

UNITED INSURANCE HOLDINGS CORP.  
Form 10-Q  
November 04, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014  
Commission File Number 001-35761

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

Delaware  
(State of Incorporation)

75-3241967  
(IRS Employer Identification  
Number)

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input 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

As of November 4, 2014; 20,905,070 shares of common stock, par value \$0.0001 per share, were outstanding.



UNITED INSURANCE HOLDINGS CORP.

---

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements	<u>4</u>
Consolidated Balance Sheets	<u>4</u>
Unaudited Consolidated Statements of Comprehensive Income	<u>5</u>
Unaudited Consolidated Statements of Cash Flows	<u>6</u>
Notes to Unaudited Consolidated Financial Statements	<u>7</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>22</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>35</u>
Item 4. Controls and Procedures	<u>37</u>

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	<u>38</u>
Item 1A. Risk Factors	<u>38</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>39</u>
Item 3. Defaults Upon Senior Securities	<u>40</u>
Item 4. Mine Safety Disclosures	<u>40</u>
Item 5. Other Information	<u>40</u>
Item 6. Exhibits	<u>41</u>
Signatures	<u>42</u>

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

UNITED INSURANCE HOLDINGS CORP.

---

## FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q as of September 30, 2014, and for the three and nine months ended September 30, 2014 (Form 10-Q) or in documents incorporated by reference that are not historical fact are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity, and our ability to meet our investment objectives and to manage and mitigate market risk with respect to our investments. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management’s beliefs and assumptions. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue” or the negative variations thereof or comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the regulatory, economic and weather conditions present in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost and availability of reinsurance;
- assessments charged by various governmental agencies;
- pricing competition and other initiatives by competitors;
- our ability to attract and retain the services of senior management;
- the outcome of litigation pending against us, including the terms of any settlements;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- our exposure to catastrophic events and severe weather conditions;
- downgrades in our financial strength ratings; and
- other risks and uncertainties described in the section entitled "Risk Factors" in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2013 and in Part II, Item 1A of this Form 10-Q.

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

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us described in our filings with the SEC. The forward-looking events that we discuss in our Form 10-Q are valid only as of the date of our Form 10-Q and may not occur in light of the risks, uncertainties and assumptions that we describe from time to time in our filings with the SEC. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our forward-looking statements is included in the section entitled “RISK FACTORS” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2013 and in Part II, Item 1A of this Form 10-Q. Except as required by applicable law, we undertake no obligation and disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



## UNITED INSURANCE HOLDINGS CORP.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Consolidated Balance Sheets

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Investments available for sale, at fair value:		
Fixed maturities (amortized cost of \$327,332 and \$274,651, respectively)	\$329,120	\$273,024
Equity securities - common and preferred (adjusted cost of \$19,389 and \$13,825, respectively)	22,176	15,602
Other long-term investments	300	300
Total investments	\$351,596	\$288,926
Cash and cash equivalents	83,318	34,888
Accrued investment income	1,847	1,752
Premiums receivable, net	33,945	26,076
Reinsurance recoverable on paid and unpaid losses	3,697	2,426
Prepaid reinsurance premiums	97,243	55,268
Deferred policy acquisition costs	33,764	25,186
Other assets	7,260	6,708
Total Assets	\$612,670	\$441,230
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Unpaid losses and loss adjustment expenses	\$53,413	\$47,451
Unearned premiums	223,329	193,428
Reinsurance payable	95,460	39,483
Other liabilities	35,062	38,575
Notes payable	13,824	14,706
Total Liabilities	\$421,088	\$333,643
Commitments and contingencies ( <a href="#">Note 7</a> )		
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.0001 par value; 50,000,000 shares authorized; 21,124,554 and 16,421,398 issued; 20,905,070 and 16,209,315 outstanding for 2014 and 2013, respectively	2	2
Additional paid-in capital	81,961	27,800
Treasury shares, at cost; 212,083 shares	(431	) (431 )
Accumulated other comprehensive income	2,807	92
Retained earnings	107,243	80,124
Total Stockholders' Equity	\$191,582	\$107,587
Total Liabilities and Stockholders' Equity	\$612,670	\$441,230

See accompanying Notes to Unaudited Consolidated Financial Statements.



## UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Comprehensive Income  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>REVENUE:</b>				
Gross premiums written	\$ 105,065	\$ 83,601	\$ 322,986	\$ 274,650
Increase in gross unearned premiums	(4,214 )	(3,463 )	(29,901 )	(49,736 )
Gross premiums earned	100,851	80,138	293,085	224,914
Ceded premiums earned	(35,741 )	(31,317 )	(99,757 )	(87,825 )
Net premiums earned	65,110	48,821	193,328	137,089
Investment income	1,807	1,089	4,891	2,644
Net realized losses	(69 )	(38 )	(24 )	(199 )
Other revenue	1,999	1,945	5,863	5,105
Total revenue	68,847	51,817	204,058	144,639
<b>EXPENSES:</b>				
Losses and loss adjustment expenses	30,140	25,578	86,605	69,132
Policy acquisition costs	17,291	13,115	48,668	36,567
Operating expenses	3,086	2,265	8,453	6,944
General and administrative expenses	4,709	4,034	13,394	10,688
Interest expense	98	102	325	255
Total expenses	55,324	45,094	157,445	123,586
Income before other income	13,523	6,723	46,613	21,053
Other income	—	1	16	1
Income before income taxes	13,523	6,724	46,629	21,054
Provision for income taxes	4,883	2,593	17,010	8,063
Net income	\$ 8,640	\$ 4,131	\$ 29,619	\$ 12,991
<b>OTHER COMPREHENSIVE INCOME:</b>				
Change in net unrealized gains (losses) on investments	(1,249 )	365	4,401	(4,011 )
Reclassification adjustment for net realized investment losses	69	38	24	199
Income tax (expense) benefit related to items of other comprehensive income	456	(156 )	(1,710 )	1,470
Total comprehensive income	\$ 7,916	\$ 4,378	\$ 32,334	\$ 10,649
<b>Weighted average shares outstanding</b>				
Basic	20,745,245	16,129,247	19,658,199	16,091,323
Diluted	20,843,603	16,186,178	19,756,411	16,167,316
<b>Earnings per share</b>				
Basic	\$ 0.42	\$ 0.26	\$ 1.51	\$ 0.81
Diluted	\$ 0.41	\$ 0.26	\$ 1.50	\$ 0.80
Dividends declared per share	\$ 0.04	\$ 0.03	\$ 0.12	\$ 0.09

See accompanying Notes to Unaudited Consolidated Financial Statements.





## UNITED INSURANCE HOLDINGS CORP.

Consolidated Statements of Cash Flows  
(Unaudited)

	Nine Months Ended September 30,		
	2014	2013	
<b>OPERATING ACTIVITIES</b>			
Net income	\$29,619	\$12,991	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	518	525	
Bond amortization and accretion	1,101	940	
Net realized losses	24	199	
Provision for uncollectible premiums/over and short	60	38	
Deferred income taxes, net	(1,112	) 1,910	
Stock based compensation	230	96	
Changes in operating assets and liabilities:			
Accrued investment loss	(95	) (640	)
Premiums receivable	(7,929	) (11,969	)
Reinsurance recoverable on paid and unpaid losses	(1,271	) 97	
Prepaid reinsurance premiums	(41,975	) (34,532	)
Deferred policy acquisition costs, net	(8,578	) (9,319	)
Other assets	280	(1,079	)
Unpaid losses and loss adjustment expenses	5,962	5,034	
Unearned premiums	29,901	49,736	
Reinsurance payable	55,977	58,754	
Other liabilities	(3,513	) 6,810	
Net cash provided by operating activities	\$59,199	\$79,591	
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales and maturities of investments available for sale	145,059	95,127	
Purchases of investments available for sale	(204,429	) (193,718	)
Cost of property, equipment and capitalized software acquired	(1,948	) (1,108	)
Net cash used in investing activities	\$(61,318	) \$(99,699	)
<b>FINANCING ACTIVITIES</b>			
Tax withholding payment related to net settlement of equity awards	(110	) —	
Repayments of borrowings	(882	) (882	)
Dividends	(2,500	) (1,458	)
Bank overdrafts	—	1,970	
Proceeds from issuance of common stock	54,041	3,591	
Net cash provided by financing activities	\$50,549	\$3,221	
Increase (decrease) in cash	48,430	(16,887	)
Cash and cash equivalents at beginning of period	34,888	71,205	
Cash and cash equivalents at end of period	\$83,318	\$54,318	
<b>Supplemental Cash Flows Information</b>			
Interest paid	\$301	\$240	
Income taxes paid	\$21,464	\$7,184	

See accompanying Notes to Unaudited Consolidated Financial Statements.



UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

1) ORGANIZATION, CONSOLIDATION AND PRESENTATION

(a)Business

United Insurance Holdings Corp. (referred to in this document as we, our, us, the Company or UPC Insurance) is a property and casualty insurance holding company that sources, writes, and services residential 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, and we are licensed to write in Connecticut, Delaware, Georgia, Louisiana, Maryland, Mississippi, New Hampshire and Virginia. Our insurance affiliate has also applied to insurance regulatory authorities to write property and casualty lines in two additional states.

We conduct our operations under one business segment.

(b)Consolidation and Presentation

We prepare our financial statements in conformity with U.S. generally accepted accounting principles (GAAP). While preparing our financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the 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 Unaudited Consolidated Balance Sheets and Unaudited Consolidated Statements of Comprehensive Income, we generally use the term loss(es) to collectively refer to both loss and loss adjustment expenses.

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

We prepared the accompanying Unaudited Consolidated Balance Sheet as of September 30, 2014, with the Audited Consolidated Balance Sheet amounts as of December 31, 2013, presented for comparative purposes, and the related Unaudited Consolidated Statements of Comprehensive Income and Statements of Cash Flows in accordance with the instructions for Form 10-Q and Article 10-01 of Regulation S-X. In compliance with those instructions, we have omitted certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP, though management believes the disclosures made herein are sufficient to ensure that the information presented is not misleading.

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

We reclassified certain amounts in the 2013 financial statements to conform to the 2014 presentation. These reclassifications had no impact on our results of operations, cash flows or stockholders' equity as previously reported.

Management believes our unaudited consolidated interim financial statements include all the normal recurring adjustments necessary to fairly present our Unaudited Consolidated Balance Sheet as of September 30, 2014, our Unaudited Consolidated Statements of Comprehensive Income and our Unaudited Consolidated Statements of Cash Flows for all periods presented. Our unaudited consolidated interim financial statements and footnotes should be read in conjunction with our consolidated financial statements and footnotes included within our Annual Report filed on Form 10-K for the year ended December 31, 2013 (2013 Form 10-K).

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

2) SIGNIFICANT ACCOUNTING POLICIES

(a) Changes to significant accounting policies

We have made no material changes to our significant accounting policies as reported in our 2013 Form 10-K.

(b) Fair value assumptions

The carrying amounts for the following financial instrument categories approximate their fair values at September 30, 2014 and December 31, 2013, because of their short-term nature: cash and cash equivalents, accrued investment income, premiums receivable, reinsurance recoverable, reinsurance payable, accounts payable and accrued expenses. The carrying amount of notes payable approximates fair value as the interest rate is variable.

(c) Pending Accounting Pronouncements

We have evaluated pending accounting pronouncements and do not believe they would have an impact on the operations or financial reporting of our Company.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

### 3) INVESTMENTS

The following table details the difference between cost or adjusted/amortized cost and estimated fair value, by major investment category, at September 30, 2014 and December 31, 2013:

	Cost or Adjusted/Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
U.S. government and agency securities	\$ 123,666	\$ 101	\$ 822	\$ 122,945
Foreign government	3,278	41	—	3,319
States, municipalities and political subdivisions	80,077	1,477	227	81,327
Public utilities	9,059	229	41	9,247
Corporate securities	110,839	1,442	404	111,877
Redeemable preferred stocks	413	—	8	405
Total fixed maturities	327,332	3,290	1,502	329,120
Public utilities	996	62	8	1,050
Other common stocks	17,660	2,918	185	20,393
Non-redeemable preferred stocks	733	3	3	733
Total equity securities	19,389	2,983	196	22,176
Other long-term investments	300	—	—	300
Total investments	\$ 347,021	\$ 6,273	\$ 1,698	\$ 351,596
December 31, 2013				
U.S. government and agency securities	\$ 98,621	\$ 28	\$ 1,169	\$ 97,480
Foreign government	3,287	—	60	3,227
States, municipalities and political subdivisions	45,556	654	433	45,777
Public utilities	9,103	122	92	9,133
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
Other common stocks	12,749	1,894	97	14,546
Non-redeemable 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

We classify all of our investments as available-for-sale. Our investments at September 30, 2014 and December 31, 2013 consisted mainly of U.S. government and agency securities, states, municipalities and political subdivisions and securities of investment-grade corporate issuers. Our equity holdings consisted mainly of securities issued by companies in the energy, consumer products, technology and industrial sectors.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

When we sell investments, we calculate the gain or loss realized on the sale by comparing the sales price (fair value) to the cost or adjusted/amortized cost of the security sold. We determine the cost or adjusted/amortized cost of the security sold using the specific-identification method. The following table details our realized gains (losses) by major investment category for the three and nine month periods ended September 30, 2014 and 2013:

	2014		2013	
	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale
Three Months Ended September 30,				
Fixed maturities	\$2	\$333	\$2	\$6,007
Equity securities	2	44,024	—	—
Total realized gains	4	44,357	2	6,007
Fixed maturities	(73	) 2,270	(40	) 4,078
Equity securities	—	—	—	—
Total realized losses	(73	) 2,270	(40	) 4,078
Net realized investment losses	\$(69	) \$46,627	\$(38	) \$10,085
Nine Months Ended September 30,				
Fixed maturities	\$23	\$1,453	\$30	\$20,134
Equity securities	174	111,075	31	155
Total realized gains	197	112,528	61	20,289
Fixed maturities	(150	) 4,823	(258	) 42,725
Equity securities	(71	) 1,013	(2	) 28
Total realized losses	(221	) 5,836	(260	) 42,753
Net realized investment losses	\$(24	) \$118,364	\$(199	) \$63,042

The table below summarizes our fixed maturities by their contractual due dates at September 30, 2014. We summarize our fixed maturities by their contractual due dates with the exception of our collateralized mortgage obligations which we summarize by their effective maturity dates. 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.

	September 30, 2014					
	Cost or Amortized Cost	Percent of Total		Fair Value	Percent of Total	
Due in one year or less	\$45,915	14.0	%	\$45,973	14.0	%
Due after one year through five years	160,295	49.0		160,318	48.7	
Due after five years through ten years	113,271	34.6		114,693	34.8	
Due after ten years	7,851	2.4		8,136	2.5	
Total	\$327,332	100.0	%	\$329,120	100.0	%



UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Fixed maturities	\$1,611	\$983	\$4,237	\$2,426
Equity securities	171	93	537	174
Cash, cash equivalents and short-term investments	2	8	7	28
Other investments	23	5	110	16
Investment income	1,807	1,089	4,891	2,644
Investment expenses	(79 )	(40 )	(227 )	(159 )
Net investment income	\$1,728	\$1,049	\$4,664	\$2,485

#### Portfolio monitoring

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

For each fixed maturity 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 maturity security and it is not more likely than not that we will be required to sell the fixed maturity 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 maturity 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, if we have decided to sell an equity security whose fair value is less than its cost and we do not expect the fair value to fully recover before the expected time of the sale, then the equity security's decline in fair value is considered other-than-temporary and is recorded in earnings.

Our portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its cost or amortized cost (for fixed income securities) or cost (for equity securities) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which we may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in our evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition and future earnings potential of the issue or issuer. Some of the factors that may be considered in evaluating whether a decline in fair value is other-than-temporary are: (1) the financial condition, near-term and long-term prospects of the

issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; (2) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and (3) the length of time and extent to which the fair value has been less than amortized cost or cost.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

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
September 30, 2014						
U.S. government and agency securities	51	\$355	\$110,191	19	\$467	\$16,797
States, municipalities and political subdivisions	20	120	20,131	9	107	11,817
Public utilities	—	—	—	1	41	1,012
Corporate securities	12	45	12,151	16	359	20,199
Redeemable preferred stocks	3	8	304	—	—	—
Total fixed maturities	86	528	142,777	45	974	49,825
Public utilities	8	7	301	1	1	28
Common stocks	55	165	3,822	1	20	285
Non-redeemable preferred stocks	2	2	200	1	1	128
Total equity securities	65	174	4,323	3	22	441
Total	151	\$702	\$147,100	48	\$996	\$50,266
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	—	—	—
Corporate securities	49	1,469	60,348	—	—	—
Total fixed maturities	127	2,904	158,880	7	319	5,913
Public utilities	5	20	357	—	—	—
Common stocks	15	97	1,626	—	—	—
Non-redeemable 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

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

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

intend to sell these securities until their value equals or exceeds their cost.

