

UNITED INSURANCE HOLDINGS CORP.®
2015 Annual Report

Dear Fellow Shareholders:

While I have sometimes admired their style, I have never quite understood the purpose of long shareholder letters full of philosophical musings and commentary on global geopolitical trends. At UPC Insurance, we are far too busy growing our business and executing our model to engage in such pursuits. That does not mean that tone from the top and culture are not an important part of our strategy – they are indeed. And my particular experiences and worldview, in conjunction with the leadership of our Board of Directors, go a long way towards forming that culture. Nonetheless, culture and tone only matter to the extent that they are helpful in creating an effective company that achieves results that benefit its stakeholders. Perhaps someday I will articulate in one of these letters the key principles that form the unique culture of UPC Insurance. For now, though, let's focus on the achievements of our company.

2015 was my third full year at the company. When we did our first public offering in December 2012, I told investors that we would build a geographically diversified book of business in coastal states from Texas to Maine, and that our business model could produce returns on equity of around 20% in low-to-moderate catastrophe loss years, and 10%-15% in high catastrophe loss years. At the outset of that process in 2012 we were writing in only two states and had over 95% of our business in Florida. By the end of 2015, we were writing in eleven states and had almost 50% of our business outside the State of Florida. That's great diversification, and it is accelerating – in 2015, over 80% of the 109,000 new policies we wrote came from outside Florida. Our team has also produced returns for shareholders that match the expectations we set for investors back in 2012. Here's a snapshot of our retained catastrophe losses and ROE in each of those three years:

UPC Insurance Cat Losses & ROE 2013-2015	Year Ended 12/31/13	Year ended 12/31/14	Year ended 12/31/15
TTM net retained cat losses (000's)	\$ 5,666	\$ 974	\$ 29,132
TTM ROAE	20.8%	27.2%	12.4%

So, far from being a down year for our company, 2015 was, in our view, the year that validated many of the assumptions we had made in building our business model. Every year we tweak our reinsurance, our exposure management, our products, and other aspects of our plan to adapt and learn as we grow. But, the point is, even as we have been growing and learning from our experience in opening new states, we have continued to produce terrific results. The secret of UPC Insurance is that we have been multitasking – growing and delivering as promised, while investing heavily in people, infrastructure, technology, and distribution. Those investments continue, but much of the heavy lifting is behind us, which is why we are so bullish on our ability to capitalize on the opportunity we see in front of us.

All the best stories are true. Our story sounded good to all of us in 2012, but it contained many assumptions about the market opportunity and our ability to execute on that opportunity. More than three years later, it is clear to our team that the story is true! So, why is UPC still a good investment? Three primary reasons: (1) Our market opportunity is big, and we not nearly done tapping it; (2) we have invested in the people, infrastructure, and distribution we need to go the rest of the way; and (3) our team has shown we know how to grow and execute our model in both low catastrophe loss and high catastrophe loss scenarios.

Challenges remain, and no company's future is certain. But, it has been gratifying to be a part of a team like we have at UPC Insurance – dedicated, united, committed, and focused. I like our chances, and I appreciate the support of my fellow shareholders as we continue on our journey to create "the premier provider of property insurance in catastrophe-exposed areas."

Keep Moving Forward!

Sincerely,



John L. Forney, CFA
President & Chief Executive Officer
United Insurance Holdings Corp.

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

FORM 10-K

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

For the fiscal year ended December 31, 2015

Commission File Number 001-35761

United Insurance Holdings Corp.

Delaware
(State of Incorporation)

75-3241967
(IRS Employer Identification Number)

800 2nd Avenue S
St. Petersburg, Florida 33701
727-895-7737

Securities registered pursuant to Section 12(b) of the Act:
COMMON STOCK, \$0.0001 PAR VALUE PER SHARE **NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:
PREFERRED SHARE PURCHASE RIGHTS

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

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

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Non-affiliates held common stock issued by the registrant with an aggregate market value of \$263,296,194 as of June 30, 2015, calculated using the closing sales price reported for such date on the NASDAQ Stock Market. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

As of March 1, 2016, 21,518,385 shares of common stock, par value \$0.0001 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2015.

Forward-Looking Statements	3
Part I.	
Item 1. Business	4
Item 1A. Risk Factors	20
Item 1B. Unresolved Staff Comments	28
Item 2. Properties	29
Item 3. Legal Proceedings	29
Item 4. Mine Safety Disclosures	29
Part II.	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6. Selected Financial Data	33
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	35
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	51
Item 8. Financial Statements and Supplementary Data	53
Auditor’s Report	53
Consolidated Balance Sheets	54
Consolidated Statements of Comprehensive Income	55
Consolidated Statements of Stockholders’ Equity	56
Consolidated Statements of Cash Flows	57
Notes to Consolidated Financial Statements	58
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	91
Item 9A. Controls and Procedures	91
Item 9B. Other Information	92
Part III.	
Item 10. Directors, Executive Officers and Corporate Governance	94
Item 11. Executive Compensation	94
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	94
Item 13. Certain Relationships and Related Transactions, and Director Independence	94
Item 14. Principal Accounting Fees and Services	94
Part IV.	
Item 15. Exhibits, Financial Statement Schedules	95
Exhibit Index	102
Signatures	106

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

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-K for the year ended December 31, 2015 or in documents incorporated by reference that are not historical fact are “forward-looking statements” within the meaning of the Private Securities Reform Litigation Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity, 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 viability of reinsurance;
- assessments charged by various governmental agencies;
- pricing competition and other initiatives by competitors;
- our ability to attract and retain the services of senior management;
- the outcome of litigation pending against us, including the terms of any settlements;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- our exposure to catastrophic events and severe weather conditions;
- downgrades in our financial strength ratings; and
- other risks and uncertainties described under “**Risk Factors**” below.

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

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us described in our filings with the Securities and Exchange Commission (SEC). The forward-looking events that we discuss in this Form 10-K are valid only as of the date of our Form 10-K 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 of this Form 10-K. Except as required by applicable law, we undertake no obligation and disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

