UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
April 26, 2019

false--12-31Q120190000891166falseLarge Accelerated FilerUNIVERSAL INSURANCE HOLDINGS, INC.falseUVE000.010.01550000005500000046514000466740003478300034622000greater of ten percent of the insurer's total liabilities but not less than $10.0 million.8627100058137000P20Y121900039160000.250.259.999.990.010.011000000100000010000100001000010000117310 change in fair value of available-for-sale investments, net of income tax provision of $3,916 thousand for the three months ended March 31, 2019 and a change in fair value of available-for-sale investments, net of income tax benefit of $1,219 thousand for the three months ended March 31, 2018.All shares acquired represent shares tendered to cover the strike price for options and tax withholdings on the intrinsic value of options exercised or performance share units or restricted stock vested. These shares have been cancelled by the Company. 0000891166 2019-01-01 2019-03-31 0000891166 2019-04-22 0000891166 2018-12-31 0000891166 2019-03-31 0000891166 2018-01-01 2018-03-31 0000891166 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0000891166 us-gaap:CommonStockMember 2018-12-31 0000891166 us-gaap:TreasuryStockMember 2019-01-01 2019-03-31 0000891166 us-gaap:CommonStockMember 2019-01-01 2019-03-31 0000891166 us-gaap:RetainedEarningsMember 2018-12-31 0000891166 us-gaap:PreferredStockMember 2019-03-31 0000891166 us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0000891166 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0000891166 us-gaap:TreasuryStockMember 2019-03-31 0000891166 us-gaap:PreferredStockMember 2018-12-31 0000891166 us-gaap:AdditionalPaidInCapitalMember 2019-03-31 0000891166 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-03-31 0000891166 us-gaap:TreasuryStockMember 2018-12-31 0000891166 us-gaap:RetainedEarningsMember 2019-03-31 0000891166 us-gaap:CommonStockMember 2019-03-31 0000891166 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0000891166 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0000891166 us-gaap:CommonStockMember 2018-01-01 2018-03-31 0000891166 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-31 0000891166 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-03-31 0000891166 us-gaap:TreasuryStockMember 2018-03-31 0000891166 2018-03-31 0000891166 us-gaap:RetainedEarningsMember 2018-01-01 2018-03-31 0000891166 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-03-31 0000891166 us-gaap:TreasuryStockMember 2017-12-31 0000891166 us-gaap:RetainedEarningsMember 2018-01-01 0000891166 us-gaap:CommonStockMember 2018-03-31 0000891166 us-gaap:TreasuryStockMember 2018-01-01 2018-03-31 0000891166 2018-01-01 0000891166 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 0000891166 us-gaap:TreasuryStockMember 2018-01-01 0000891166 us-gaap:CommonStockMember 2017-12-31 0000891166 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000891166 us-gaap:CommonStockMember 2018-01-01 0000891166 us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0000891166 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 0000891166 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0000891166 us-gaap:PreferredStockMember 2017-12-31 0000891166 us-gaap:RetainedEarningsMember 2018-03-31 0000891166 us-gaap:PreferredStockMember 2018-03-31 0000891166 2017-12-31 0000891166 us-gaap:PreferredStockMember 2018-01-01 0000891166 us-gaap:RetainedEarningsMember 2017-12-31 0000891166 us-gaap:CorporateDebtSecuritiesMember us-gaap:FixedMaturitiesMember 2018-12-31 0000891166 us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember us-gaap:FixedMaturitiesMember 2018-12-31 0000891166 uve:MortgageBackedAndAssetBackedSecuritiesMember us-gaap:FixedMaturitiesMember 2018-12-31 0000891166 us-gaap:USStatesAndPoliticalSubdivisionsMember us-gaap:FixedMaturitiesMember 2018-12-31 0000891166 us-gaap:RedeemablePreferredStockMember us-gaap:FixedMaturitiesMember 2018-12-31 0000891166 us-gaap:USStatesAndPoliticalSubdivisionsMember us-gaap:FixedMaturitiesMember 2019-03-31 0000891166 us-gaap:CorporateDebtSecuritiesMember us-gaap:FixedMaturitiesMember 2019-03-31 0000891166 uve:MortgageBackedAndAssetBackedSecuritiesMember us-gaap:FixedMaturitiesMember 2019-03-31 0000891166 us-gaap:RedeemablePreferredStockMember us-gaap:FixedMaturitiesMember 2019-03-31 0000891166 us-gaap:USGovernmentCorporationsAndAgenciesSecuritiesMember us-gaap:FixedMaturitiesMember 2019-03-31 0000891166 us-gaap:CashAndCashEquivalentsMember 2018-01-01 2018-03-31 0000891166 us-gaap:CashAndCashEquivalentsMember 2019-01-01 2019-03-31 0000891166 us-gaap:DebtSecuritiesMember

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from __________ to __________

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

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

1110 W. Commercial Blvd., Fort Lauderdale, Florida 33309
(Address of principal executive offices)

(954) 958-1200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No

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

Large accelerated filer x	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 34,647,850 shares of common stock, par value $0.01 per share, outstanding on April 22, 2019.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of
Universal Insurance Holdings, Inc. and Subsidiaries
Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the "Company") as of March 31, 2019 and the related condensed consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the three-month periods ended March 31, 2019 and 2018. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of December 31, 2018 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 1, 2019. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Plante & Moran, PLLC
Chicago, Illinois
April 26, 2019

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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(in thousands, except per share data)