During the three and nine months ended September 30, 2014 and 2013, we recorded no other-than-temporary impairment charges related to our equity positions. We have never recorded an OTTI charge on our fixed maturity investments.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

The following table presents the fair value of our financial instruments measured on a recurring basis by level at September 30, 2014 and December 31, 2013:

	Total	Level 1	Level 2
September 30, 2014			
U.S. government and agency securities	\$122,945	\$—	\$122,945
Foreign governments	3,319	—	3,319
States, municipalities and political subdivisions	81,327	—	81,327
Public utilities	9,247	—	9,247
Corporate securities	111,877	—	111,877
Redeemable preferred stocks	405	405	—
Total fixed maturities	329,120	405	328,715
Public utilities	1,050	1,050	—
Common stocks	20,393	20,393	—
Non-redeemable preferred stocks	733	733	—
Total equity securities	22,176	22,176	—
Other long-term investments	300	300	—
Total investments	\$351,596	\$22,881	\$328,715
December 31, 2013			
U.S. government and agency securities	\$97,480	\$—	\$97,480
Foreign government	3,227	—	3,227
States, municipalities and political subdivisions	45,777	—	45,777
Public utilities	9,133	—	9,133
Corporate securities	117,407	—	117,407
Total fixed maturities	273,024	—	273,024
Public utilities	807	807	—
Common stocks	14,546	14,546	—
Non-redeemable 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

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 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.

13

---

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

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. Our estimates of fair value reflect the interest rate environment that existed as of the close of business on September 30, 2014 and December 31, 2013, respectively. Changes in interest rates subsequent to September 30, 2014 may affect the fair value of our investments.

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.

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 three and nine months ended September 30, 2014.

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

#### Limited partnerships

On September 27, 2013, we acquired an investment in RCH Mortgage Fund VII Investors, LP (RCH), a limited partnership, recorded in other assets, that is currently being accounted for at cost. Our total investment in RCH of \$1,000,000, which has been reduced by our proportionate share of the partnership's losses, is currently bifurcated between a capital contribution of \$460,000 and a note receivable plus accrued interest of \$525,000 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 RCH is still in the acquisition phase, the cost basis of our investment approximated its fair value of \$985,000 at September 30, 2014.

On October 10, 2014, RCH issued a capital call notice and applied our \$500,000 note receivable to our capital account to fully fund our obligation to the limited partnership. RCH also remitted the \$25,000 of unpaid interest on the note receivable.

On September 25, 2012, we acquired an investment in DCR Mortgage Partners VI, LP (DCR), a limited partnership, recorded in other assets, that is currently being accounted for at cost. Our total investment in DCR is \$750,000, which has been increased by our proportional share of the partnership income, and reduced by return of capital and tax distributions received during the nine months ended September 30, 2014 totaling \$8,000, is currently bifurcated between capital contributions of \$562,000 and a note receivable of \$188,000 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 DCR is still in the acquisition phase, the cost basis of our investment approximated its fair value of \$750,000 at September 30, 2014.

On October 15, 2014, DCR issued a capital call notice and applied our \$188,000 note receivable to our capital account to fully fund our obligation to the limited partnership.



UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

#### Other investments

On October 31, 2013, we entered into a participation agreement with United Capital Funding (UC Funding), that was recorded in other assets, at cost. We invested \$1,000,000 in cash with UC Funding which they utilized to factor receivables from another company. During the first quarter of 2014, UC Funding returned our investment and all interest earned as they were unable to fully utilize our investment.

#### 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 awards. The following table shows the computation of basic and diluted EPS for the three and nine month periods ended September 30, 2014 and September 30, 2013, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator:				
Net income attributable to common stockholders	\$8,640	\$4,131	\$29,619	\$12,991
Denominator:				
Weighted-average shares outstanding	20,745,245	16,129,247	19,658,199	16,091,323
Effect of dilutive securities	98,358	56,931	98,212	75,993
Weighted-average diluted shares	20,843,603	16,186,178	19,756,411	16,167,316
Basic earnings per share	\$0.42	\$0.26	\$1.51	\$0.81
Diluted earnings per share	\$0.41	\$0.26	\$1.50	\$0.80

See [Note 11](#) for additional information on the stock grants related to dilutive securities.

#### 5) REINSURANCE

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

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

During the second quarter of 2014, we placed our reinsurance program for the 2014 treaty year beginning June 1, 2014 and ending on May 31, 2015. The agreements incorporate the mandatory coverage required by and placed with the Florida Hurricane Catastrophe Fund (FHCF). The FHCF is a Florida State-sponsored trust fund that provides reimbursement in Florida against storms that the National Hurricane Center designates as hurricanes. The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes. For the 2014 hurricane season, our insurance affiliate purchased catastrophe excess of loss reinsurance protection of \$1,080,200,000 excess \$25,000,000 providing sufficient protection for approximately a one-in-185 year hurricane event as calculated by our licensed modeling software, AIR model version 15 using long-term event rates excluding demand surge. For a single hurricane catastrophe, our insurance affiliate will pay, or “retain”, the first 70% of losses up to \$25,000,000 (\$17,500,000) and an affiliated reinsurer will pay the remaining 30% of losses up to \$25,000,000 (\$7,500,000). The catastrophe excess of loss reinsurance program provides 100% coverage for all losses in excess of \$25,000,000 up to \$1,080,200,000.

Our agreement with the FHCF consists of a single layer of coverage, the mandatory layer. Under the agreement, we estimate the FHCF will provide approximately \$555,200,000 of aggregate coverage for covered losses in excess of \$230,800,000. The initial premium for the FHCF agreement is approximately \$41,700,000.

The 2014 private catastrophe excess of loss reinsurance agreements structure coverage into layers, with a cascading feature such that all layers attach at \$25,000,000. If the aggregate limit of the preceding layer is exhausted, the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted. The 2014 catastrophe excess of loss reinsurance agreements with unaffiliated private reinsurers provide \$525,000,000 of aggregate coverage for covered losses in excess of \$25,000,000. Additionally, our insurance affiliate purchased a dedicated second event cover with recovery potential in subsequent events providing 100% coverage for losses of \$15,000,000 excess \$10,000,000, subject to an annual aggregate deductible of \$15,000,000. The total cost of the 2014 private catastrophe excess of loss reinsurance program is \$90,600,000. Certain parts of the reinsurance program provide coverage for two years. All private insurers with whom our insurance affiliate contracted either carry A.M. Best financial strength ratings of A- or higher, or have fully collateralized their maximum potential obligations in dedicated trusts.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Excess-of-loss	\$4,642	\$1,190	\$(126,632)	\$(109,893)
Equipment & Identity Theft	(1,221 )	(707 )	(3,138 )	(1,862 )
Flood	(4,509 )	(3,951 )	(11,961 )	(10,602 )
Ceded premiums written	\$(1,088 )	\$(3,468 )	\$(141,731)	\$(122,357)
Increase (decrease) in ceded unearned premiums	(34,653 )	(27,849 )	41,974	34,532
Ceded premiums earned	\$(35,741 )	\$(31,317 )	\$(99,757 )	\$(87,825 )

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

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

	2014			2013			
	Number of Events	Incurred Loss and LAE <sup>(4)</sup>	Combined Ratio Impact	Number of Events	Incurred Loss and LAE <sup>(4)</sup>	Combined Ratio Impact	
Three Months Ended September 30, Current period catastrophe losses incurred							
Less than \$1 million	(1) 3	\$714	1.1	% 3	\$127	0.3	%
Total	3	\$714	1.1	% 3	\$127	0.3	%
Nine Months Ended September 30, Current period catastrophe losses incurred							
\$ 1 million to \$5 million	(2) —	\$—	—	% 1	\$1,904	1.4	%
Less than \$1 million	(3) 3	974	0.5	% 2	1,818	1.3	%
Total	3	\$974	0.5	% 3	\$3,722	2.7	%

(1) Reflects losses from the Richland hailstorm, Hurricane Arthur and the Revere Tornado in 2014 and Winterstorm Nemo, the Orlando weather event in March and Tropical Storm Andrea in June 2013.