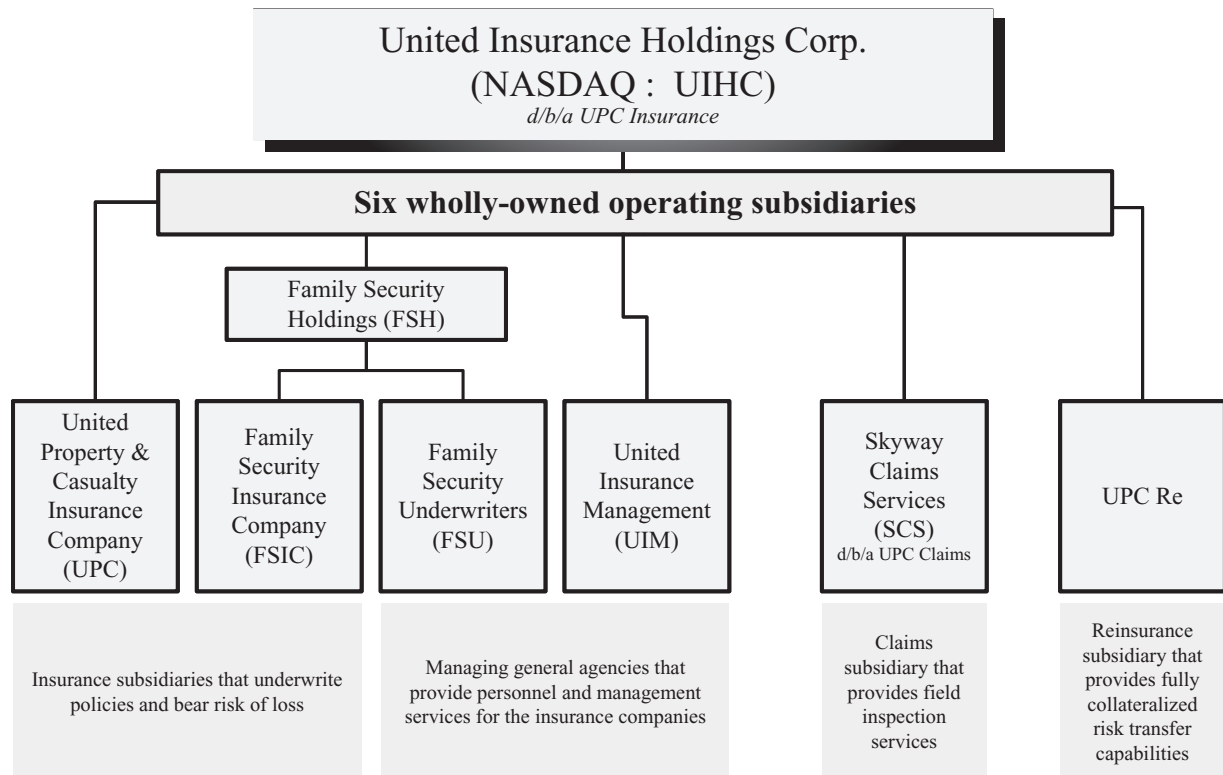
PART I

Item 1. Business

INTRODUCTION

Company Overview

United Insurance Holdings Corp. serves as the holding company for United Property & Casualty Insurance Company and its affiliated companies (referred to in this document as we, our, us, the Company or UPC Insurance). We conduct our business principally through the six wholly-owned operating subsidiaries shown below. Collectively, including United Insurance Holdings Corp., we refer to these entities as “UPC Insurance,” which is the preferred brand identification we are establishing for our Company.



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

We conduct our operations under one business segment.

Vision and Goals

The Company's vision is: "*to be the premier provider of property insurance in catastrophe exposed areas.*"

Our mission is to build a sustainable franchise that delivers quality insurance products in select markets in order to produce superior risk-adjusted returns for investors. Our strategy is to grow in our target markets by building a team of insurance professionals that can (i) provide agents and policyholders quality insurance products with world-class service and systems; (ii) raise and manage capital to support business growth; and (iii) build and maintain relationships with external partners. We believe the team of professionals we have assembled has proven its ability to do each of these things, thereby providing us a source of sustainable competitive advantage as we continue to grow our footprint.

Our emphasis on growing in areas with an ongoing threat of natural catastrophes exposes our company to risk and volatility. We manage the inherent volatility associated with our risk profile in three primary ways: 1) *strategically*, through geographic and product diversification; 2) *financially*, through the use of robust reinsurance programs, low financial and operating leverage, and a conservative investment approach; and 3) *operationally*, by insourcing key insurance functions and establishing strong external distribution partnerships.

To achieve our goals in 2016, UPC Insurance seeks to:

- Grow premium base in existing states;
- Obtain regulatory approval to complete the pending acquisition of Interboro Insurance Company;
- Begin writing policies in several new states in support of our growth and diversification strategy;
- Expand our product offerings in states outside Florida;
- Grow commercial residential property writings;
- Utilize and add strategic partnerships to expand distribution and service capabilities in all states;
- Improve the efficiency of our catastrophe reinsurance programs; and
- Leverage investments in technology and analytics to manage exposure growth and improve profitability.

Corporate Information

In 1999, we formed our original holding company, United Insurance Holdings, L.C., a Florida limited liability company, our original insurance affiliate—United Property & Casualty Insurance Company, and our original management affiliate—United Insurance Management, L.C., and conducted operations under that structure until 2004. In 2004, we added our claims adjusting affiliate—Skyway Claims Services, LLC, and continued operations under the new structure until we completed a reverse merger in September 2008 and became a publicly traded corporation. In April 2011, we founded our reinsurance affiliate—UPC Re. In December 2012, in connection with an underwritten public offering of 5,000,000 shares of our common stock, we applied to list our common stock on The NASDAQ Capital Market (NASDAQ). Our application was approved, and our common stock began trading on NASDAQ on December 11, 2012.

On February 3, 2015, we successfully completed the acquisition of Family Security Holdings, LLC and its two wholly-owned subsidiaries in an all-stock transaction which resulted in the issuance of 503,857 shares of our common stock.

Our principal executive offices are located at 800 2nd Avenue S, St. Petersburg, FL 33701 and our telephone number at that location is (727) 895-7737.

Recent Events

On February 17, 2016, our Board of Directors declared a \$0.05 per share quarterly cash dividend payable on March 18, 2016, to stockholders of record on March 4, 2016.

During the fourth quarter of 2015, we assumed more than 18,300 homeowners and dwelling fire policies from Citizens Property Insurance Company (Citizens), representing approximately \$29,400,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

On November 17, 2015, we assumed more than 60 commercial residential policies from Citizens, representing approximately \$1,478,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

On September 26, 2015, we entered into a Stock Purchase Agreement with Interboro, LLC to acquire Interboro Insurance Company (Interboro), a New York domiciled property and casualty insurer licensed in New York, South Carolina, Alabama, Louisiana, and Washington, D.C. Under the terms of the agreement, we will acquire all of the outstanding common stock of Interboro for \$57,000,000. We will pay \$48,500,000 in cash at closing and issue an \$8,500,000 promissory note to Interboro, LLC, which will mature in 18 months and bear interest at an annual rate of 6%. The purchase price is subject to adjustment if Interboro's GAAP net book value is less than or greater than \$40,700,000 as of the closing of the purchase transaction. Upon consummation of this transaction, we will acquire approximately \$55,000,000 of homeowners' insurance gross written premiums in New York and South Carolina. All personal automobile and other non-homeowners insurance lines of business will remain with the Seller and its retained insurance subsidiaries. Certain other long-term liabilities such as Interboro's pension and leasehold obligations have also been carved out and will be assumed by the Seller. The transaction is subject to customary conditions, including receipt of required regulatory approval from the New York Department of Financial Services without the imposition of burdensome conditions that would materially reduce the expected benefits of the transaction. We currently expect the transaction will close on or about April 1, 2016. Either party may terminate the Stock Purchase Agreement if the closing shall not have occurred on or before June 26, 2016.

PRODUCTS AND DISTRIBUTION

Homeowners policies and related coverage account for the vast majority of the business that we write, but we are diversifying by product as well as geography. We offer the following insurance products:

At-Risk Offerings:

- Homeowners
- Dwelling Fire
- Renters
- Condo Owners
- Commercial Residential

Not At-Risk Offerings:

- Federal Flood
- Equipment Breakdown
- Identity Theft

In 2015, personal property policies (by which we mean both standard homeowners, dwelling fire, renters and condo owners policies) produced written premium of \$543,420,000 and accounted for 95% of our total

written premium. In addition to these policies, we write flood policies, which accounted for 3%, and commercial residential policies, which accounted for the remaining 2% of our 2015 written premium. In 2014, personal property, flood and commercial policies accounted for 96%, 3% and 1%, respectively of our written premiums. In 2013, personal property and flood policies accounted for 96% and 4%, respectively of our total written premium.

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

We have developed a unique and proprietary homeowners product we refer to as “UPC 1.0”. This new product uses a granular approach to pricing for catastrophe perils. Our objective is to create specific geographic areas such that within each territory or “catastrophe band” the expected losses are within a specified range of error or approximation from a central estimate. These areas may have millions of data points that help us create distance-to-coast factors that provide a sophisticated market segmentation that is highly correlated to our risk exposure and reinsurance costs. UPC 1.0 has been filed and approved for use in Connecticut, Georgia, Louisiana, New Jersey, South Carolina and Texas and we plan to file it for use in all our states.