	As of March 31, 2019 (unaudited)	December 31, 2018
ASSETS		
Available-for-sale debt securities, at fair value (amortized cost: $834,817 and $831,127)	$ 840,028	$ 820,438
Equity securities, at fair value (amortized cost: $58,137 and $86,271)	53,175	63,277
Investment real estate, net	25,070	24,439
Total invested assets	918,273	908,154
Cash and cash equivalents	185,061	166,428
Restricted cash and cash equivalents	2,635	2,635
Prepaid reinsurance premiums	57,100	142,750
Reinsurance recoverable	323,294	418,603
Premium receivable, net	58,346	59,858
Property and equipment, net	40,102	34,991
Deferred policy acquisition costs	83,284	84,686
Income taxes recoverable	—	11,159
Deferred income tax asset, net	14,417	14,586
Other assets	15,357	14,540
Total assets	$ 1,697,869	$ 1,858,390
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 366,356	$ 472,829
Unearned premiums	595,536	601,679
Advance premium	44,545	26,222
Accounts payable	2,692	3,059
Book overdraft	43,305	102,843
Reinsurance payable, net	48,171	93,306
Income taxes payable	6,183	—
Other liabilities and accrued expenses	41,002	45,422
Long-term debt	11,029	11,397
Total liabilities	1,158,819	1,356,757
Commitments and Contingencies (Note 12)		
STOCKHOLDERS' EQUITY:		
Cumulative convertible preferred stock, $.01 par value	—	—
Authorized shares - 1,000		
Issued shares - 10 and 10		
Outstanding shares - 10 and 10		
Minimum liquidation preference, $9.99 and $9.99 per share		
Common stock, $.01 par value	467	465
Authorized shares - 55,000		

Issued shares - 46,674 and 46,514		
Outstanding shares - 34,622 and 34,783		
Treasury shares, at cost - 12,052 and 11,731	(140,516)	(130,399)
Additional paid-in capital	87,328	86,353
Accumulated other comprehensive income (loss), net of taxes	3,974	(8,010)
Retained earnings	587,797	553,224
Total stockholders' equity	539,050	501,633
Total liabilities and stockholders' equity	$ 1,697,869	$ 1,858,390

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)
(in thousands, except per share data)

	Three Months Ended March 31,	
	2019	2018
PREMIUMS EARNED AND OTHER REVENUES		
Direct premiums written	$289,234	$269,984
Change in unearned premium	6,143	(7,723)
Direct premium earned	295,377	262,261
Ceded premium earned	(85,650)	(79,684)
Premiums earned, net	209,727	182,577
Net investment income	8,142	4,785
Net realized gains (losses) on sale of securities	(11,525)	(2,641)
Net change in unrealized gains (losses) of equity securities	18,032	(5,109)
Commission revenue	5,505	5,271
Policy fees	5,021	4,775
Other revenue	1,684	1,842
Total premiums earned and other revenues	236,586	191,500
OPERATING COSTS AND EXPENSES		
Losses and loss adjustment expenses	113,094	75,926
General and administrative expenses	69,748	63,875
Total operating costs and expenses	182,842	139,801
INCOME BEFORE INCOME TAXES	53,744	51,699
Income tax expense	13,596	11,644
NET INCOME	$40,148	$40,055
Basic earnings per common share	$1.16	$1.15
Weighted average common shares outstanding - Basic	34,741	34,839
Diluted earnings per common share	$1.14	$1.12
Weighted average common shares outstanding - Diluted	35,206	35,660
Cash dividend declared per common share	$0.16	$0.14

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	$40,148	$40,055
Other comprehensive income (loss), net of taxes	11,984	(4,050)
Comprehensive income	$52,132	$36,005

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018 (unaudited)
(in thousands)

	Treasury Shares	Common Shares Issued	Preferred Shares Issued	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares, at Cost	Total Stockholders' Equity
Balance, December 31, 2018	(11,731)	46,514	10	$ 465	$ —	$ 86,353	$ 553,224	$ (8,010)	$ (130,399)	$ 501,633
Vesting of performance share units	(56) [1]	148	—	2	—	(2)	—	—	(2,069)	(2,069)
Grants and vesting of restricted stock	(5) [1]	25	—	—	—	—	—	—	(166)	(166)
Stock option exercises	(36) [1]	84	—	1	—	1,438	—	—	(1,367)	72
Retirement of treasury shares	97	(97)	—	(1)	—	(3,601)	—	—	3,602	—
Purchases of treasury stock	(321)	—	—	—	—	—	—	—	(10,117)	(10,117)
Share-based compensation	—	—	—	—	—	3,140	—	—	—	3,140
Net income	—	—	—	—	—	—	40,148	—	—	40,148
Change in net unrealized gains (losses) [2]	—	—	—	—	—	—	—	11,984	—	11,984
Declaration of dividends ($0.16 per common share and $0.25 per preferred share)	—	—	—	—	—	—	(5,575)	—	—	(5,575)
Balance, March 31, 2019	(12,052)	46,674	10	$ 467	$ —	$ 87,328	$ 587,797	$ 3,974	$ (140,516)	$ 539,050

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
(in thousands)