(2) Reflects losses from Winterstorm Nemo.

(3) Reflects losses from the Richland hailstorm, Hurricane Arthur and the Revere Tornado in 2014, and the Orlando weather event and Tropical Storm Andrea in 2013.

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

We realized recoveries under our reinsurance agreements totaling \$100,000 and \$241,000 for the three-month periods ended September 30, 2014 and 2013, respectively, and \$1,181,000 and \$1,712,000 for the nine-month periods ended September 30, 2014 and 2013, respectively.

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 our 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 are 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 \$168,000 and \$184,000 for the three-month periods ended September 30, 2014 and 2013, respectively, and \$748,000 and \$452,000 for the nine-month periods ended September 30, 2014 and 2013, respectively.

6) LONG-TERM DEBT

Our long-term debt at September 30, 2014 consisted of a note payable to the Florida State Board of Administration. At September 30, 2014 and December 31, 2013, we owed \$13,824,000 and \$14,706,000, respectively, on the note and the interest rate was 2.54% and 2.64%, respectively. All other terms and conditions of the note remain as described in our 2013 Form 10-K.

The \$13,824,000 note payable to the Florida State Board of Administration (SBA note) requires our insurance affiliate to maintain surplus as regards policyholders at or above a calculated level, which was \$31,862,000 at September 30, 2014. We

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

monitor our insurance affiliate's surplus as regards policyholders each quarter and, for various reasons, we occasionally provide additional capital to our insurance affiliate. During the three and nine month periods ended September 30, 2014 and 2013, we did not contribute any capital to our insurance affiliate. 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 either a 2:1 ratio of net written premium to surplus, or net writing ratio, or a 6:1 ratio of gross written premium to surplus, or gross writing ratio, to avoid additional interest penalties. The SBA note agreement defines surplus for the purpose of calculating the required ratios as the \$20,000,000 of capital contributed to our insurance affiliate under the agreement plus the outstanding balance of the note. At September 30, 2014, our net written premium to surplus ratio was 4.7:1, which is well above the 2:1 required ratio. Our gross written premium to surplus ratio was 9.9:1, which exceeds the required ratio of 6:1. Should we fail to exceed either a net writing ratio of 1.5:1 or a gross writing ratio of 4.5:1, our interest rate will increase by 450 basis points above the 10-year Constant Maturity Treasury rate which was 2.52% at the end of September 2014. Any other writing ratio deficiencies result in an interest rate penalty of 25 basis points above the stated rate of the note, which is 2.54% at the end of September 2014. 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 September 30, 2014, we were in compliance with the covenants of the SBA note.

## 7) 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 6](#) for information regarding commitments related to long-term debt, and [Note 8](#) for commitments related to regulatory actions.

## 8) 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 September 30, 2014, and during the three and nine months then ended, our insurance affiliate met all regulatory requirements of the states in which it operates, and it did not incur any material assessments.

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 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.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

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 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 realizable, and amortize policy acquisition costs over the estimated life of the policies.

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

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

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

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

Statutory accounting requires 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.

Our insurance subsidiary must file with the various insurance regulatory authorities an "Annual Statement" which reports, among other items, net income (loss) and surplus as regards policyholders, which is called stockholder's equity under GAAP. For the three-month periods ended September 30, 2014 and 2013, our insurance affiliate recorded statutory net income of \$4,720,000 and \$2,258,000, respectively, and \$15,981,000 and \$2,888,000 for the nine-month periods ended September 30, 2014 and 2013, respectively. Since our insurance affiliate is domiciled in Florida, it remains subject to the laws of that state, one of which requires that our insurance affiliate maintain capital and surplus equal to the greater of 10% of its total liabilities or \$5,000,000. At September 30, 2014 and December 31, 2013, our insurance affiliate's surplus as regards policyholders was \$95,809,000 and \$78,362,000, respectively.





UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

## 9) 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 our Consolidated Balance Sheets.

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

	Pre-Tax Amount	Tax (Expense)Benefit	Net-of-Tax Amount
December 31, 2013	\$150	\$ (58 )	\$92
Changes in net unrealized gains on investments	4,401	(1,701 )	2,700
Reclassification adjustment for realized losses	24	(9 )	15
September 30, 2014	\$4,575	\$ (1,768 )	\$2,807

## 10) 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 (Board). Our Board, without further approval of the stockholders, is authorized to fix the designations, powers, including voting powers, preferences and the relative, participating optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof. As of September 30, 2014, we had not issued any shares of preferred stock.

On September 25, 2014, our Board awarded 65,000 shares of restricted common stock to non-employee Board members under the terms of our 2013 Omnibus Incentive Plan that was approved by our stockholders at our 2013 Annual Stockholders Meeting. The awards will vest on the earlier of (i) the first anniversary of the grant date or (ii) immediately prior to the first annual meeting of stockholders of the Company that occurs in 2015.

On August 1, 2014, our Board declared a \$0.04 per share quarterly cash dividend. We paid the \$834,000 dividend on August 22, 2014, to stockholders of record on August 15, 2014.

On May 1, 2014, our Board declared a \$0.04 per share quarterly cash dividend. We paid the \$834,000 dividend on May 23, 2014, to stockholders of record on May 16, 2014.

On March 21, 2014, we awarded Kimberly Salmon, General Counsel and Chief Legal Officer, 1,270 shares of restricted common stock in connection with her employment with our Company. Ms. Salmon's shares will vest on the one-year anniversary of her grant date.

On March 18, 2014, we awarded 36,886 shares of restricted common stock to senior management and selected employees under the terms of our 2013 Omnibus Incentive Plan that was approved by our stockholders at our 2013 Annual Stockholders Meeting. The awards were granted as a result of our Company and management team meeting or exceeding the performance targets established by our Board for the fiscal year ended December 31, 2013. The grants will vest in equal installments over the next three years on the anniversary date of the grant date.

On March 5, 2014, we closed an underwritten public offering of 4,600,000 shares of our common stock. Our total net proceeds from the offering were approximately \$54,041,000.

On February 24, 2014, our Board declared a \$0.04 per share quarterly cash dividend. We paid the \$832,000 dividend on March 21, 2014, to stockholders of record on March 14, 2014.

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.

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

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. Mr. Williams' shares vested on October 1, 2014.

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. Messrs. Swenson and Menon's shares vested on September 13, 2014.

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.

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.

#### 11) STOCK-BASED 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 zero and 38,156 restricted stock awards to management and selected employees during the three and nine months ended September 30, 2014, respectively. The year to date restricted stock awards had a weighted-average grant date fair value of \$15.24 per share. During the nine months ended September 30, 2014, 7,401 shares were forfeited. We granted 4,277 and 8,177 restricted stock awards during the three and nine month periods ended September 30, 2013, which had a weighted-average grant date fair value of \$8.77 and \$7.34 per share, respectively.

We also granted 65,000 shares to the non-employee members of the Board during the three and nine months ended September 30, 2014, which had a weighted average grant date fair value of \$13.05 per share.

The following table shows a summary of the shares awarded during the nine month period ended September 30, 2014:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2013	80,068	\$5.56
Granted	103,156	13.86
Forfeited	7,401	7.02

Edgar Filing: UNITED INSURANCE HOLDINGS CORP. - Form 10-Q

Vested	19,485	6.13
Outstanding as of September 30, 2014	156,338	\$10.90

20

---

UNITED INSURANCE HOLDINGS CORP.  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2014

---

We had approximately \$700,000 and \$385,000 of unrecognized stock compensation expense on September 30, 2014 and 2013, respectively, related to non-vested employee compensation granted, which we expect to recognize ratably over the next three years. We recognized \$88,000 and \$40,000 of compensation expense during the three months ended September 30, 2014 and 2013, respectively, and \$209,000 and \$96,000 of compensation expense during the nine months ended September 30, 2014 and 2013, respectively.

We had approximately \$826,000 of unrecognized director compensation expense on September 30, 2014, related to non-vested director compensation granted, which we expect to recognize ratably until the 2015 annual meeting of stockholders. We recognized \$23,000 of director compensation expense during the three and nine months ended September 30, 2014.

## 12) SUBSEQUENT EVENTS

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

On November 4, 2014, our Board of Directors declared a \$0.04 per share quarterly cash dividend payable on November 28, 2014, to stockholders of record on November 21, 2014.

No additional events required disclosure.

UNITED INSURANCE HOLDINGS CORP.