We currently market and distribute our policies to consumers through over 7,000 independent agencies. United Property & Casualty Insurance Company has been focused on the independent agency distribution channel since its inception, and we believe we have built significant credibility and loyalty with the independent agent community in the states in which we operate. We recruit, train and appoint the full-service insurance agencies that distribute our products. Typically, a full service agency is small to medium in size and represents several insurance companies for both personal and commercial product lines. We depend heavily upon our independent agents to produce new business for us. We compensate our independent agents primarily with fixed-rate commissions that are consistent with market practices. In addition to our relationships with individual agencies, we have important relationships with aggregators of underlying agency demand. The two most significant of these relationships are with Allstate in Florida, which, through its Ivantage program, refers homeowners to United Property & Casualty Insurance Company and other partner companies, and with the Florida Association of Insurance Agents (FAIA), which serves as a conduit between United Property & Casualty Insurance Company and many smaller agencies in Florida with whom we do not have direct appointments.

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

COMPETITION

Our target market for homeowners insurance, our primary product offering, includes the 18 states in which we are currently licensed plus the State of Maine where we plan to obtain a license at some point in the future. The following table summarizes the homeowners insurance market in this 19 states region we are targeting for the year ending December 31, 2014:

UPC Insurance's Target Property Insurance Market—2014 Homeowners DWP *

2014 Rank	Company Name	Direct Written Premium	Market Share
1	State Farm Mutual Automobile Insurance	\$ 7,505,865	17.2%
2	Allstate Corp.	4,002,858	9.1%
3	Liberty Mutual	2,799,671	6.4%
4	USAA Insurance Group	2,753,387	6.3%
5	Travelers Companies Inc.	2,013,880	4.6%
6	Nationwide Mutual Group	1,565,168	3.6%
7	Farmers Insurance Group	1,458,462	3.3%
8	Chubb Corp.	1,435,804	3.3%
9	Citizens Property Insurance Corp.	794,976	1.8%
10	Universal Insurance Holdings	733,321	1.7%
11	Tower Hill Group	679,227	1.6%
12	American International Group	618,035	1.4%
13	MetLife, Inc.	591,332	1.4%
14	Amica Mutual Insurance	510,989	1.2%
15	Hartford Financial Services	477,664	1.1%
16	Erie Insurance Group	439,463	1.0%
17	United Property & Casualty Insurance Company	404,851	0.9%
18	Federated National Insurance Co.	349,993	0.8%
19	American Family Mutual	345,316	0.8%
20	HCI Group, Inc.	313,667	0.7%
	Total—Top 20 Insurers	29,793,929	68.2%
	Total—All Insurers	\$43,747,517	100.0%

* The information displayed in the table above is compiled and published by SNL, Inc. as of December 31, 2014 based on information filings submitted annually by all licensed insurance companies. The information above is presented on a consolidated or aggregated basis for each insurance company group. The amounts shown in the table above are also on a statutory basis and exclude non-Homeowners lines of business that are included in the Company's total direct written premium for 2014.

We compete primarily on the basis of product features, the strength of our distribution network, high-quality service to our agents and policyholders, and our reputation for long-term financial stability and commitment. Our long and successful track record writing homeowners insurance in catastrophe-exposed areas has enabled us to develop sophisticated pricing techniques that endeavor to accurately reflect the risk of loss while allowing us to be competitive in our target markets. This pricing segmentation approach allows us to offer products in areas that have a high demand for property insurance yet are under served by the national carriers.

We price our product at levels that we project will generate an acceptable underwriting profit. We try to be extremely granular in our approach, so that our price can accurately reflect the risk and profitability of each potential customer. In our pricing algorithm, we consider credit scores (where allowable) and historical attritional loss costs for the rating territory in which the customer resides, as well as projected reinsurance costs based on the specific geographic and structural characteristics of the home. In addition to the specific characteristics of the policy being priced, we also evaluate the reinsurance cost of each incremental policy on our portfolio as a whole. In this regard, we seek to optimize our portfolio by diversifying our geographic exposure in order to limit our probable maximum loss, total insured value and average annual loss. We use the output from third-party modeling software to analyze our risk exposures, including wind exposures, by zip code or street address as part of the optimization process.

We establish underwriting guidelines to provide a uniform approach to our risk selection and to achieve underwriting profitability. Our underwriters review the property inspection report during their risk evaluation and if the policy does not meet our underwriting criteria, we have the right to cancel the policy within 90 days in Florida and within 60 days in other states.

We strive to provide excellent service to our independent agents and our policyholders. We continue to enhance our web-based systems which allow our agents to prepare and process new policies and policy changes online and deliver policy declarations quickly. We work with a select group of third party vendors to develop, manage and maintain our information technology systems. This allows us to obtain up-to-date technology at a reasonable cost and to achieve economies of scale without incurring significant fixed-overhead expenses. As agent and consumer behaviors evolve we continue to enhance our technology platforms to offer solutions that meet their needs.

GEOGRAPHIC MARKETS

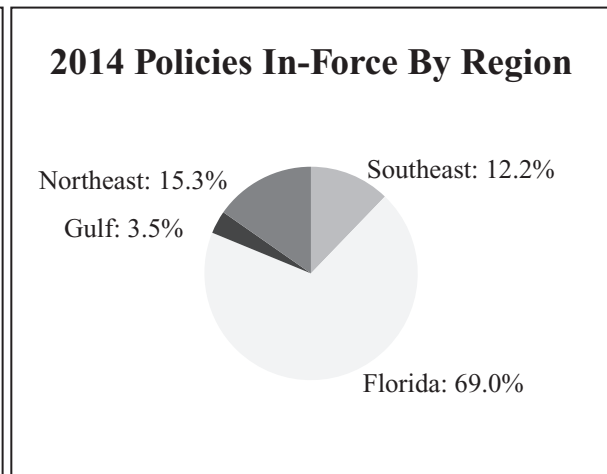
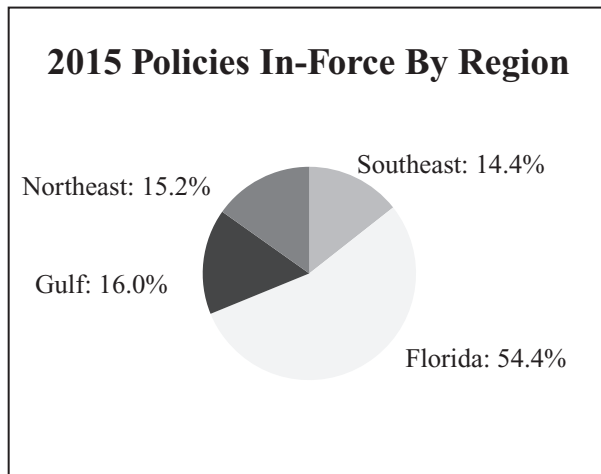
United Property & Casualty Insurance Company began operations in Florida in 1999, and has operated continuously there since that time. In 2010, we began writing business outside of Florida and we currently conduct business in eleven states. The table below shows the years in which we began to actively write in each state:

<u>State</u>	<u>Year Became Active</u>
Florida	1999
South Carolina	2010
Massachusetts	2011
Rhode Island	2012
North Carolina	2013
New Jersey	2013
Texas	2013
Louisiana	2014
Georgia	2015
Hawaii	2015
Connecticut	2016

Our insurance affiliates are also licensed to write, but have not commenced writing business in Alabama, Delaware, Maryland, Mississippi, New Hampshire, New York and Virginia. It is a fundamental part of our strategy to diversify our operations outside of Florida and to write in multiple states where the perceived threat of natural catastrophes has caused large national insurance companies to reduce their concentration.