	Treasury Shares	Common Shares Issued	Preferred Shares Issued	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Shares, at Cost	Total Stockholders' Equity
Balance, December 31, 2017	(11,043)	45,778	10	$ 458	$ —	$ 86,186	$ 464,748	$ (6,281)	$ (105,123)	$ 439,988
Cumulative effect of change in accounting principle (ASU 2016-02)	—	—	—	—	—	—	(3,601)	3,601	—	—
Balance January 1, 2018	(11,043)	45,778	10	458	—	86,186	461,147	(2,680)	(105,123)	439,988
Vesting of performance share units	(43) (1)	127	—	1	—	(1)	—	—	(1,273)	(1,273)
Grants and vesting of restricted stock	—	50	—	—	—	—	—	—	—	—
Stock option exercises	(568) (1)	804	—	8	—	15,195	—	—	(18,723)	(3,520)
Retirement of treasury shares	611	(611)	—	(6)	—	(19,990)	—	—	19,996	—
Purchases of treasury stock	(93)	—	—	—	—	—	—	—	(2,746)	(2,746)
Share-based compensation	—	—	—	—	—	2,904	—	—	—	2,904
Net income	—	—	—	—	—	—	40,055	—	—	40,055
Change in net unrealized gains (losses) (2)	—	—	—	—	—	—	—	(4,050)	—	(4,050)
Reclassification of income taxes upon adoption of ASU 2018-02	—	—	—	—	—	—	582	(582)	—	—
Balance, Declaration of dividends ($0.14 per common share and $0.25 per preferred share)	—	—	—	—	—	—	(4,906)	—	—	(4,906)
Balance, March 31, 2018	(11,136)	46,148	10	$ 461	$ —	$ 84,294	$ 496,878	$ (7,312)	$ (107,869)	$ 466,452

(1) All shares acquired represent shares tendered to cover the strike price for options and tax withholdings on the intrinsic value of options exercised or performance share units or restricted stock vested. These shares have been cancelled by the Company.
(2) Represents change in fair value of available-for-sale investments, net of income tax provision of $3,916 thousand for the three months ended March 31, 2019 and a change in fair value of available-for-sale investments, net of income tax benefit of $1,219 thousand for the three months ended March 31, 2018.

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(in thousands)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$31,451	$52,326
Cash flows from investing activities:		
Proceeds from sale of property and equipment	8	12
Purchases of property and equipment	(6,368)	(1,314)
Purchases of equity securities	(697)	(9,857)
Purchases of available-for-sale debt securities	(55,102)	(121,996)
Purchases of investment real estate, net	(734)	(1,034)
Proceeds from sales of equity securities	17,161	1,045
Proceeds from sales of available-for-sale debt securities	14,550	99,464
Maturities of available-for-sale debt securities	36,635	25,363
Net cash provided by (used in) investing activities	5,453	(8,317)
Cash flows from financing activities:		
Preferred stock dividend	(3)	(3)
Common stock dividend	(5,620)	(4,912)
Issuance of common stock for stock option exercises	239	—
Purchase of treasury stock	(10,117)	(2,746)
Payments related to tax withholding for share-based compensation	(2,402)	(4,793)
Repayment of debt	(368)	(368)
Net cash provided by (used in) financing activities	(18,271)	(12,822)
Cash and cash equivalents, and restricted cash and cash equivalents:		
Net increase (decrease) during the period	18,633	31,187
Balance, beginning of period	169,063	216,121
Balance, end of period	$187,696	$247,308

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

	March 31, 2019	December 31, 2018
Cash and cash equivalents	$185,061	$ 166,428
Restricted cash and cash equivalents (1)	2,635	2,635
Total cash and cash equivalents and restricted cash and cash equivalents	$187,696	$ 169,063

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

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc. together with its wholly-owned subsidiaries, ("the Company") is a Delaware corporation incorporated in 1990. The Company is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned insurance company subsidiaries, Universal Property & Casualty Insurance Company ("UPCIC") and American Platinum Property and Casualty Insurance Company ("APPCIC", and together with UPCIC, the "Insurance Entities"), the Company is principally engaged in the property and casualty insurance business offered primarily through its network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company's primary product is residential homeowners' insurance currently offered in 18 states as of March 31, 2019, including Florida, which comprises the vast majority of the Company's in-force policies. See "—Note 5 (Insurance Operations)" for more information regarding the Company's insurance operations.

The Company generates revenues primarily from the collection of premiums and invests funds in excess of those retained for claims-paying obligations and insurance operations. Other significant sources of revenue include brokerage commissions collected from reinsurers on certain reinsurance programs placed by the Insurance Entities, policy fees collected from policyholders by our wholly-owned managing general agent subsidiary and payment plan fees charged to policyholders who choose to pay their premiums in installments. Our wholly-owned adjusting company receives claims-handling fees from the Insurance Entities. The Insurance Entities are reimbursed for these fees on claims that are subject to recovery under the Insurance Entities' respective reinsurance programs. These fees, after expenses, are recorded in the Condensed Consolidated Financial Statements as an adjustment to losses and loss adjustment expense.

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements ("Financial Statements") in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, the Financial Statements do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles ("U.S. GAAP") for annual financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on March 1, 2019. The condensed consolidated balance sheet at December 31, 2018 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

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

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

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

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2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2018. There are no new or revised disclosures or disclosures required on a quarterly basis.