---

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Unaudited Consolidated Financial Statements and related notes appearing elsewhere in this Form 10-Q.

OUR BUSINESS

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

UPC Insurance is primarily engaged in the homeowners property and casualty insurance business in the United States. We currently write in Florida, Massachusetts, New Jersey, North Carolina, Rhode Island, South Carolina and Texas, and we are licensed to write in Connecticut, Delaware, Georgia, Louisiana, Maryland, Mississippi, New Hampshire and Virginia. Our target market currently consists of areas where the perceived threat of natural catastrophe has caused large national insurance carriers to reduce their concentration of policies. In such areas we believe an opportunity exists for UPC Insurance to write profitable business. We manage our risk of catastrophic loss primarily through sophisticated pricing algorithms, avoidance of policy concentration, and the use of a comprehensive catastrophe reinsurance program. UPC Insurance has been operating continuously in Florida since 1999, and has successfully managed its business through various hurricane and other tropical storm events. We believe our record of successful risk management and experience in writing business in catastrophe-exposed areas provides us a competitive advantage as we grow our business in other states facing similar perceived threats.

Overview

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of UPC Insurance. This discussion should be read in conjunction with the consolidated financial statements and related notes found under Part II. Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2013 (2013 Form 10-K).

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

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

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

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

Recent Events

On November 4, 2014, our Board of Directors declared a \$0.04 per share quarterly cash dividend payable on November 28, 2014, to stockholders of record on November 21, 2014.

UNITED INSURANCE HOLDINGS CORP.

---

2014 Highlights

Consolidated net income was \$8,640,000 and \$29,619,000 for the three and nine months ended September 30, 2014, respectively, compared to \$4,131,000 and \$12,991,000 for the three and nine months ended September 30, 2013, respectively.

Net income per diluted share was \$0.41 and \$1.50 for the three and nine months ended September 30, 2014, respectively, compared to \$0.26 and \$0.80 for the three and nine months ended September 30, 2013, respectively.

Our combined ratio (calculated as operating expenses less interest expense relative to net premiums earned) was 84.8% and 81.3% for the three and nine months ended September 30, 2014, respectively, compared to 92.2% and 89.9% for the three and nine months ended September 30, 2013, respectively.

Total revenues were \$68,847,000 and \$204,058,000 for the three and nine months ended September 30, 2014, respectively, compared to \$51,817,000 and \$144,639,000 for the three and nine months ended September 30, 2013, respectively.

Investment and cash holdings were \$434,914,000 at September 30, 2014, compared to \$323,814,000 at December 31, 2013.

Investment income was \$1,807,000 and \$4,891,000 for the three and nine months ended September 30, 2014, respectively, compared to \$1,089,000 and \$2,644,000 for the three and nine months ended September 30, 2013, respectively.

Net realized losses were \$(69,000) and \$(24,000) for the three and nine months ended September 30, 2014, respectively, compared to net realized losses of \$(38,000) and \$(199,000) for the three and nine months ended September 30, 2013, respectively.

Book value per share was \$9.16 at September 30, 2014, a 38.0% increase from \$6.64 at December 31, 2013.

Return on average equity for the trailing twelve months ended September 30, 2014 was 27.4% compared to 17.4% for the trailing twelve months ended September 30, 2013.

Policies in-force were 224,304 at September 30, 2014, a 25.6% increase from 178,605 at September 30, 2013.



## UNITED INSURANCE HOLDINGS CORP.

## Consolidated Net Income

(\$ in thousands)	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
<b>REVENUE:</b>					
Gross premiums written	\$ 105,065	\$ 83,601	\$ 322,986	\$ 274,650	
Increase in gross unearned premiums	(4,214 )	(3,463 )	(29,901 )	(49,736 )	
Gross premiums earned	100,851	80,138	293,085	224,914	
Ceded premiums earned	(35,741 )	(31,317 )	(99,757 )	(87,825 )	
Net premiums earned	65,110	48,821	193,328	137,089	
Investment income	1,807	1,089	4,891	2,644	
Net realized losses	(69 )	(38 )	(24 )	(199 )	
Other revenue	1,999	1,945	5,863	5,105	
Total revenue	68,847	51,817	204,058	144,639	
<b>EXPENSES:</b>					
Losses and loss adjustment expenses	30,140	25,578	86,605	69,132	
Policy acquisition costs	17,291	13,115	48,668	36,567	
Operating expenses	3,086	2,265	8,453	6,944	
General and administrative expenses	4,709	4,034	13,394	10,688	
Interest expense	98	102	325	255	
Total expenses	55,324	45,094	157,445	123,586	
Income before other income	13,523	6,723	46,613	21,053	
Other income	—	1	16	1	
Income before income taxes	13,523	6,724	46,629	21,054	
Provision for income taxes	4,883	2,593	17,010	8,063	
Net income	\$ 8,640	\$ 4,131	\$ 29,619	\$ 12,991	
Net income per diluted share	\$ 0.41	\$ 0.26	\$ 1.50	\$ 0.80	
Book value per share			\$ 9.16	\$ 6.22	
Return on average equity, ttm			27.4	% 17.4	%
Loss ratio, net <sup>1</sup>	46.3	% 52.4	% 44.8	% 50.4	%
Expense ratio <sup>2</sup>	38.5	% 39.8	% 36.5	% 39.5	%
Combined ratio (CR) <sup>3</sup>	84.8	% 92.2	% 81.3	% 89.9	%
Effect of current year catastrophe losses on CR	1.1	% 0.3	% 0.5	% 2.7	%
Effect of prior year (favorable) development on CR	(2.4 )	)% (2.2 )	)% (1.4 )	)% 1.8	%
Underlying combined ratio <sup>4</sup>	86.1	% 94.1	% 82.2	% 85.4	%

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

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

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

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

Combined ratio excluding the effects of current year catastrophe losses and prior year development (underlying combined ratio) is a non-GAAP ratio, which is computed as the difference between four GAAP operating ratios: the combined ratio, the effect of current year catastrophe losses on the combined ratio and prior year development on the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our business that may be obscured by current year catastrophe losses and prior year development. Current year catastrophe losses cause our loss trends

24

---

UNITED INSURANCE HOLDINGS CORP.

---

to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on the combined ratio. Prior year development is unexpected loss development on historical reserves. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. The most direct comparable GAAP measure is the combined ratio. The underlying combined ratio should not be considered as a substitute for the combined ratio and does not reflect the overall profitability of our business.

Net Loss and LAE excluding the effects of current year catastrophe losses and reserve development (underlying Loss and LAE) is a non-GAAP measure which is computed as the difference between loss and LAE, current year catastrophe losses and prior year reserve development. We use underlying loss and LAE figures to analyze our loss trends that may be impacted by current year catastrophe losses and prior year development on our reserves. As discussed previously, these three items can have a significant impact on our loss trend in a given period. The most direct comparable GAAP measure is net loss and LAE. The underlying loss and LAE measure should not be considered a substitute for net losses and LAE and does not reflect the overall profitability of our business.

#### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

When we prepare our consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles (GAAP), we must make estimates and assumptions about future events that affect the amounts we report. Certain of these estimates result from judgments that can be subjective and complex. As a result of that subjectivity and complexity, and because we continuously evaluate these estimates and assumptions based on a variety of factors, actual results could materially differ from our estimates and assumptions if changes in one or more factors require us to make accounting adjustments. During the three and nine months ended September 30, 2014, we reassessed our critical accounting policies and estimates as disclosed within our 2013 Form 10-K; we have made no material changes or additions with regard to such policies and estimates.

#### RECENT ACCOUNTING STANDARDS

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

## UNITED INSURANCE HOLDINGS CORP.

## ANALYSIS OF FINANCIAL CONDITION - SEPTEMBER 30, 2014 COMPARED TO DECEMBER 31, 2013

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our accompanying unaudited consolidated interim financial statements and related notes, and in conjunction with the section entitled MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS included within our 2013 Form 10-K.

## Investments

With respect to our investments, we primarily attempt to preserve capital, maximize after-tax investment income, maintain liquidity and minimize risk. To accomplish our goals, we purchase debt securities in sectors that represent the most attractive relative value, and we maintain a moderate equity exposure. We must comply with applicable state insurance regulations that prescribe the type, quality and concentrations of investments our insurance 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 \$434,914,000 at September 30, 2014.