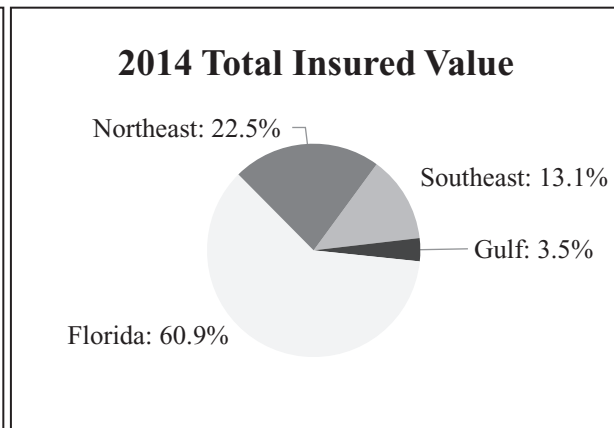
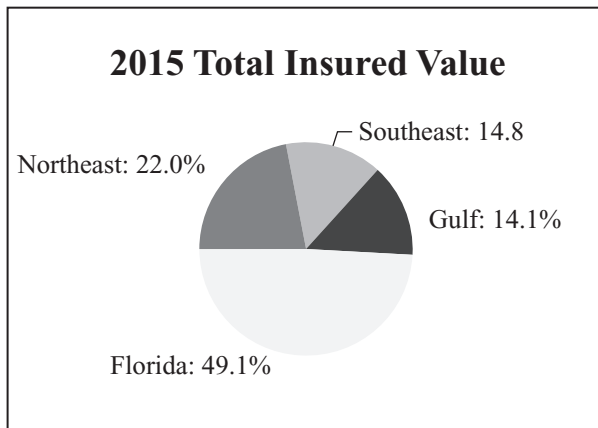
The table below shows the geographic distribution of our 347,015 policies in-force as of December 31, 2015, and 252,104 policies in-force as of December 31, 2014.

Policies In-Force By Region	2015 Policies	%	2014 Policies	%
Florida	188,748	54.4%	173,630	69.0%
Gulf	55,555	16.0	8,937	3.5
Texas	36,765	10.6	8,927	3.5
Louisiana	18,790	5.4	10	—
Northeast	52,738	15.2	38,731	15.3
Massachusetts	25,298	7.3	20,463	8.1
Rhode Island	18,058	5.2	14,387	5.7
New Jersey	9,382	2.7	3,881	1.5
Southeast	49,974	14.4	30,806	12.2
South Carolina	25,786	7.4	19,492	7.7
North Carolina	23,771	6.9	11,314	4.5
Georgia	417	0.1	—	—
Total	347,015	100%	252,104	100%



As of December 31, 2015, our total insured value of all policies in-force was approximately \$159,605,892,000, an increase of \$44,361,150,000, or 38.5%, from the same date in 2014. We have approximately 49.1% of our total insured value in Florida compared to roughly 60.9% as of December 31, 2014. The following table provides evidence of our improving geographic diversification by illustrating the breakdown of total insured value:

Total Insured Value By Region	2015 TIV	%	2014 TIV	%
Florida	\$ 78,539,211	49.1%	\$ 70,200,560	60.9%
Northeast	34,920,238	22.0	25,905,905	22.5
Massachusetts	18,599,286	11.7	14,830,428	12.9
Rhode Island	10,959,416	6.9	8,920,721	7.7
New Jersey	5,361,536	3.4	2,154,756	1.9
Southeast	23,678,475	14.8	15,048,641	13.1
South Carolina	12,953,536	8.1	10,096,269	8.8
North Carolina	10,493,453	6.6	4,952,372	4.3
Georgia	231,486	0.1	—	—
Gulf	22,467,968	14.1	4,089,636	3.5
Texas	15,111,264	9.5	4,085,220	3.5
Louisiana	7,356,704	4.6	4,416	—
Total	\$159,605,892	100%	\$115,244,742	100%



RESERVE FOR UNPAID LOSSES

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

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

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

We maintain an in-house claims staff that monitors and directs all aspects of our claims process. We assign the fieldwork to our wholly-owned claims subsidiary, or to third-party claims adjusting companies, none of whom have the authority to settle or pay any claims on our behalf. The claims adjusting companies conduct inspections of the damaged property and prepare initial estimates. We review the inspection reports and initial estimates to determine the amounts to be paid to the policyholder in accordance with the terms and conditions of the policy in effect at the time that the policyholder incurs the loss. We maintain strategic relationships with multiple claims adjusting companies that we can engage should we need additional non-catastrophe claims servicing capacity. We believe the combination of our internal resources and relationships with external claims servicing providers provide an adequate level of claims servicing in the event catastrophes affect our policyholders.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Balance at January 1	\$ 54,436	\$ 47,451	\$35,692
Acquisition of Family Security Insurance Company, Inc. reserves	2,390	—	—
Less: reinsurance recoverable on unpaid losses	<u>1,252</u>	<u>1,957</u>	<u>1,935</u>
Net balance at January 1	<u>\$ 55,574</u>	<u>\$ 45,494</u>	<u>\$33,757</u>
Incurred related to:			
Current year	185,476	122,114	94,752
Prior years	<u>(2,368)</u>	<u>(4,037)</u>	<u>4,078</u>
Total incurred	<u>\$183,108</u>	<u>\$118,077</u>	<u>\$98,830</u>
Paid related to:			
Current year	127,306	83,967	62,494
Prior years	<u>36,698</u>	<u>26,420</u>	<u>24,599</u>
Total paid	<u>\$164,004</u>	<u>\$110,387</u>	<u>\$87,093</u>
Net balance at December 31	\$ 74,678	\$ 53,184	\$45,494
Plus: reinsurance recoverable on unpaid losses	<u>2,114</u>	<u>1,252</u>	<u>1,957</u>
Balance at December 31	<u>\$ 76,792</u>	<u>\$ 54,436</u>	<u>\$47,451</u>
Composition of reserve for unpaid losses and LAE:			
Case reserves	45,502	29,726	28,054
IBNR reserves	<u>31,290</u>	<u>24,710</u>	<u>19,397</u>
Balance at December 31	<u>\$ 76,792</u>	<u>\$ 54,436</u>	<u>\$47,451</u>

LOSS RESERVE DEVELOPMENT

The table on the next page displays UPC Insurance's loss reserve development, on a GAAP basis, for business written in each year from 2005 through 2015; it does not distinguish between catastrophe and attritional losses. The following explanations of the main sections of the table should provide a better understanding of the information displayed:

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

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

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

Cumulative redundancy (deficiency) at December 31, 2015. The cumulative redundancy or deficiency results from the comparison of the net liability re-estimated as of the current balance sheet date to the original net liability, and it indicates an overestimation of the original net liability (a redundancy) or an underestimation of the original net liability (a deficiency).

