —          | 77                             |

## UNITED INSURANCE HOLDINGS CORP.

## EXHIBIT INDEX

| Exhibit | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1     | Second Amended and Restated Certificate of Incorporation (as amended to include the Certificate of Designations, Powers, Preferences and Rights of Series A Junior Participating Preferred Stock of United Insurance Holdings Corp.) (filed as exhibit 3.1 to the Form 10-Q filed on August 8, 2012, and incorporated herein by reference).                                                                                                                                                |
| 3.2     | Bylaws (included as exhibit 3.3 to the Form S-1 (Registration No. 333-143466), filed June 4, 2007, and incorporated herein by reference).                                                                                                                                                                                                                                                                                                                                                  |
| 4.1     | Specimen Common Stock Certificate (included as exhibit 4.2 to Amendment No. 1 to Post-Effective Amendment No. 1 on Form S-3 (Registration No. 333-150327), filed on December 23, 2008, and incorporated herein by reference).                                                                                                                                                                                                                                                              |
| 4.2     | Registration Rights Agreement, dated October 4, 2007, by and among FMG Acquisition Corp. and the investors named therein (included as exhibit 10.4 to the Form 8K, filed October 12, 2007, and incorporated herein by reference).                                                                                                                                                                                                                                                          |
| 4.3     | Rights Agreement, dated as of July 20, 2012, between United Insurance Holdings Corp and Continental Stock Transfer & Trust Company, which includes as Exhibit A thereto a summary of the terms of the Series A Junior Participating Preferred Stock, as Exhibit B thereto the Form of Right Certificate, and as Exhibit C thereto the Summary of Rights to Purchase Preferred Shares (included as Exhibit 4.1 to the Form 8-A filed July 23, 2012, and incorporated herein by reference.). |
| 10.1    | Investment Management Agreement between United Property & Casualty Insurance Company and Synovus Trust Company, dated October 8, 2003 (included as exhibit 10.18 to the Form S-4/A (Registration No. 333-150327), filed June 13, 2008, and incorporated herein by reference).                                                                                                                                                                                                              |
| 10.2    | Insurance Capital Build-up Incentive Program Surplus Note between United Property & Casualty Insurance Company and the State Board of Administration of Florida dated September 22, 2006 (included as exhibit 10.31 to the Form S-4/A (Registration No. 333-150327), filed June 13, 2008, and incorporated herein by reference).                                                                                                                                                           |
| 10.3    | Master Business Process Outsourcing Services Agreement between United Insurance Management, LLC and Computer Sciences Corporation, dated March 11, 2008 (included as exhibit 10.24 to the Form S-4/A (Registration No. 333-150327), filed June 13, 2008, and incorporated herein by reference).                                                                                                                                                                                            |
| 10.4    | Addendum Number One to Insurance Capital Build-Up Incentive Program Surplus Note, dated November 7, 2008 and effective July 1, 2008, between the State Board of Administration of Florida and United Property & Casualty Insurance Company (included as exhibit 10.1 to the Form 8-K, filed November 12, 2008, and incorporated herein by reference).                                                                                                                                      |
| 10.5    | Federal Income Tax Allocation Agreement between United Insurance Holdings Corp., United Insurance Management, L.C., Skyway Claims Services, LLC, United Property & Casualty Insurance Company, and UPC Re dated July 1, 2012 (filed as exhibit 10.11 to the Form 10-Q filed on August 8,                                                                                                                                                                                                   |

2012, and incorporated herein by reference).

10.6 Promissory Note dated March 30, 2011, issued by HRM Acquisition Corp. to United Property and Casualty Insurance Company (included as exhibit 10.1 to the Form 10-Q, filed May 11, 2011, and incorporated herein by reference).

10.7 Note Purchase Agreement dated March 30, 2011, between HRM Acquisition Corp. and United Property and Casualty Insurance Company (included as exhibit 10.2 to the Form 10-Q, filed May 11, 2011, and incorporated herein by reference).

10.8 Agreement of Limited Partnership dated March 30, 2011, between Acadia GP, LLC (in its capacity as a general partner of Acadia Acquisition Partners, L.P.) and limited partners (including United Property and Casualty Insurance Company) (included as exhibit 10.3 to the Form 10-Q, filed May 11, 2011, and incorporated herein by reference).