The following table summarizes our investments, by type:

	September 30, 2014		December 31, 2013		
	Estimated Fair Value	Percent of Total	Estimated Fair Value	Percent of Total	
U.S. government and agency securities	\$ 122,945	28.3	% \$ 97,480	30.1	%
Foreign government	3,319	0.8	3,227	1.0	
States, municipalities and political subdivisions	81,327	18.7	45,777	14.1	
Public utilities	9,247	2.1	9,133	2.8	
Corporate securities	111,877	25.6	117,407	36.3	
Redeemable preferred stocks	405	0.1	—	—	
Total fixed maturities	329,120	75.6	273,024	84.3	
Public utilities	1,050	0.2	807	0.2	
Common stocks	20,393	4.7	14,546	4.5	
Nonredeemable preferred stocks	733	0.2	249	0.1	
Total equity securities	22,176	5.1	15,602	4.8	
Other long-term investments	300	0.1	300	0.1	
Total investments	351,596	80.8	288,926	89.2	
Cash and cash equivalents	83,318	19.2	34,888	10.8	
Total cash, cash equivalents and investments	\$ 434,914	100.0	% \$ 323,814	100.0	%

We classify all of our investments as available-for-sale. Our investments at September 30, 2014 and December 31, 2013 consisted mainly of U.S. government and agency securities, states, municipalities and political subdivisions and

securities of investment-grade corporate issuers. Our equity holdings consisted mainly of securities issued by companies in the energy, consumer products, technology and industrial sectors. Most of the corporate bonds we held reflected a similar diversification. At September 30, 2014, approximately 85% of our fixed maturities were U.S. Treasuries or corporate bonds rated “A” or better, and 15% were corporate bonds rated “BBB”.

At September 30, 2014, gross unrealized losses on securities that were in a gross unrealized loss position of less than twelve months decreased approximately \$2,325,000 relative to December 31, 2013. This decrease in gross unrealized losses can mainly be attributed to improving market conditions during the first nine months of 2014. We had three equity securities

UNITED INSURANCE HOLDINGS CORP.

---

that were in a loss position for a period of twelve months or longer. We had forty-five fixed maturities that were in an unrealized loss position for twelve months or longer. We reviewed all of our securities and determined that we did not need to record any impairment charges at September 30, 2014, as we expect to fully recover our cost basis.

#### Impact of low interest rate environment

The continued low interest rate environment in the U.S. has resulted in our current reinvestment yields being lower than our overall portfolio income yield, primarily for our investments in fixed income securities. During 2013, the Federal Reserve Board announced its decision to reduce the amount of its purchases of both longer-term Treasury and agency mortgage-backed securities and on October 29, 2014, the Federal Reserve officially ended its monthly bond-purchase program following the October Federal Open Market Committee meeting. We anticipate that interest rates will continue to increase but remain below historic averages and our portfolio income yield for some period. We also expect capital markets to remain volatile.

Investment activity will continue to decrease our portfolio yield as long as market yields remain below the current portfolio yield.

#### Reinsurance Payable

During the second quarter of 2014, we placed our reinsurance program for the 2014 hurricane season. Our insurance affiliate purchased catastrophe excess of loss reinsurance protection of \$1,080,200,000. The contracts reinsure for personal lines property excess catastrophe losses caused by multiple perils including hurricanes, tropical storms, and tornadoes. The agreements are effective June 1, 2014, 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. The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes.

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 our 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 are included at no additional premium.

See [Note 5](#) in our Notes to Unaudited Consolidated Financial Statements for additional information regarding our reinsurance program.

## UNITED INSURANCE HOLDINGS CORP.

## RESULTS OF OPERATIONS - COMPARISON OF THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

## Revenue

Revenues for the quarter ended September 30, 2014 increased \$17,030,000, or 33%, to \$68,847,000, from \$51,817,000 for the quarter ended September 30, 2013. The increase in revenues primarily resulted from a \$16,289,000, or 33%, increase in net premiums earned. The growth in net premiums earned for the quarter was driven by continued growth in new business production in Florida and other states.

Our direct gross written premiums increased by \$21,528,000, or 26%, primarily due to the strong organic growth in new and renewal business generated in all states in which we currently write policies, but especially outside Florida which represented nearly 79% of the total growth in direct written premiums. Our quarter-over-quarter growth in gross written premiums and new and renewal policies by state are shown in the tables below:

Direct and Assumed Premium By State	2014 GWP	2013 GWP	Growth
Florida	\$71,270	\$66,715	\$4,555
South Carolina	8,969	6,806	2,163
Massachusetts	8,759	5,053	3,706
Rhode Island	5,589	3,779	1,810
Texas	4,802	—	4,802
North Carolina	4,493	1,254	3,239
New Jersey	1,316	63	1,253
Total direct written premium by state	105,198	83,670	21,528
Assumed premium <sup>(1)</sup>	(133	) (69	) (64
Total gross written premium	\$105,065	\$83,601	\$21,464

<sup>(1)</sup> All assumed premiums are written in Florida due to policy assumptions from Citizens Property Insurance Corporation (Citizens).

States	2014 Policies*	2013 Policies*	Growth
Florida	38,742	37,438	1,304
Massachusetts	5,930	3,429	2,501
South Carolina	5,560	4,292	1,268
Rhode Island	4,490	3,433	1,057
North Carolina	3,635	975	2,660
Texas	3,544	—	3,544
New Jersey	1,190	53	1,137
Total	63,091	49,620	13,471

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

We expect our gross written premium growth to continue as we increase our policies in-force in the states in which we currently write policies and as we expand into the other states discussed previously.

## UNITED INSURANCE HOLDINGS CORP.

## Expenses

Expenses for the quarter ended September 30, 2014 increased \$10,230,000, or 23%, primarily due to increased losses, policy acquisition costs and operating and administrative expenses.

Our GAAP net combined ratio improved 7.4 points to 84.8% for the three months ended September 30, 2014 compared to 92.2% for the same period in 2013. Our underlying net combined ratio, which excludes losses from catastrophes and all effects of reserve development, improved 8.0 points to 86.1% for the third quarter of 2014 compared to 94.1% for the same period in 2013. Both the net combined and underlying net combined ratios decreased primarily due to a lower gross loss ratio and a lower ceded reinsurance premium percentage for the three months ended September 30, 2014 compared to the same period in 2013. The calculation of our underlying loss and combined ratios is shown below:

	Three Months Ended September 30,		
	2014	2013	Change
Net Loss and LAE	\$ 30,140	\$ 25,578	\$ 4,562
% of Gross earned premiums	29.9	% 31.9	% -2.0 pts
% of Net earned premiums	46.3	% 52.4	% -6.1 pts
Less:			
Current year catastrophe losses	\$ 714	\$ 127	\$ 587
Prior year reserve development (favorable)	(1,543 )	(1,072 )	(471 )
Underlying loss and LAE*	\$ 30,969	\$ 26,523	\$ 4,446
% of Gross earned premiums	30.7	% 33.1	% -2.4 pts
% of Net earned premiums	47.6	% 54.3	% -6.7 pts
Policy acquisition costs	\$ 17,291	\$ 13,115	\$ 4,176
Operating and underwriting	3,086	2,265	821
General and administrative	4,709	4,034	675
Total Operating Expenses	\$ 25,086	\$ 19,414	\$ 5,672
% of Gross earned premiums	24.9	% 24.2	% 0.7 pts
% of Net earned premiums	38.5	% 39.8	% -1.3 pts
Combined Ratio - as % of gross earned premiums	54.8	% 56.1	% -1.3 pts
Underlying Combined Ratio - as % of gross earned premiums	55.6	% 57.3	% -1.7 pts
Combined Ratio - as % of net earned premiums	84.8	% 92.2	% -7.4 pts
Underlying Combined Ratio - as % of net earned premiums	86.1	% 94.1	% -8.0 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.

Our gross underlying loss ratio for the third quarter of 2014 decreased to 30.7% from 33.1% in the third quarter of 2013. The primary driver of this change was favorable frequency and severity trends for the quarter ended September 30, 2014 compared to the same quarter last year.

Policy acquisition costs increased \$4,176,000, or 31.8%, to \$17,291,000 for the third quarter of 2014 from \$13,115,000 for the third quarter of 2013. These costs vary directly with the growth in gross premiums earned.



Operating expenses increased to \$3,086,000 for the third quarter of 2014, from \$2,265,000 during the same period of last year due to increases in home inspections, underwriting reports, licensing costs and systems costs resulting from the Company's ongoing growth and continuing expansion into new states.