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

	<u>2015</u>	<u>2014*</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Original net liability . . .	\$74,678	\$55,574	\$45,494	\$33,757	\$30,282	\$23,600	\$20,665	\$19,192	\$21,559	\$23,735	\$ 20,447
Net cumulative paid as of:											
One year later		36,698	26,420	24,599	17,028	3,322	12,533	8,984	9,707	9,047	12,872
Two years later			34,952	32,622	26,889	10,562	7,409	13,148	12,127	13,083	14,363
Three years later				37,692	30,929	16,776	12,444	6,030	14,310	14,115	15,582
Four years later					34,334	18,382	16,369	10,145	6,113	15,395	16,312
Five years later						19,628	17,556	13,441	9,552	7,032	17,356
Six years later							18,478	14,403	11,649	10,264	8,722
Seven years later								15,095	12,543	12,219	11,787
Eight years later									13,097	13,067	13,605
Nine years later										13,508	14,426
Ten years later											14,866
Net liability re-estimated as of:											
End of year	\$74,678	\$55,574	\$45,494	\$33,757	\$30,282	\$23,600	\$20,665	\$19,192	\$21,559	\$23,735	\$ 20,447
One year later		53,206	41,464	37,835	30,949	19,444	21,674	16,556	16,864	17,652	18,802
Two years later			41,457	39,328	33,960	18,382	18,184	17,472	15,759	16,707	17,675
Three years later				37,835	34,469	20,395	17,123	14,400	16,505	16,337	17,355
Four years later					35,996	20,385	18,395	13,590	13,688	16,781	17,814
Five years later						20,807	18,520	14,838	12,568	14,140	18,052
Six years later							18,932	15,111	12,854	12,943	15,604
Seven years later								15,544	13,060	13,171	14,303
Eight years later									13,311	13,387	14,525
Nine years later										13,722	14,746
Ten years later											15,080
Cumulative redundancy (deficiency) at December 31, 2015		2,368	4,037	(4,078)	(5,714)	2,793	1,733	3,648	8,248	10,013	5,367
Cumulative redundancy (deficiency) as a % of reserves originally established		4.3%	8.9%	(12.1)%	(18.9)%	11.8%	8.4%	19.0%	38.3%	42.2%	26.2%
Net reserves	\$74,678	\$55,574	\$45,494	\$33,757	\$30,282	\$23,600	\$20,665	\$19,192	\$21,559	\$23,735	\$ 20,447
Ceded reserves	2,114	1,252	1,957	1,935	3,318	23,814	23,446	20,907	14,445	33,440	153,768
Gross reserves	<u>\$76,792</u>	<u>\$56,826</u>	<u>\$47,451</u>	<u>\$35,692</u>	<u>\$33,600</u>	<u>\$47,414</u>	<u>\$44,111</u>	<u>\$40,099</u>	<u>\$36,004</u>	<u>\$57,175</u>	<u>\$174,215</u>
Net re-estimated		\$53,206	\$41,457	\$37,835	\$35,996	\$20,807	\$18,932	\$15,544	\$13,311	\$13,722	\$ 15,080
Ceded re-estimated		1,190	1,744	2,316	3,944	20,996	21,480	16,933	8,919	19,333	113,406
Gross re-estimated		<u>\$54,396</u>	<u>\$43,201</u>	<u>\$40,151</u>	<u>\$39,940</u>	<u>\$41,803</u>	<u>\$40,412</u>	<u>\$32,477</u>	<u>\$22,230</u>	<u>\$33,055</u>	<u>\$128,486</u>

Note: The cash we received in relation to the commutation of our 2005 contract with the Florida Hurricane Catastrophe Fund (FHCF) caused the decrease in the net cumulative paid amounts beginning in the 2005 column in the table above. The FHCF is a Florida State-sponsored trust fund that provides reimbursement to Florida property insurers for covered hurricane losses.

* The 2014 original net liability balance includes the reserves acquired from Family Security Insurance Company, Inc. as part of the acquisition that was completed on February 3, 2015. See Note 4 to our Notes to Consolidated Financial Statements for further discussion of the acquisition of Family Security Insurance Company, Inc.

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

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

CALENDAR YEAR											1 YR		2 YR	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Development	Development	
2005 AY*	\$58,205	\$53,998	\$52,824	\$52,509	\$52,901	\$53,378	\$50,963	\$49,618	\$49,894	\$ 50,120	\$ 50,462	\$ (342)	\$ (568)	
2006 AY		36,386	31,195	30,570	29,728	29,946	29,753	29,857	29,864	29,858	29,859	(1)	5	
2007 AY			31,465	27,432	26,696	27,000	26,824	26,901	26,958	26,949	26,865	84	93	
2008 AY				33,039	31,157	31,338	31,083	31,394	32,356	32,422	32,604	(182)	(248)	
2009 AY					43,732	43,826	43,406	43,155	43,179	43,031	43,010	21	169	
2010 AY						41,525	40,862	40,858	41,596	41,464	41,474	(10)	122	
2011 AY							43,018	44,746	45,744	46,265	47,370	(1,105)	(1,626)	
2012 AY								57,746	58,818	59,793	59,346	447	(528)	
2013 AY									95,395	89,616	87,759	1,857	7,636	
2014 AY										125,354	123,755	1,599	—	
2015 AY											185,476	—	—	
												\$ 2,368	\$ 5,055	

* Accident Year

As indicated above, the one-year development for our insurance affiliates was \$2,368,000 favorable for 2015, and a reconciliation of these two amounts is shown below:

	2015
Insurance affiliate schedule P, part 2 (loss and DCC) as filed	\$ 208
Adjusting and other added to table above	671
One year development total including adjusting and other	879
Internal payment eliminations for consolidation	1,434
Favorable development per statutory filings	2,313
Favorable development for the month of January for Family Security Insurance Company, Inc. not included in consolidated financial statements	55
Consolidated one year development	<u>\$2,368</u>

REGULATION

We are subject to extensive regulation in the markets we serve, primarily at the state level. In general, these regulations are designed to protect the interests of insurance policyholders. These rules have a substantial effect on our business and relate to a wide variety of matters, including insurer solvency, reserve adequacy, insurance company licensing and examination, agent and adjuster licensing, policy forms, rate setting, the nature and amount of investments, claims practices, participation in shared markets and guaranty funds, transactions with affiliates, the payment of dividends, underwriting standards, statutory accounting methods, trade practices, and

corporate governance. Some of these matters are discussed in more detail below. From time to time, individual states and/or the NAIC propose new regulations and/or legislation that affect us. We can neither predict whether any of these proposals in the various jurisdictions might be adopted, nor what effect, if any, their adoption may have on our results of operations or financial condition. For a discussion of statutory financial information and regulatory contingencies, see Note 12 to our Notes to Consolidated Financial Statements which is incorporated in this Part I, Item 1 by reference.

Our insurance affiliates provide audited statutory financial statements to the various insurance regulatory authorities. With regard to periodic examinations of an insurance company's affairs, insurance regulatory authorities, in general, defer to the insurance regulatory authority in the state in which an insurer is domiciled; however, insurance regulatory authorities from any state in which we operate may conduct examinations at their discretion. United Property & Casualty Insurance Company is domiciled in Florida and Family Security Insurance Company, Inc. is domiciled in Hawaii.

Florida state law requires our insurance affiliate to maintain adequate surplus as to policyholders on a statutory basis of accounting such that 90% of written premiums divided by surplus does not exceed the ratio of 10:1 for gross written premiums or 4.5:1 for net written premiums. The ratio of gross and net written premium to surplus as of December 31, 2015, was 3.7:1 and 2.5:1, respectively, and United Property & Casualty Insurance Company's statutory surplus as regards policyholders of \$135,288,000 exceeded the minimum capital of \$5,000,000 required by Florida law. Family Security Insurance Company's statutory surplus as regards policyholders of \$15,572,302 also exceeded the minimum capital required by Hawaii law.

We are subject to various assessments imposed by governmental agencies or certain quasi-governmental entities. While we may be able to recover from policyholders some of the assessments imposed upon us, our payment of the assessments and our recoveries through policy surcharges may not offset each other in the same fiscal period in our financial statements. See Note 2(j) and Note 12 in our Notes to Consolidated Financial Statements for additional information regarding the assessments that we are currently collecting.

Limitations on Dividends by Insurance Subsidiaries

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

Risk-Based Capital Requirements

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

At December 31, 2015, the RBC ratio for United Property & Casualty Insurance Company and Family Security Insurance Company, Inc. was 419% and 445%, respectively. See Note 12 to our Notes to Consolidated Financial Statements for further discussion of risk-based capital requirements.