10.9 PR-M Non-Bonus Assumption Agreement dated March 3, 2011 between Citizens Property Insurance Corporation and United Property and Casualty Insurance Company (included as exhibit 10.4 to the Form 10-Q, filed May 11, 2011, and incorporated herein by reference).



UNITED INSURANCE HOLDINGS CORP.

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| Exhibit   | Description                                                                                                                                                                                                                                                                                                             |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.10     | Florida Hurricane Catastrophe Fund Reimbursement Contract between United Property & Casualty Insurance Company and the State Board of Administration of Florida and including Addenda 1, effective June 1, 2013 (included as exhibit 10.1 to the Form 8-K filed on June 5, 2013, and incorporated herein by reference). |
| 10.11     | Form of Property Catastrophe Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and Various Reinsurance Companies, effective June 1, 2013 (included as Exhibit 10.2 to the Form 8-K filed on June 5, 2013, and incorporated herein by reference).                                |
| 10.12     | Form of Two-Year Property Catastrophe Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and Various Reinsurance Companies, effective June 1, 2013 (included as Exhibit 10.3 to the Form 8-K filed on June 5, 2013, and incorporated herein by reference).                       |
| 10.13     | Form of Property Catastrophe Aggregate Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and Various Reinsurance Companies, effective June 1, 2013 (included as Exhibit 10.4 to the Form 8-K filed on June 5, 2013, and incorporated herein by reference).                      |
| 10.14     | Property Per Risk Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and Various Reinsurance Companies, effective January 1, 2014.                                                                                                                                               |
| 10.15     | Assumption Agreement between Sunshine State Insurance Company and United Property & Casualty Insurance Company, effective July 1, 2010 (included as exhibit 10.7 to the Form 10-Q, filed August 9, 2010, and incorporated herein by reference).                                                                         |
| 10.16 (a) | Management Services Agreement between United Insurance Management, L.C. and 1347 Advisors, LLC, effective August 29, 2011 (included as exhibit 10.1 to the Form 10-Q, filed November 9, 2011, and incorporated herein by reference).                                                                                    |
| 10.17 (a) | Continuing Employment and Senior Advisor Agreement between United Insurance Holdings Corp. and Don Cronin effective November 1, 2011 (included as exhibit 10.19 to the Form 10-K, filed March 13, 2012, and incorporated herein by reference).                                                                          |
| 10.18 (a) | Termination Agreement and Release, dated as of April 2, 2012, between 1347 Advisors LLC, and United Insurance Management, L.C. (included as exhibit 10.1 to the Form 8-K filed on April 4, 2012, and incorporated herein by reference).                                                                                 |
| 10.19 (a) | Employment Agreement between United Insurance Holdings Corp. and Mr. John Forney, dated June 8, 2012 (included as Exhibit 10.1 to the Form 8-K, filed June 12, 2012, and incorporated herein by reference).                                                                                                             |
| 10.20 (a) | First Amendment to Employment Agreement between United Insurance Holdings Corp. and Mr. John Forney, dated June 12, 2012 (included as Exhibit 10.2 to the Form 8-K filed on June 12, 2012, and incorporated herein by reference).                                                                                       |
| 10.21 (a) |                                                                                                                                                                                                                                                                                                                         |

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Restricted Stock Award Agreement, dated September 14, 2012, by and between United Insurance Holdings Corp. and John Forney (included as Exhibit 10.1 to the Form 8-K, filed September 14, 2012, and incorporated herein by reference).

- 10.22 Form of Indemnification Agreement between United Insurance Holdings Corp. and its Directors (included as Exhibit 10.1 to the Form 8-K, filed October 10, 2012, and incorporated herein by reference).
- 10.23 (a) Employment Agreement, dated November 5, 2012, between United Insurance Management, L.C. and John Langowski (filed as Exhibit 10.1 to the Form 8-KA filed on November 8, 2012, and incorporated herein by reference).
- 10.24 (a) Employment Agreement between United Insurance Holdings Corp. and Mr. B. Bradford Martz, dated October 31, 2012 and effective October 1, 2012 (filed as Exhibit 10.1 to the Form 8-KA filed on November 6, 2012, and incorporated herein by reference).
- 10.25 Assumption Agreement between Citizens and United Property Casualty Insurance Company, effective November 20, 2012 (filed as Exhibit 10.1 to the Form 10-Q, filed May 8, 2013, and incorporated herein by reference).
- 10.26 (a) Restricted Stock Award Agreement, dated May 28, 2013, by and between United Insurance Holdings Corp. and B. Bradford Martz (included as Exhibit 10.1 to the Form 8-K, filed July 12, 2013, and incorporated herein by reference).
- 10.27 (a) Employment Agreement, dated July 8, 2013, between United Insurance Holdings Corp. and Jay Williams (included as Exhibit 10.1 to the Form 8-K filed on July 12, 2013, and incorporated herein by reference).