## UNITED INSURANCE HOLDINGS CORP.

General and administrative expenses increased to \$4,709,000 for the third quarter of 2014, from \$4,034,000 for the third quarter of 2013 primarily due to increases in personnel costs and professional services related to the Company's growth.

#### RESULTS OF OPERATIONS - COMPARISON OF THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

##### Revenue

Revenues for the nine months ended September 30, 2014 increased \$59,419,000, or 41%, to \$204,058,000, from \$144,639,000 for the nine months ended September 30, 2013. The increase in revenues primarily resulted from a \$56,239,000, or 41%, increase in net premiums earned. The growth in net premiums earned for the year was driven primarily by continued strong premium growth and a decrease in the ceded reinsurance premium percentage compared to the same period in 2013.

Our gross written premiums increased \$48,336,000, or 18%, to \$322,986,000 in 2014, from \$274,650,000 in 2013 because we wrote approximately 44,000 more new and renewal policies in Florida and other states compared to 2013. The increase in direct written premiums was offset by a \$16,133,000 decrease in assumed premiums. In the first nine months of 2013, we recorded assumed premiums of \$13,494,000 related to the policies we assumed from Citizens Property Insurance Corporation (Citizens), whereas in the first nine months of 2014, we recorded the return of approximately \$2,639,000 of assumed premium to Citizens related to opt-outs from our November 2013 assumption. Our year-over-year growth in written premiums and new and renewal policies by state are shown below:

Direct and Assumed Premium By State	2014 GWP	2013 GWP	Growth
Florida	\$245,005	\$222,075	\$22,930
South Carolina	24,301	18,653	5,648
Massachusetts	22,379	10,405	11,974
Rhode Island	13,229	8,367	4,862
North Carolina	9,764	1,593	8,171
Texas	8,098	—	8,098
New Jersey	2,849	63	2,786
Total direct written premium by state	325,625	261,156	64,469
Assumed premium <sup>(1)</sup>	(2,639	) 13,494	(16,133
Total gross written premium	\$322,986	\$274,650	\$48,336

<sup>(1)</sup> All assumed premiums are written in Florida due to the policy assumptions from Citizens.

States	2014 Policies*	2013 Policies*	Growth
Florida	134,134	119,952	14,182
Massachusetts	15,284	7,199	8,085
South Carolina	15,194	11,883	3,311
Rhode Island	10,905	7,619	3,286
North Carolina	7,906	1,238	6,668
Texas	6,081	—	6,081
New Jersey	2,542	53	2,489
Total	192,046	147,944	44,102

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

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

## UNITED INSURANCE HOLDINGS CORP.

## Expenses

Expenses for the nine months ended September 30, 2014 increased \$33,859,000, or 27%, primarily due to increased losses, policy acquisition costs and operating and administrative expenses.

Our GAAP net combined ratio improved 8.6 points to 81.3% for the nine months ended September 30, 2014 compared to 89.9% for the same period in 2013. Our underlying net combined ratio improved 3.2 points to 82.2% for the nine months ended September 30, 2014 compared to 85.4% for the same period in 2013. Both the net combined and underlying net combined ratios decreased primarily due to a lower ceded reinsurance premium percentage for the nine months ended September 30, 2014 compared to the same period in 2013. The calculation of the our underlying loss and combined ratios is shown below:

	Nine Months Ended September 30,		
	2014	2013	Change
Net Loss and LAE	\$86,605	\$69,132	\$17,473
% of Gross earned premiums	29.5	% 30.7	% -1.2 pts
% of Net earned premiums	44.8	% 50.4	% -5.6 pts
Less:			
Current year catastrophe losses	\$974	\$3,722	\$(2,748 )
Prior year reserve development (favorable)	(2,708 )	2,442	\$(5,150 )
Underlying loss and LAE*	\$88,339	\$62,968	\$25,371
% of Gross earned premiums	30.1	% 28.0	% 2.1 pts
% of Net earned premiums	45.7	% 45.9	% -0.2 pts
Policy acquisition costs	\$48,668	\$36,567	\$12,101
Operating and underwriting	8,453	6,944	1,509
General and administrative	13,394	10,688	2,706
Total Operating Expenses	\$70,515	\$54,199	\$16,316
% of Gross earned premiums	24.1	% 24.1	% 0.0 pts
% of Net earned premiums	36.5	% 39.5	% -3.0 pts
Combined Ratio - as % of gross earned premiums	53.6	% 54.8	% -1.2 pts
Underlying Combined Ratio - as % of gross earned premiums	54.2	% 52.1	% 2.1 pts
Combined Ratio - as % of net earned premiums	81.3	% 89.9	% -8.6 pts
Underlying Combined Ratio - as % of net earned premiums	82.2	% 85.4	% -3.2 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.

Our gross underlying loss ratio for the first nine months of 2014 increased to 30.1% from 28.0% for the first nine months of 2013. This increase was driven primarily by a shift in the mix toward business outside of Florida, where non-catastrophe loss costs as a percentage of earned premium tend to be higher. For the first nine months of 2013, approximately 88% of our loss and LAE incurred was derived from Florida compared to the current year where approximately 78% of incurred losses came from Florida. The shift in exposure mix impacting our gross underlying loss ratio is being offset by lower reinsurance costs outside Florida as evidenced by the net underlying loss ratio declining from 45.9% for the first nine months of 2013 to 45.7% for the first nine months of 2014.

Policy acquisition costs increased to \$48,668,000 for the nine months ended September 30, 2014, from \$36,567,000 for the same period of 2013, or 33%. These costs vary directly with changes in gross premiums earned.

UNITED INSURANCE HOLDINGS CORP.

---

Operating expenses increased to \$8,453,000 for the nine months ended September 30, 2014 from \$6,944,000 during the same period of last year due to increased costs for home inspections, underwriting reports, licensing costs, and systems costs resulting from the Company's ongoing growth and continuing expansion into new states.

General and administrative expenses increased to \$13,394,000 for the nine months ended September 30, 2014, from \$10,688,000 for the same period in 2013 primarily due to an increase in personnel costs related to the Company's continued growth.

UNITED INSURANCE HOLDINGS CORP.

---

## 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.

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 nine months ended September 30, 2014, our operations generated cash of \$59,199,000, compared to generating cash of \$79,591,000 during the same period in 2013. The \$20,392,000 decrease in operating cash was primarily driven by a reduction in assumed premiums, increased payments for claims costs, operating costs, agent commissions, taxes and reinsurance payments. Assumed premiums decreased \$20,583,000 because we returned \$6,906,000 of assumed premiums during the first nine months of 2014 compared to receiving assumed premiums of \$13,677,000 for the same period last year related to the assumption of policies from Citizens. Claims payments increased approximately \$18,624,000 primarily due to the increase in exposures and payments on claims from current and prior accident years. Operating costs and agents commissions increased \$9,758,000 and \$9,705,000, respectively, due to the continuing growth of our Company. Income tax payments increased \$14,280,000 due to the growth in net income for the nine months ended September 30, 2014 compared to the same period in 2013. Reinsurance payments increased \$10,875,000 because we purchased more reinsurance coverage for our 2014 - 2015 catastrophe reinsurance contracts compared to the reinsurance protection we purchased for our 2013 - 2014 catastrophe reinsurance contracts. The increase in operating cash outflows were partially offset by a \$62,008,000 increase in cash inflows related to premium collections due to the increased writings we experienced during the first nine months of 2014 compared to the same period in 2013.

### Investing Activities

During the nine months ended September 30, 2014, our investing activities used \$61,318,000 of cash compared to using \$99,699,000 of cash in the same period of the prior year primarily because we purchased \$204,429,000 of investments during the nine months ended September 30, 2014 compared to purchasing \$193,718,000 of investments during the same period in 2013. The increase in purchases was offset by the \$49,932,000 increase in sales of investments during the nine months ended September 30, 2014 compared to the same period in 2013.

### Financing Activities

During the nine months ended September 30, 2014, our financing activities provided cash of \$50,549,000 compared to providing cash of \$3,221,000 for the nine months ended September 30, 2013. The increase in cash provided by financing activities primarily relates to the \$50,450,000 increase in net proceeds from our stock offerings. During the first quarter of 2014, we received net proceeds of \$54,041,000 related to the public offering of 4,600,000 shares of our common stock. During the first quarter of 2013, we received net proceeds of \$3,591,000 from the issuance of 750,000 shares of our common stock related to the over-allotment option exercised by the underwriters in our public offering that closed in late 2012.