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3. Investments

Securities Available for Sale

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

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities:				
U.S. government obligations and agencies	$65,888	$408	$(654)	$65,642
Corporate bonds	422,426	6,650	(1,643)	427,433
Mortgage-backed and asset-backed securities	330,925	3,585	(2,743)	331,767
Municipal bonds	3,403	25	(8)	3,420
Redeemable preferred stock	12,175	255	(664)	11,766
Total	$834,817	$10,923	$(5,712)	$840,028

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities:				
U.S. government obligations and agencies	$67,435	$241	$(1,039)	$66,637
Corporate bonds	434,887	714	(6,736)	428,865
Mortgage-backed and asset-backed securities	312,840	912	(4,155)	309,597
Municipal bonds	3,405	—	(43)	3,362
Redeemable preferred stock	12,560	55	(638)	11,977
Total	$831,127	$1,922	$(12,611)	$820,438

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

	March 31, 2019		December 31, 2018	
Equivalent S&P Credit Ratings	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
AAA	$408,487	48.6 %	$388,672	47.4 %
AA	100,592	12.0 %	100,791	12.3 %
A	207,422	24.7 %	214,503	26.1 %
BBB	119,525	14.2 %	112,613	13.7 %
BB and Below	505	0.1 %	494	0.1 %
No Rating Available	3,497	0.4 %	3,365	0.4 %
Total	$840,028	100.0%	$820,438	100.0%

The table above includes credit quality ratings by Standard and Poor’s Rating Services, Inc. (“S&P”), Moody’s Investors Service, Inc. and Fitch Ratings, Inc. The Company has presented the highest rating of the three rating agencies for each investment position.

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

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	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed Securities:				
Agency	$152,861	$151,214	$139,418	$136,291
Non-agency	71,863	74,084	61,689	61,933
Asset-backed Securities:				
Auto loan receivables	49,808	49,917	53,449	53,341
Credit card receivables	27,750	27,809	29,594	29,366
Other receivables	28,643	28,743	28,690	28,666
Total	$330,925	$331,767	$312,840	$309,597

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

	March 31, 2019					
	Less Than 12 Months			12 Months or Longer		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
Debt Securities:						
U.S. government obligations and agencies	1	$1,300	$(3)	9	$46,124	$(651)
Corporate bonds	24	11,810	(39)	190	154,760	(1,604)
Mortgage-backed and asset-backed securities	13	13,011	(43)	101	141,496	(2,700)
Municipal bonds	1	272	(8)	—	—	—
Redeemable preferred stock	28	2,893	(562)	9	1,783	(102)
Total	67	$29,286	$(655)	309	$344,163	$(5,057)

	December 31, 2018					
	Less Than 12 Months			12 Months or Longer		
	Number of Issues	Fair Value	Unrealized Losses	Number of Issues	Fair Value	Unrealized Losses
Debt Securities:						
U.S. government obligations and agencies	—	$—	$—	13	$56,531	$(1,039)
Corporate bonds	228	210,152	(3,318)	160	131,225	(3,418)
Mortgage-backed and asset-backed securities	36	57,487	(196)	103	148,436	(3,959)
Municipal bonds	6	3,362	(43)	—	—	—
Redeemable preferred stock	61	8,092	(506)	5	1,034	(132)
Total	331	$279,093	$(4,063)	281	$337,226	$(8,548)

Evaluating Investments for Other Than Temporary Impairment

As of March 31, 2019, the Company held available-for-sale debt securities that were in an unrealized loss position as presented in the table above. For available-for-sale debt securities with significant declines in value, the Company performs quarterly fundamental credit analysis on a security-by-security basis, which includes consideration of credit quality and credit ratings, review of relevant industry analyst reports and other available market data. For available-for-sale debt securities, the Company considers whether it has the intent and ability to hold the available-for-sale debt securities for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the security’s decline in fair value is considered other than temporary and is recorded in earnings. Based on our analysis, our fixed income portfolio is of high quality and we believe that we will recover the amortized cost basis of our available-for-sale debt securities. We continually monitor the credit quality of our investments in available-for-sale debt securities to assess if it is probable that we will receive our contractual or estimated cash flows in the form of principal and interest. Additionally, the Company considers management’s intent and ability to hold the available-for-sale debt securities until recovery and its credit analysis of the individual issuers of the securities. Based on this process and analysis, management has no reason to believe the unrealized losses of the available-for-sale debt securities as of March 31, 2019 are other than temporary.

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

	March 31, 2019	
	Amortized Cost	Fair Value
Due in one year or less	$102,098	$101,753
Due after one year through five years	402,877	403,320
Due after five years through ten years	319,707	325,217
Due after ten years	8,940	8,507
Perpetual maturity securities	1,195	1,231
Total	$834,817	$840,028

All securities, except those with perpetual maturities, were categorized in the table above utilizing years to effective maturity. Effective maturity takes into consideration all forms of potential prepayment, such as call features or prepayment schedules, that shorten the lifespan of contractual maturity dates.
The following table provides certain information related to available-for-sale debt securities and equity securities during the periods presented (in thousands):

	Three Months Ended March 31,	
	2019	2018
Proceeds from sales and maturities (fair value):		
Available-for-sale debt securities	$51,185	$124,827
Equity securities	$17,161	$1,045
Gross realized gains on sale of securities:		
Available-for-sale debt securities	$187	$307
Equity securities	$165	$124
Gross realized losses on sale of securities:		
Available-for-sale debt securities	$(42)	$(3,072)
Equity securities	$(11,835)	$—

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

	Three Months Ended March 31,	
	2019	2018
Available-for-sale debt securities	$6,151	$3,700
Equity securities	1,042	583
Available-for-sale short-term investments	—	89
Cash and cash equivalents	1,300	858
Other (1)	259	196
Total investment income	8,752	5,426
Less: Investment expenses (2)	(610)	(641)
Net investment income	$8,142	$4,785