Insurance Holding Company Regulation

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

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

We also have a management agreement between Family Security Insurance Company, Inc. and Family Security Underwriters, LLC, which presently provides for monthly management fees. The Hawaii regulatory authority must approve any changes to this agreement.

Underwriting and Marketing Restrictions

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

Most states also have insurance laws requiring that rate schedules and other information be filed with the insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The insurance regulatory authority may disapprove a rate filing if it finds that the rates are inadequate, excessive or unfairly discriminatory.

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

FINANCIAL STABILITY RATING

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

EMPLOYEES

As of March 2016, we have one part time employee, and 119 full time employees, which includes our executive officers. We are neither party to any collective bargaining agreements nor have we experienced any work stoppages or strikes as a result of labor disputes. We believe we have good working relationships with our employees.

AVAILABLE INFORMATION

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

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

Item 1A. Risk Factors

Many factors affect our business and results of operations, some of which are beyond our control. Additional risks and uncertainties we are unaware of, or we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial conditions or results of operations may be materially and adversely affected. In that event, the trading price of our securities could decline, and our stockholders could lose all or part of their investment in our securities. This discussion contains forward-looking statements. See the section entitled FORWARD-LOOKING STATEMENTS for a discussion of uncertainties, risks and assumptions associated with these statements.

RISKS RELATED TO OUR BUSINESS

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

Our property and casualty insurance operations expose us to claims arising from catastrophes. Catastrophes can be caused by various natural events, including hurricanes, windstorms, earthquakes, hail, severe winter weather and fires; they can also be man-made, such as terrorist attacks (including those involving nuclear, biological, chemical or radiological events) or consequences of war or political instability. We may incur catastrophe losses that exceed the amount of:

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

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

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

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

Although we wrote approximately 49% of our policies outside of Florida in 2015, a majority of our policies in-force are still in Florida; therefore, prevailing regulatory, legal, economic, political, demographic, competitive, weather and other conditions in Florida affect our revenues and profitability. Changes in conditions could make doing business in Florida less attractive for us and would have a more pronounced effect on us than it would on other insurance companies that are more geographically diversified.

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

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

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

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

We currently market our policies to a broad range of prospective policyholders through over 7,000 independent agencies. Many of these agents are independent insurance agents that own their customer relationships, and our agency contracts with them limit our ability to directly solicit business from our existing policyholders. Independent agents most commonly represent other insurance companies and we do not control their activities. Historically, we have used marketing relationships with two well-known national insurance companies that do not write new homeowners insurance policies in Florida and two associations of independent insurance agents in Florida to attract and retain agents and agency groups. The loss of these marketing relationships could adversely impact our ability to attract new agents or retain our agency network.

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

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

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

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

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

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

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

We have complied with the provisions regarding annual management assessments of the effectiveness of our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 during 2015 and 2014.

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

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.

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

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

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

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

RISKS RELATED TO THE INSURANCE INDUSTRY

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

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

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

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

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

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

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

The insurance industry is extensively regulated and supervised. Insurance regulatory authorities generally design insurance rules and regulations to protect the interests of policyholders, and not necessarily the interests of insurers, their stockholders, and other investors. We are subject to comprehensive regulation and supervision by state insurance departments in all states, in which our insurance subsidiaries are domiciled, as well as all states in which they are licensed, sell insurance products, issue policies, or handle claims. The regulations of each state are unique and complex and subject to change from time to time, and certain states may have regulations that conflict with the regulations of other states. As a result, we are subject to the risk that compliance with the regulations in one state may not result in compliance with the regulations in another state.

State statutes and administrative rules generally require each insurance company to register with the department of insurance in its state of domicile and to furnish information concerning the operations of the

companies within the holding company system which may materially affect the operations, management or financial condition of the insurers. As part of its registration, each insurance company must identify material agreements, relationships and transactions with affiliates, including without limitation loans, investments, asset transfers, transactions outside of the ordinary course of business, certain management, service, and cost sharing agreements, reinsurance transactions, dividends, and other financial and non-financial components of an insurer's business. Some states impose restrictions or require prior regulatory approval of specific corporate actions, which may adversely affect our ability to operate, innovate, obtain necessary rate adjustments in a timely manner or grow our business profitably. Our ability to comply with these laws and regulations, and to obtain necessary regulatory action in a timely manner is, and will continue to be, critical to our success.

Currently, the federal government's role in regulating or dictating the policies of insurance companies is limited. However, Congress, from time to time, considers proposals that would increase the role of the federal government in insurance regulation, either in addition to or in lieu of state regulation.

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

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

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

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

We use, and we expect to continue to use, reinsurance to help manage our exposure to property and casualty risks. The availability and cost of reinsurance are each subject to prevailing market conditions beyond our control which can affect business volume and profitability. We may be unable to maintain our current reinsurance coverage, to obtain additional reinsurance coverage in the event our current reinsurance coverage is exhausted by a catastrophic event, or to obtain other reinsurance coverage in adequate amounts or at acceptable rates. Similar risks exist whether we are seeking to replace coverage terminated during the applicable coverage period or to renew or replace coverage upon its expiration. We provide no assurance that we can obtain sufficient reinsurance to cover losses resulting from one or more storms in the future, or that we can obtain such reinsurance in a timely or cost-effective manner. If we are unable to renew our expiring coverage or to obtain new reinsurance coverage, either our net exposure to risk would increase or, if we are unwilling to accept an increase in net risk exposures, we would have to reduce the amount of risk we underwrite. Either increasing our net exposure to risk or reducing the amount of risk we underwrite may cause a material adverse effect on our results of operations and our financial condition.

In each of the past ten years, a portion of our reinsurance protection has been provided by the Florida Hurricane Catastrophe Fund (FHCF), a government sponsored entity that provides a layer of reinsurance protection at a price that is lower than otherwise available in the commercial market. The purpose of the FHCF is to protect and advance the state's interest in maintaining insurance capacity in Florida by providing reimbursements to insurers for a portion of their catastrophe hurricane losses. There is no assurance that FHCF will continue to make such reinsurance available on terms consistent with historical practice. The loss of reinsurance provided by FHCF would have an adverse impact on our results of operations and financial condition.

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

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

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

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

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

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

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

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

Our determination of the amount of other-than-temporary impairment to record varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the

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

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

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

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

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.

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.

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

Financial strength ratings have become increasingly important to an insurer's competitive position. Rating agencies review their ratings periodically, and our current ratings may not be maintained in the future. A downgrade in our rating could negatively impact our business volumes, as it is possible demand for our products in certain markets may be reduced or our ratings could fall below minimum levels required to maintain existing business. Additionally, we may find it more difficult to access the capital markets and we may incur higher borrowing costs. If significant losses, such as those resulting from one or more major catastrophes, or significant reserve additions were to cause our capital position to deteriorate significantly, or if one or more rating agencies substantially increase their capital requirements, we may need to raise equity capital in the future to maintain our ratings or limit the extent of a downgrade. For example, a trend of more frequent and severe weather-related catastrophes may lead rating agencies to substantially increase their capital requirements.

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

RISKS RELATED TO AN INVESTMENT IN OUR COMMON STOCK

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

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

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

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

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

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

Our officers and directors beneficially owned approximately 21% of UPC Insurance at December 31, 2015. Our officers' and directors' interests may conflict with the interests of other holders of our common stock and our officers and directors may take action affecting us with which other stockholders may disagree. Our officers and directors, acting together, have the ability to exert significant influence over the following:

- the nomination, election and removal of our Board of Directors;
- the adoption of amendments to our charter documents;
- management and policies; and
- the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets.