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



UNITED INSURANCE HOLDINGS CORP.

---

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 September 30, 2014, our insurance affiliate's surplus as regards policyholders was \$95,809,000, 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 September 30, 2014.

On August 1, 2014, our Board of Directors (Board) declared a \$0.04 per share quarterly cash dividend. We paid the \$834,000 dividend on August 22, 2014, to stockholders of record on August 15, 2014.

On May 1, 2014, our Board declared a \$0.04 per share quarterly cash dividend. We paid the \$834,000 dividend on May 23, 2014, to stockholders of record on May 16, 2014.

On March 5, 2014, we closed an underwritten public offering of 4,600,000 shares of our common stock. Our total net proceeds from the offering were approximately \$54,041,000.

On February 24, 2014, our Board declared a \$0.04 per share quarterly cash dividend. We paid the \$832,000 dividend on March 21, 2014, to stockholders of record on March 14, 2014.

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 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.

On January 11, 2013, Raymond James, the lead underwriter on our 2012 public offering, exercised their over-allotment option to purchase 750,000 shares of our common stock, and we received net proceeds of \$3,591,000 from the exercise.

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

OFF-BALANCE SHEET ARRANGEMENTS

At September 30, 2014, we had no off-balance-sheet arrangements.

34

---

## UNITED INSURANCE HOLDINGS CORP.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Our investment policy was established by the Investment Committee of our Board and is reviewed and updated regularly. Pursuant to this investment policy, our entire portfolio is classified as available for sale and we report any unrealized gains or losses, net of deferred income taxes, as a component of other comprehensive income within our stockholders' equity. We do not hold any securities that are classified as held to maturity and we do not hold any securities for trading or speculation. We do not utilize any swaps, options, futures or forward contracts to hedge or enhance our investment portfolio.

## Interest Rate Risk

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

The following table illustrates the impact of hypothetical changes in interest rates on the fair value of our fixed-maturities at September 30, 2014:

Hypothetical Change in Interest Rates	Estimated Fair Value	Change in Estimated Fair Value	Percentage Increase (Decrease) in Estimated Fair Value
300 basis point increase	\$292,043	\$(37,077)	(11.27)%
200 basis point increase	\$304,411	\$(24,709)	(7.51)%
100 basis point increase	\$316,770	\$(12,350)	(3.75)%
100 basis point decrease	\$340,974	\$11,854	3.60%
200 basis point decrease	\$350,947	\$21,827	6.63%
300 basis point decrease	\$356,294	\$27,174	8.26%

## UNITED INSURANCE HOLDINGS CORP.

## Credit Risk

Credit risk can expose us to potential losses arising principally from adverse changes in the financial condition of the issuer of our fixed-maturities. We mitigate this risk by investing in fixed-maturities that are generally investment grade and by diversifying our investment portfolio to avoid concentrations in any single issuer or market sector.

The following table presents the composition of our fixed-maturity portfolio by rating at September 30, 2014:

Comparable Rating	Amortized Cost	% of Total Amortized Cost	Estimated Fair Value	% of Total Estimated Fair Value
AAA	\$17,792	5.4	% \$18,267	5.6
AA+, AA, AA-	193,332	59.1	193,553	58.7
A+, A, A-	59,283	18.1	59,809	18.2
BBB+, BBB, BBB-	55,925	17.1	56,491	17.2
Not rated	1,000	0.3	1,000	0.3
Total	\$327,332	100.0	% \$329,120	100.0

## Equity Price Risk

Our equity investment portfolio at September 30, 2014 consists of common stocks and non-redeemable preferred stocks. We may incur potential losses due to adverse changes in equity security prices. We manage this risk primarily through industry and issuer diversification and asset allocation techniques.

The following table illustrates the composition of our equity portfolio at September 30, 2014:

Stocks by Sector	Estimated Fair Value	% of Total Estimated Fair Value
Consumer, non-cyclical	\$5,729	25.8
Energy	4,325	19.5
Industrial	3,261	14.7
Consumer, cyclical	2,338	10.5
Technology	2,113	9.6
Financial	2,087	9.4
Utility	1,050	4.7
Basic materials	677	3.1
Communications	596	2.7
Total	\$22,176	100.0

UNITED INSURANCE HOLDINGS CORP.

---

Item 4. Controls and Procedures

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

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

During the fiscal quarter ended September 30, 2014, we made no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

UNITED INSURANCE HOLDINGS CORP.

---

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The following updates and supplements the risk factors included in Item 1A of the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2013:

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 information technology systems and 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 often depend on these third-party systems, we could experience service denials if demand for such service exceeds capacity or a third-party system fails or experiences an interruption. If sustained or repeated, such a business interruption, system failure or service denial could result in a deterioration of our ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or perform other necessary business functions.

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

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

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

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

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

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

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

UNITED INSURANCE HOLDINGS CORP.

---

Loss severity in the property and casualty insurance industry may increase and may be driven by the effects of these and other unforeseen emerging claims and coverage issues. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant award or a judicial ruling that was otherwise detrimental, could create a precedent in our industry that could have a material adverse effect on our results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain.

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

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

**Unregistered Sales of Equity Securities.** During the three and nine months ended September 30, 2014, we did not sell any unregistered equity securities.

**Working Capital Restrictions and Other Limitations on Payment of Dividends.** Under Florida law, a Florida-domiciled insurer like our insurance affiliate may not pay any dividend or distribute cash or other property to its shareholders except out of its available and accumulated surplus funds which are derived from realized net operating profits on its business and net realized capital gains. Additionally, Florida-domiciled insurers may not make dividend payments or distributions to shareholders without the prior approval of the insurance regulatory authority if the dividend or distribution would exceed the larger of:

1. the lesser of:

a. ten percent of capital surplus, or

b. net gain from operations, or

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

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

3. the lesser of:

a. ten percent of capital surplus, or

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



Alternatively, 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 the insurer's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains, or

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

UNITED INSURANCE HOLDINGS CORP.

---

- i. the insurer will have surplus as to policyholders equal to or exceeding 115% of the minimum required statutory surplus as to policyholders after the dividend or distribution is made, and
- ii. the insurer files a notice of the dividend or distribution with the insurance regulatory authority at least ten business days prior to the dividend payment or distribution, and
- iii. the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115% of required statutory surplus as to policyholders.

Except as provided above, a Florida-domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the insurance regulatory authority, or (ii) 30 days after the insurance regulatory authority has received notice of intent to pay such dividend or distribution and has not disapproved it within such time. At September 30, 2014, we were in compliance with these requirements.

Repurchases. During the three months ended September 30, 2014, we did not repurchase equity securities.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

UNITED INSURANCE HOLDINGS CORP.

---

Item 6. Exhibits

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

Exhibit	Description
10.1	Form of Restricted Stock Award Agreement (for Non-Employee Members of the Board of Directors) under the United Insurance Holdings Corp. 2013 Omnibus Incentive Plan (included as exhibit 10.1 to the Form 8-K filed on September 25, 2014, and incorporated herein by reference).
10.2	Form of Restricted Stock Award (for Employees) under the United Insurance Holdings Corp. 2013 Omnibus Incentive Plan (included as exhibit 10.2 to the Form 8-K filed on September 25, 2014, and incorporated herein by reference).
10.3	Form of Restricted Stock Award Agreement (for Chairman of the Board) under the United Insurance Holdings Corp. 2013 Omnibus Incentive Plan (included as exhibit 10.3 to the Form 8-K filed on September 25, 2014, and incorporated herein by reference).
10.4	Non-Executive Chairman Agreement, dated September 19, 2014, between United Insurance Holdings Corp. and Gregory C. Branch (included as exhibit 10.4 to the Form 8-K filed on September 25, 2014, and incorporated herein by reference).
10.5	Purchase and Sale Agreement, dated September 5, 2014, between AAA Auto Club South, Inc. and United Insurance Holdings Corp. (included as exhibit 10.1 to the Form 8-K filed on September 11, 2014, and incorporated herein by reference).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase



UNITED INSURANCE HOLDINGS CORP.

---

SIGNATURES

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

UNITED INSURANCE HOLDINGS CORP.

November 4, 2014

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

November 4, 2014

By: /s/ B. Bradford Martz  
B. Bradford Martz, Chief Financial Officer  
(principal financial officer and principal accounting officer)