UNITED INSURANCE HOLDINGS CORP.

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| Exhibit   | Description                                                                                                                                                                                                                              |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.28 (a) | Employment Agreement, dated July 10, 2013 between United Insurance Holdings Corp. and Deepak Menon (included as Exhibit 10.1 to the Form 8-K filed on July 11, 2013, and incorporated herein by reference).                              |
| 10.29 (a) | Employment Agreement, dated August 26, 2013 between United Insurance Holdings Corp. and Andrew Swenson (included as Exhibit 10.1 to the Form 8-K filed on August 26, 2013, and incorporated herein by reference).                        |
| 10.30 (a) | Restricted Stock Award Agreement, dated September 13, 2013, by and between United Insurance Holdings Corp. and Andrew Swenson (included as Exhibit 10.6 to the Form 10-Q, filed November 7, 2013, and incorporated herein by reference). |
| 10.31 (a) | Restricted Stock Award Agreement, dated September 13, 2013, by and between United Insurance Holdings Corp. and Deepak Menon (included as Exhibit 10.7 to the Form 10-Q, filed November 7, 2013, and incorporated herein by reference).   |
| 10.32 (a) | Form of Restricted Stock Award under the United Insurance Holdings Corp. 2013 Omnibus Incentive Plan (included as Exhibit 10.1 to the Form 8-K, filed September 30, 2013, and incorporated herein by reference).                         |
| 10.33 (a) | Employment Agreement, dated February 5, 2014 between United Insurance Holdings Corp. and Kimberly Salmon (included as Exhibit 10.1 to the Form 8-K filed on February 6, 2014, and incorporated herein by reference).                     |
| 10.34 (a) | United Insurance Holdings Corp. 2013 Omnibus Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy statement for its 2013 Annual Meeting, filed on April 16, 2013).                                  |
| 14.1      | Code of Conduct and Ethics (included as exhibit 14 to the Form S-1 (Registration No. 333-143466), filed June 4, 2007, and incorporated herein by reference).                                                                             |
| 21.1      | Subsidiaries of United Insurance Holdings Corp.                                                                                                                                                                                          |
| 23.1      | Consent of McGladrey LLP.                                                                                                                                                                                                                |
| 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

(a) Indicates management contract or compensatory plan

## UNITED INSURANCE HOLDINGS CORP.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 24, 2014

By: /s/ John L. Forney  
 Name: John L. Forney  
 Title: Chief Executive Officer  
 (principal executive officer and duly  
 authorized officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

|                                                    |                                                                                  |                   |
|----------------------------------------------------|----------------------------------------------------------------------------------|-------------------|
| /s/ John L. Forney<br>John L. Forney               | President, Chief Executive Officer and Director<br>(principal executive officer) | February 24, 2014 |
| /s/ B. Bradford Martz<br>B. Bradford Martz         | Chief Financial Officer<br>(principal financial and accounting officer)          | February 24, 2014 |
| /s/ Gregory C. Branch<br>Gregory C. Branch         | Chairman of the Board                                                            | February 24, 2014 |
| /s/ Kern M. Davis, M.D.<br>Kern M. Davis, M.D.     | Director                                                                         | February 24, 2014 |
| /s/ William H. Hood, III<br>William H. Hood, III   | Director                                                                         | February 24, 2014 |
| /s/ Alec L. Poitevint, II<br>Alec L. Poitevint, II | Director                                                                         | February 24, 2014 |
| /s/ Kent G. Whittemore<br>Kent G. Whittemore       | Director                                                                         | February 24, 2014 |
| /s/ Sherrill W. Hudson<br>Sherrill W. Hudson       | Director                                                                         | February 24, 2014 |