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

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

Moreover, our Board of Directors has the ability to designate the terms of and issue a new series of preferred stock.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

On September 5, 2014, we acquired approximately 40,000 square feet of commercial office space and associated property located at 800 2nd Avenue South, St. Petersburg, Florida, for use as our principal executive offices. We completed the renovation of that property in 2015 and moved our principal executive offices in December 2015.

On September 9, 2015, we acquired approximately 7,800 square feet of commercial office space at 724 2nd Avenue South, St. Petersburg, FL. The building is currently unoccupied but is being held for future use and expansion purposes.

We currently lease approximately 800 square feet of office space at 7192 Kalanianaole Highway, Honolulu, Hawaii 96825, in suite G-220. We paid approximately \$22.08 per square foot for rent in 2015 and will pay approximately \$23.16 per square foot from December 2015 through November 2016 when the lease expires.

Item 3. Legal Proceedings

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

At December 31, 2015, we were not involved in any material non claims-related legal actions.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

MARKET INFORMATION

Our common stock trades on the NASDAQ Capital Market (NASDAQ) under the symbol “UIHC”. We have one class of authorized common stock for 50,000,000 shares at a par value of \$0.0001 per share.

The table below sets forth, for the calendar quarter indicated, the high and low sales prices of our common stock as reported on NASDAQ.

	<u>Sales Prices</u>	
	<u>High</u>	<u>Low</u>
2015		
Fourth Quarter	\$19.77	\$12.83
Third Quarter	16.79	12.12
Second Quarter	22.98	13.78
First Quarter	28.43	20.23
2014		
Fourth Quarter	22.41	14.59
Third Quarter	17.77	12.91
Second Quarter	18.56	13.62
First Quarter	16.25	12.00

HOLDERS OF COMMON EQUITY

As of March 1, 2016, we had 4,991 holders of record of our common stock.

DIVIDENDS

During the twelve month period ended December 31, 2015, we declared and paid dividends of \$0.05 per share, each quarter, for total dividends paid of \$4,302,000. During 2014, we paid dividends of \$0.04 per share, each quarter, for total dividends paid of \$3,336,000. In conjunction with the fourth quarter 2012 dividend, our Board indicated its intention to consistently pay a quarterly dividend. However, any future dividend payments will be at the discretion of our Board of Directors and will depend upon our profits, financial requirements and other factors, including legal and regulatory restrictions on the payment of dividends, general business conditions and such other factors as our Board of Directors deems relevant.

Under Florida law, a Florida-domiciled insurer like United Property & Casualty Insurance Company, may not pay any dividend or distribute cash or other property to its stockholders except out of its available and accumulated surplus funds which is derived from realized net operating profits on its business and net realized capital gains. Additionally, Florida-domiciled insurers may not make dividend payments or distributions to stockholders without the prior approval of the insurance regulatory authority if the dividend or distribution would exceed the larger of:

1. the lesser of:
 - a. ten percent of United Property & Casualty Insurance Company's capital surplus, or
 - b. net income, not including realized capital gains, plus a two-year carryforward
2. ten percent of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains, or
3. the lesser of:
 - a. ten percent of capital surplus, or
 - b. net investment income plus a three-year carryforward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains.

Alternatively, United Property & Casualty Insurance Company may pay a dividend or distribution without the prior written approval of the insurance regulatory authority when:

1. the dividend is equal to or less than the greater of:
 - a. ten percent of United Property & Casualty Insurance Company's surplus as to policyholders derived from realized net operating profits on its business and net realized capital gains, or
 - b. United Property & Casualty Insurance Company's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, and:
2. United Property & Casualty Insurance Company will have surplus as to policyholders equal to or exceeding 115% of the minimum required statutory surplus as to policyholders after the dividend or distribution is made, and
3. United Property & Casualty Insurance files a notice of the dividend or distribution with the insurance regulatory authority at least ten business days prior to the dividend payment or distribution, and
4. the notice includes a certification by an officer of United Property & Casualty Insurance Company attesting that, after the payment of the dividend or distribution, United Property & Casualty Insurance Company 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.

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

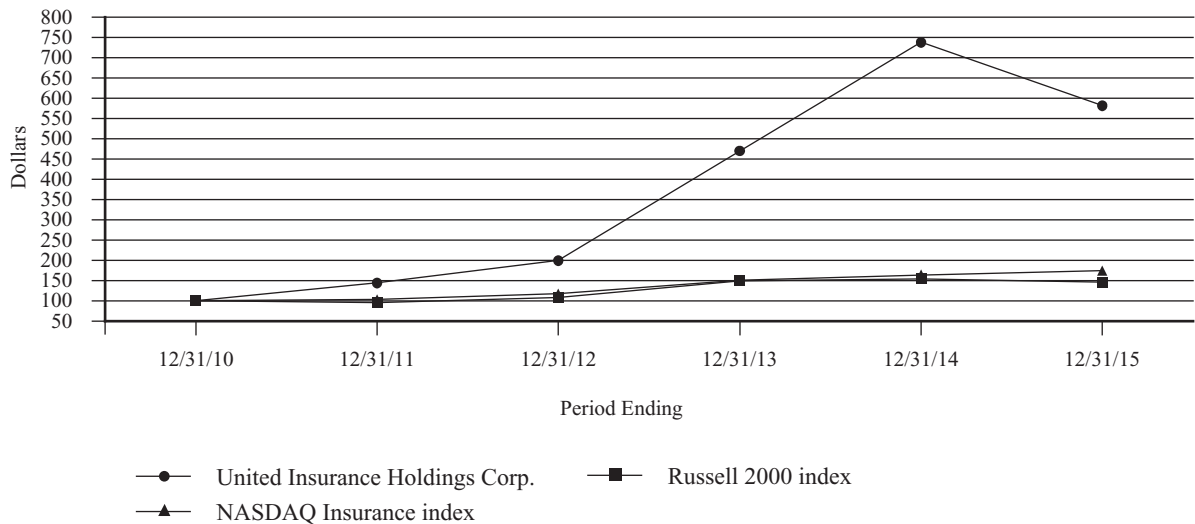
1. the lesser of:
 - a. ten percent (10%) of Family Security Insurance Company Inc.'s surplus as of December 31 of the preceding year, or
 - b. ten percent (10%) of the net income, not including realized capital gains, for the twelve-month period ending December 31 of the preceding year.

In performing the net income test, property and casualty insurers may carry-forward income from the previous two calendar years that has not already been paid out as dividends. This carry-forward shall be computed by taking the net income from the second and third preceding calendar years, not including realized capital gains, less dividends paid in the second and immediately preceding calendar years.

See Note 12 to our Notes to Consolidated Financial Statements for further discussion of restrictions on future payments of dividends by our insurance affiliates.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the dollar change in the cumulative total shareholder return on our common stock from December 31, 2010 through December 31, 2015 as compared to the cumulative total return of the Russell 2000 index and the cumulative total return of the NASDAQ Insurance index. The cumulative total shareholder return is a concept used to compare the performance of a company's stock over time and is the ratio of the stock price change plus the cumulative amount of dividends over the specified time period (assuming dividend reinvestment), to the stock price at the beginning of the time period. The chart depicts the value on December 31, 2011, 2012, 2013, 2014 and 2015 of a \$100 investment made on December 31, 2010 with all dividends reinvested.



	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>	<u>12/31/13</u>	<u>12/31/14</u>	<u>12/31/15</u>
United Insurance Holdings Corp.	\$100.00	\$143.55	\$198.68	\$469.44	\$737.16	\$581.00
Russell 2000 index	100.00	94.55	108.38	148.49	153.73	144.95
NASDAQ Insurance index	100.00	103.09	117.01	150.69	163.56	174.12

The foregoing performance graph and data shall not be deemed “filed” as part of this Annual Report for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section and should not be deemed incorporated by reference into any other filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such filing.