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

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Equity Securities

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

	Three Months Ended March 31, 2019	2018
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting period	$2,400	$(5,109)

Investment Real Estate

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

	March 31, 2019	December 31, 2018
Income Producing:		
Investment real estate	$14,628	$14,619
Less: Accumulated depreciation	(973)	(870)
	13,655	13,749
Non-Income Producing:		
Investment real estate	11,415	10,690
Investment real estate, net	$25,070	$24,439

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

	Three Months Ended March 31, 2019	2018
Depreciation expense on investment real estate	$103	$103

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4. Reinsurance

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

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

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

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

	Ratings as of March 31, 2019			Due from as of	
Reinsurer	AM Best Company	Standard and Poor's Rating Services, Inc.	Moody's Investors Service, Inc.	March 31, 2019	December 31, 2018
Allianz Risk Transfer	A+	AA	Aa3	$ 109,183	$ 139,565
Florida Hurricane Catastrophe Fund (1)	n/a	n/a	n/a	107,537	165,022
Renaissance Reinsurance Ltd	A+	A+	A1	26,299	39,459
Chubb Tempest Reinsurance Ltd	n/a	n/a	n/a	—	16,208
Total (2)				$ 243,019	$ 360,254

(1) No rating is available, because the fund is not rated.

(2) Amounts represent prepaid reinsurance premiums, reinsurance receivables and net recoverables for paid and unpaid losses, including incurred but not reported reserves, and loss adjustment expenses.

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

	Three Months Ended March 31,					
	2019			2018		
	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
Direct	$289,234	$295,377	$ 115,742	$269,984	$262,261	$ 76,639
Ceded	—	(85,650)	(2,648)	—	(79,684)	(713)
Net	$289,234	$209,727	$ 113,094	$269,984	$182,577	$ 75,926

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

	March 31, 2019	December 31, 2018
Prepaid reinsurance premiums	$57,100	$142,750
Reinsurance recoverable on paid losses and LAE	$54,223	$25,238
Reinsurance recoverable on unpaid losses and LAE	269,071	393,365
Reinsurance recoverable and receivable	$323,294	$418,603

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5. Insurance Operations

Deferred Policy Acquisition Costs

The Company defers certain costs relating to written premium, called Deferred Policy Acquisition Costs ("DPAC"). DPAC is amortized over the effective period of the related insurance policies.

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

	Three Months Ended March 31,	
	2019	2018
DPAC, beginning of period	$84,686	$73,059
Capitalized Costs	41,520	41,939
Amortization of DPAC	(42,922)	(36,991)
DPAC, end of year	$83,284	$78,007

Regulatory Requirements and Restrictions

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

In accordance with Florida Insurance Code, and based on the calculations performed by the Company as of December 31, 2018, UPCIC has the capacity to pay ordinary dividends of $14.0 million during 2019. APPCIC did not meet the earnings or surplus regulatory requirements as of December 31, 2018 to pay ordinary dividends during 2019. For the three months ended March 31, 2019, no dividends were paid from UPCIC or APPCIC to PSI.

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

	March 31, 2019	December 31, 2018
Ten percent of total liabilities		
UPCIC	$89,300	$90,610
APPCIC	$491	$489
Statutory capital and surplus		
UPCIC	$325,383	$291,438
APPCIC	$15,946	$15,973

As of the dates in the table above, both UPCIC and APPCIC exceeded the minimum statutory capitalization requirement. UPCIC also met the capitalization requirements of the other states in which it is licensed as of March 31, 2019. UPCIC and APPCIC are also required to adhere to prescribed premium-to-capital surplus ratios and have met

those requirements at such dates.
The following table summarizes combined net income for UPCIC and APPCIC determined in accordance with statutory accounting practices for the periods presented (in thousands):

	Three Months Ended March 31,	
	2019	2018
Combined net income	$7,623	$14,478

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

	March 31, 2019	December 31, 2018
Restricted cash and cash equivalents	$2,635	$2,635
Investments	$3,913	$3,876

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6. Liability for Unpaid Losses and Loss Adjustment Expenses

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

	Three Months Ended March 31,	
	2019	2018
Balance at beginning of period	$472,829	$248,425
Less: Reinsurance recoverable	(393,365)	(182,405)
Net balance at beginning of period	79,464	66,020
Incurred (recovered) related to:		
Current year	113,279	75,970
Prior years	(185)	(44)
Total incurred	113,094	75,926
Paid related to:		
Current year	34,549	17,407
Prior years	60,724	65,253
Total paid	95,273	82,660
Net balance at end of period	97,285	59,286
Plus: Reinsurance recoverable	269,071	70,351
Balance at end of period	$366,356	$129,637

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7. Long-Term Debt

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

	March 31, 2019	December 31, 2018
Surplus note	$11,029	$11,397

In 2006, UPCIC entered into a $25.0 million surplus note with the State Board of Administration of Florida (the “SBA”) under Florida’s Insurance Capital Build-Up Incentive Program. The surplus note has a twenty-year term and accrues interest, adjusted quarterly based on the 10-year Constant Maturity Treasury Index. Principal and interest are paid periodically pursuant to terms of the surplus note.

UPCIC was in compliance with the terms of the surplus note as of March 31, 2019.

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8. Stockholders' Equity

On December 12, 2018, the Company's Board of Directors authorized a share repurchase program under which the Company may repurchase in the open market up to $20 million of the Company's outstanding shares of common stock through May 31, 2020. During the three months ended March 31, 2019, the Company repurchased 320,500 shares, at an aggregate purchase price of approximately $10.1 million, pursuant to such repurchase program.

On September 5, 2017, the Company's Board of Directors authorized a share repurchase program under which the Company may repurchase in the open market up to $20 million of the Company's outstanding shares of common stock through December 31, 2018. During the three months ended March 31, 2018, the Company repurchased 92,749 shares, at an aggregate price of approximately $2.7 million, pursuant to such repurchase program.

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9. Income Taxes

During the three months ended March 31, 2019 and 2018, the Company recorded approximately $13.6 million and $11.6 million of income tax expense, respectively. The effective tax rate ("ETR") for the three months ended March 31, 2019 was 25.3% compared to a 22.5% ETR for the same period in 2018.

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

Income tax expense for the three months ended March 31, 2019 included a net credit for discrete items of $0.5 million relating to excess tax benefits resulting from stock-based compensation awards that vested and/or were exercised during the first quarter in 2019, which decreased the current quarter's ETR by 1.0 percent. Income tax expense for the three months ended March 31, 2018 included a credit for discrete items of $1.8 million for excess tax benefits resulting from stock-based compensation awards that vested and/or were exercised during the first quarter in 2018.

The statutory tax rate consists of a federal income tax rate of 21% and a state income tax rate, net of federal benefit, of 3.6%.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. As of March 31, 2019, the Company's 2016 through 2018 tax years are still subject to examination by the Internal Revenue Service and various tax years remain open to examination in certain state jurisdictions.

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10. Earnings Per Share

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

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

	Three Months Ended March 31,	
	2019	2018
Numerator for EPS:		
Net income	$40,148	$40,055
Less: Preferred stock dividends	(3)	(3)
Income available to common stockholders	$40,145	$40,052
Denominator for EPS:		
Weighted average common shares outstanding	34,741	34,839
Plus: Assumed conversion of share-based compensation (1)	440	796
Assumed conversion of preferred stock	25	25
Weighted average diluted common shares outstanding	35,206	35,660
Basic earnings per common share	$1.16	$1.15
Diluted earnings per common share	$1.14	$1.12

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

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11. Other Comprehensive Income (Loss)

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

	Three Months Ended March 31,					
	2019			2018		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Net changes related to available-for-sale securities:						
Unrealized holding gains (losses) arising during the period	$16,045	$3,953	$12,092	$(8,034)	$(1,889)	$(6,145)
Less: Reclassification adjustments for (gains) losses realized in net income	(145)	(37)	(108)	2,765	670	2,095
Other comprehensive income (loss)	$15,900	$3,916	$11,984	$(5,269)	$(1,219)	$(4,050)

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Three Months Ended March 31,		Affected Line Item in the Statement Where Net Income is Presented
	2019	2018	
Unrealized gains (losses) on available-for-sale debt securities			
	$145	$(2,765)	Net realized gains (losses) on sale of securities
	(37)	670	Income taxes
Total reclassification for the period	$108	$(2,095)	Net of tax

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12. Commitments and Contingencies

Obligations under Multi-Year Reinsurance Contracts

We purchase reinsurance coverage to protect our capital and to limit our losses when major events occur. Our reinsurance commitments run from June 1 of the current year to May 31 of the following year. Certain of our reinsurance agreements are for periods longer than one year. Amounts payable for coverage during the current June 1 to May 31 contract period are recorded as “Reinsurance Payable” in the financial statements. Multi-year contract commitments for future years will be recorded at the commencement of the coverage period. Amounts payable for future reinsurance contract years that the Company is obligated to pay are: (1) $82.3 million in 2019 and (2) $33.9 million in 2020.

Litigation

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

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

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

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13. Fair Value Measurements

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

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

Summary of Significant Valuation Techniques for Assets Measured at Fair Value on a Recurring Basis

Level 1

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

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

Level 2

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

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

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

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

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

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

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

	Fair Value Measurements March 31, 2019			
	Level 1	Level 2	Level 3	Total
Available-For-Sale Debt Securities				
U.S. government obligations and agencies	$—	$65,642	$ —	$65,642
Corporate bonds	—	427,433	—	427,433
Mortgage-backed and asset-backed securities	—	331,767	—	331,767
Municipal bonds	—	3,420	—	3,420
Redeemable preferred stock	—	11,766	—	11,766
Equity securities:				
Common stock	4,342	—	—	4,342
Mutual funds	48,833	—	—	48,833
Total assets accounted for at fair value	$53,175	$840,028	$ —	$893,203

	Fair Value Measurements December 31, 2018			
	Level 1	Level 2	Level 3	Total
Available-For-Sale Debt Securities				
U.S. government obligations and agencies	$—	$66,637	$ —	$66,637
Corporate bonds	—	428,865	—	428,865
Mortgage-backed and asset-backed securities	—	309,597	—	309,597
Municipal bonds	—	3,362	—	3,362
Redeemable preferred stock	—	11,977	—	11,977
Equity securities:				
Common stock	15,564	—	—	15,564
Mutual funds	47,713	—	—	47,713
Total assets accounted for at fair value	$63,277	$820,438	$ —	$883,715

The Company utilizes third-party independent pricing services that provide a price quote for each available-for-sale debt security and equity security. Management reviews the methodology used by the pricing services. If management believes that the price used by the pricing service does not reflect an orderly transaction between participants, management will use an alternative valuation methodology. There were no adjustments made by the Company to the prices obtained from the independent pricing source for any available-for-sale debt security or equity securities included in the tables above.

The following table summarizes the carrying value and estimated fair values of the Company's financial instruments not carried at fair value as of the dates presented (in thousands):

	March 31, 2019		December 31, 2018	
	Carrying Value	(Level 3) Estimated Fair Value	Carrying Value	(Level 3) Estimated Fair Value
Liabilities (debt):				
Surplus note	$11,029	$9,955	$11,397	$10,125

Level 3

Long-term debt: The fair value of the surplus note was determined by management from the expected cash flows discounted using the interest rate quoted by the holder. The SBA is the holder of the surplus note and the quoted interest rate is below prevailing rates quoted by private lending institutions. However, as the Company's use of funds from the surplus note is limited by the terms of the agreement, the Company has determined the interest rate quoted by the SBA to be appropriate for purposes of establishing the fair value of the note.

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14. Subsequent Events

On April 10, 2019, the Company declared a dividend of $0.16 per share on its outstanding common stock payable on May 10, 2019, to shareholders of record on May 3, 2019.

The Company performed an evaluation of subsequent events through the date the Financial Statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the Financial Statements as of March 31, 2019.

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

Unless the context otherwise requires, all references to "we," "us," "our," and "Company" refer to Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries. You should read the following discussion together with our unaudited condensed consolidated financial statements ("Financial Statements") and the related notes thereto included in "Part I, Item 1—Financial Statements", and our audited condensed consolidated financial statements and the related notes thereto included in "Part II, Item 8—Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for the year ended December 31, 2018. Operating results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for the year.

Cautionary Note Regarding Forward-Looking Statements

In addition to historical information, this report may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The forward-looking statements anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These forward-looking statements may be identified by their use of words like "plans," "seeks," "expects," "will," "should," "anticipates," "estimates," "intends," "believes," "likely," "targets" and other words with similar meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure and other risk management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements as a result of the risks set forth below, which are a summary of those set forth in our Annual Report on Form 10-K for the year ended December 31, 2018. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

Risks and uncertainties that may affect our financial condition and operating results include, but are not limited to, the following:

- *Unanticipated increases in the severity or frequency of claims, including those relating to catastrophes, severe weather events and changing climate conditions, which may exceed our current reserves established for claims;*
- *Failure of our risk mitigation strategies, including failure to accurately and adequately price the risks we underwrite and to write effective exclusions and other loss limitation methods in our insurance policies;*
- *Loss of independent insurance agents and inability to attract new independent agents;*
- *Reliance on models, which are inherently uncertain, as a tool to evaluate risks;*
- *The continued availability of reinsurance at current levels and prices, and our ability to collect payments from our reinsurers;*
- *Changes in industry trends, including changes due to the cyclical nature of the industry and increased competition;*
- *Geographic concentration of our business in Florida and the effectiveness of our growth and diversification strategy in new markets;*
- *Loss of key personnel and inability to attract and retain talented employees;*
- *Failure to comply with existing and future guidelines, policies and legal and regulatory standards;*
- *The ability of our claims professionals to effectively manage claims;*
- *Litigation or regulatory actions that could result in significant damages, fines or penalties;*
- *A downgrade in our Financial Stability Rating® and its impact on our competitive position, the marketability of our product offerings, our liquidity and profitability;*
- *The impact on our business and reputation of data and security breaches due to cyber-attacks or our inability to effectively adapt to changes in technology;*
- *Our dependence on the returns of our investment portfolio, which are subject to market risk;*
- *Legal, regulatory or tax changes that increase our operating costs and decrease our profitability, such as limitations on rate changes or requirements to participate in loss sharing;*
- *Our dependence on dividends and permissible payments from our subsidiaries; and*

- *The ability of our Insurance Entities to comply with statutory capital and surplus minimums and other regulatory and licensing requirements.*

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OVERVIEW

We are a vertically integrated holding company offering property and casualty ("P&C") insurance and value-added insurance services. We develop, market and underwrite insurance products for consumers predominantly in the personal residential homeowners line of business and perform substantially all other insurance-related services for our primary insurance entities, including risk management, claims management, and distribution. Our primary insurance entities, Universal Property & Casualty Insurance Company ("UPCIC") and American Platinum Property and Casualty Insurance Company ("APPCIC" and together with UPCIC, the "Insurance Entities"), offer insurance products through both our appointed independent agent network and our online distribution channels across 18 states (primarily in Florida), with licenses to write insurance in an additional two states. The Insurance Entities seek to produce an underwriting profit over the long term (defined as earned premium less losses, loss adjustment expense ("LAE"), policy acquisition costs and other operating costs); maintain a strong balance sheet to prepare for years in which the Insurance Entities are not able to achieve an underwriting profit; and generate investment income on assets exceeding short-term operating needs.

The following Management's Discussion and Analysis ("MD&A") is intended to assist in an understanding of our financial condition and results of operations. This MD&A should be read in conjunction with our Financial Statements and accompanying Notes appearing elsewhere in this Report (the "Notes"). In addition, reference should be made to our audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements and "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2018. Except for the historical information contained herein, the discussions in this MD&A contain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed above under "Cautionary Note Regarding Forward-Looking Statements."

RESULTS OF OPERATIONS AND ANALYSIS OF FINANCIAL CONDITION

Highlights

Results of operations for the first quarter of fiscal 2019, in each case compared with the first quarter of fiscal 2018 (unless otherwise specified), include:

- Direct premiums written overall grew by $19.3 million, or 7.1%, to $289.2 million.
- In Florida, direct premiums written grew by $8.0 million, or 3.4%, and in our other states, direct premiums written grew by $11.3 million, or 31.5%.
- Net earned premiums grew by $27.2 million, or 14.9%, to $209.7 million.
- Total revenues increased by $45.1 million, or 23.5%, to $236.6 million.
- Loss ratio was 53.9% as compared to 41.6%.
- Diluted earnings per share ("EPS") increased by $0.02 to $1.14.
- Paid dividends of $0.16 per share in the first quarter in 2019.
- Book value per share increased by $1.15, or 8.0%, to $15.57 at March 31, 2019 from $14.42 at December 31, 2018.
- Repurchased 320,500 shares during the quarter at an aggregate purchase price of $10.1 million pursuant to our 2019–2020 share repurchase program.

Results of Operations

Net income was $40.1 million for the three months ended March 31, 2019, relatively flat when compared to the three months ended March 31, 2018. Diluted EPS for the current quarter was $1.14 compared to $1.12 in 2018, an increase of $0.02 or 1.8%. Weighted average diluted common shares were lower by 1.3% to 35.2 million shares. Benefiting the quarter were increases in net earned premium, net investment income and unrealized gains from an increase in value of equity securities, offset by realized losses upon the sale of equity securities and increased operating costs for losses and LAE and general and administrative costs. Direct and net earned premium were up 12.6% and 14.9%, respectively due to growth in all states in which we are licensed and writing during the past 12 months and reflects a lower cost of reinsurance as a percentage of direct earned premium. Increases in losses and LAE were the result of premium growth, increased estimated losses for the current year, a hail event in Brevard County, Florida in the first quarter and a lower benefit from claim adjustment fees ceded to reinsurers as more hurricane claims made in prior years concluded during the quarter.

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A detailed discussion of our results of operations follows the table below (in thousands, except per share data).

	Three Months Ended March 31,		Change	
	2019	2018	$	%
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$289,234	$269,984	$19,250	7.1 %
Change in unearned premium	6,143	(7,723)	13,866	NM
Direct premium earned	295,377	262,261	33,116	12.6 %
Ceded premium earned	(85,650)	(79,684)	(5,966)	7.5 %
Premiums earned, net	209,727	182,577	27,150	14.9 %
Net investment income	8,142	4,785	3,357	70.2 %
Net realized gains (losses) on sale of securities	(11,525)	(2,641)	(8,884)	336.4 %
Net change in unrealized gains (losses) of equity securities	18,032	(5,109)	23,141	NM
Commission revenue	5,505	5,271	234	4.4 %
Policy fees	5,021	4,775	246	5.2 %
Other revenue	1,684	1,842	(158)	(8.6)%
Total premiums earned and other revenues	236,586	191,500	45,086	23.5 %
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	113,094	75,926	37,168	49.0 %
General and administrative expenses	69,748	63,875	5,873	9.2 %
Total operating costs and expenses	182,842	139,801	43,041	30.8 %
INCOME BEFORE INCOME TAXES	53,744	51,699	2,045	4.0 %
Income tax expense	13,596	11,644	1,952	16.8 %
NET INCOME	$40,148	$40,055	$93	0.2 %
Other comprehensive income (loss), net of taxes	11,984	(4,050)	16,034	NM
COMPREHENSIVE INCOME	$52,132	$36,005	$16,127	44.8 %
DILUTED EARNINGS PER SHARE DATA:				
Diluted earnings per common share	$1.14	$1.12	$0.02	1.8 %
Weighted average diluted common shares outstanding	35,206	35,660	(454)	(1.3)%

NM – Not Meaningful

We have seen increases in policy count, in-force premium and total insured value in all states for the past three years. Direct premiums written increased by $19.3 million, or 7.1%, for the quarter ended March 31, 2019, driven by growth within our Florida business of $8.0 million, or 3.4%, and growth in our other states business of $11.3 million, or 31.5%, as compared to the same period of the prior year. Florida growth was driven by growth in policy count as well as the impact of an average statewide rate increase of 3.4% which was approved in early December 2017 and effective for new business beginning on December 7, 2017 and for renewal business beginning on January 26, 2018. As discussed below in losses and LAE, we implemented new binding guidelines during the first quarter on new business to address emerging loss trends. Premiums in force increased in every state in which we are writing compared to the prior year. During the first quarter of 2019, we commenced writing in Illinois and we are now actively writing policies in 17 states outside our home state of Florida.

The following table provides direct premiums written for Florida and Other States for the three months ended March 31, 2019 and 2018 (dollars in thousands):

	For the Three Months Ended					
	March 31, 2019		March 31, 2018		Growth year over year	
State	Direct Premiums Written	%	Direct Premiums Written	%	$	%
Florida	$242,148	83.7 %	$234,178	86.7 %	$7,970	3.4 %
Other states	47,086	16.3 %	35,806	13.3 %	11,280	31.5%

Total	$289,234	100.0%	$269,984	100.0%	$19,250	7.1 %

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Direct premium earned increased by $33.1 million, or 12.6%, for the quarter ended March 31, 2019, reflecting the earning of premiums written over the past 12 months and changes in rates and policy count during that time. Reinsurance enables our Insurance Entities to limit potential exposures to catastrophic events. Ceded premium represents amounts paid to reinsurers for this protection. See the reinsurance discussion included in “Contractual Obligations” for additional information. Ceded premium earned increased by $6.0 million, or