RECENT SALES OF UNREGISTERED SECURITIES

During 2015, we did not have any unregistered sales of our equity securities.

REPURCHASES OF EQUITY SECURITIES

During 2015, we did not repurchase any of our equity securities.

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with Item 7—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and our consolidated financial statements and the related notes appearing in Item 8—FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA of this Annual Report. The consolidated statements of income data for the years ended December 31, 2015, 2014 and 2013 and the consolidated balance sheet data at December 31, 2015 and 2014 are derived from our audited financial statements appearing in Item 8 of this Annual Report. The consolidated statements of income data for the years ended December 31, 2012 and 2011 and the balance sheet data for the years ended December 31, 2013, 2012 and 2011 are derived from our audited consolidated financial statements that are not included in this Annual Report. The historical results shown below are not necessarily indicative of the results to be expected in any future period.

	As of and for the Years Ended December 31,				
	2015	2014	2013	2012	2011
Income Statement Data:					
Revenue:					
Gross premiums written	\$569,736	\$436,753	\$381,352	\$254,909	\$203,806
Gross premiums earned	504,215	400,695	316,708	226,254	180,837
Net premiums earned	\$335,958	\$264,850	\$197,378	\$121,968	\$ 90,080
Net investment income and realized gains	10,039	6,775	3,742	5,243	2,950
Other revenue	11,572	8,605	6,960	4,023	3,388
Total revenue	\$357,569	\$280,230	\$208,080	\$131,234	\$ 96,418
Expenses:					
Loss and loss adjustment expenses	183,108	118,077	98,830	58,409	38,861
Other operating expenses	132,569	97,410	74,397	57,241	43,818
Interest expense	326	410	367	355	548
Total expenses	\$316,003	\$215,897	\$173,594	\$116,005	\$ 83,227
Income before income taxes	41,860	64,410	34,487	15,714	13,016
Provision for income taxes	14,502	23,397	14,145	6,009	4,928
Net income	\$ 27,358	\$ 41,013	\$ 20,342	\$ 9,705	\$ 8,088
Earnings per share					
Basic	\$ 1.29	\$ 2.06	\$ 1.26	\$ 0.91	\$ 0.77
Diluted	\$ 1.28	\$ 2.05	\$ 1.26	\$ 0.91	\$ 0.77
Cash dividends declared per share	\$ 0.20	\$ 0.16	\$ 0.12	\$ 0.08	\$ 0.05
Return on average equity	12.4%	27.2%	20.8%	16.1%	16.1%
Ceded ratio ⁽¹⁾	33.4%	33.9%	37.7%	46.1%	50.2%
Ratios to net premiums earned:					
Loss and loss adjustment expenses	54.5%	44.6%	50.0%	47.9%	43.1%
Expenses	39.5%	36.8%	37.7%	46.9%	48.6%
Combined Ratio	94.0%	81.4%	87.7%	94.8%	91.7%
Effect of current year catastrophe losses on combined ratio	8.5%	0.3%	1.8%	3.0%	— %
Effect of prior year (favorable) development on combined ratio	(0.7)%	(1.5)%	2.1%	0.5%	(4.8)%
Underlying Combined Ratio ⁽²⁾	86.2%	82.6%	83.8%	91.3%	96.5%

⁽¹⁾ Calculated as ceded premiums earned divided by gross premiums earned.

⁽²⁾ Underlying combined ratio, a measure that is not based on accounting principles generally accepted in the United States of America (GAAP), is reconciled above to the combined ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this document is in the "Definitions of Non-GAAP Measures" in Part II Item 7 of this document.

	As of and for the Years Ended December 31,				
	2015	2014	2013	2012	2011
Balance Sheet Data:					
Cash and invested assets	\$537,500	\$443,018	\$326,548	\$223,385	\$165,898
Prepaid reinsurance premiums	79,399	63,827	55,268	49,916	40,968
Total Assets	\$740,021	\$584,169	\$441,230	\$314,715	\$240,215
Unpaid loss and loss adjustment expenses	\$ 76,792	\$ 54,436	\$ 47,451	\$ 35,692	\$ 33,600
Unearned premiums	304,653	229,486	193,428	128,785	100,130
Reinsurance payable	64,542	45,254	39,483	26,063	16,571
Notes payable	12,353	13,529	14,706	15,882	17,059
Total Liabilities	\$500,810	\$380,406	\$333,643	\$225,628	\$185,226
Total Stockholders' Equity	\$239,211	\$203,763	\$107,587	\$ 89,087	\$ 54,989
Statutory Surplus	\$150,860	\$126,249	\$ 78,362	\$ 68,007	\$ 48,188

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

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

OVERVIEW

The following discussion highlights significant factors influencing the consolidated financial position and results of operations of UPC Insurance. This discussion should be read in conjunction with the Consolidated Financial Statements and related notes found under Part II, Item 8 contained herein.

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

- For Results of Operations: premiums written, policies in-force, premiums earned, retention, price changes, claim frequency (rate of claim occurrence per policies in-force), severity (average cost per claim), catastrophes, loss ratio, expenses, combined ratio, underwriting results, reinsurance costs, premium to probable maximum loss, and geographic concentration;
- For Investments: credit quality, maximizing total return, investment income, cash flows, realized gains and losses, unrealized gains and losses, asset diversification, and portfolio duration; and
- For Financial Condition: liquidity, reserve strength, financial strength, ratings, operating leverage, book value per share, capital preservation, return on investment, and return on equity.

2015 HIGHLIGHTS

- Consolidated net income was \$27,358,000 in 2015 compared to \$41,013,000 in 2014. Net income per diluted share was \$1.28 in 2015 compared to \$2.05 in 2014.
- Our combined ratio (calculated as losses and loss adjustment expenses and operating expenses less interest expense relative to net premiums earned) was 94.0% in 2015 compared to 81.4% in 2014.
- Total revenues were \$357,569,000 in 2015 compared to \$280,230,000 in 2014.
- Investment and cash holdings were \$537,500,000 at December 31, 2015, compared to \$443,018,000 at December 31, 2014.
- Investment income was \$9,212,000 in 2015 compared to \$6,795,000 in 2014.
- Net realized gains were \$827,000 in 2015 compared to net realized losses of \$(20,000) in 2014.
- Book value per diluted share (ratio of stockholders' equity to total shares outstanding and dilutive potential shares outstanding) was \$11.11 at December 31, 2015, a 13.9% increase from \$9.75 at December 31, 2014.
- Return on average equity for the twelve months ended December 31, 2015 was 12.4%, compared to 27.2% for the twelve months ended December 31, 2014.
- Policies in-force were 347,015 at December 31, 2015, a 37.6% increase from 252,104 policies in-force at December 31, 2014.

CONSOLIDATED NET INCOME

	Year Ended December 31,		
	2015	2014	2013
REVENUE:			
Gross premiums written	\$ 569,736	\$ 436,753	\$ 381,352
Increase in gross unearned premiums	(65,521)	(36,058)	(64,644)
Gross premiums earned	504,215	400,695	316,708
Ceded premiums earned	(168,257)	(135,845)	(119,330)
Net premiums earned	335,958	264,850	197,378
Net investment income	9,212	6,795	3,871
Net realized gains (losses)	827	(20)	(129)
Other revenue	11,572	8,605	6,960
Total revenue	357,569	280,230	208,080
EXPENSES:			
Losses and loss adjustment expenses	183,108	118,077	98,830
Policy acquisition costs	87,401	65,657	50,623
Operating expenses	15,316	11,746	9,222
General and administrative expenses	29,852	20,007	14,552
Interest expense	326	410	367
Total expenses	316,003	215,897	173,594
Income before other income	41,566	64,333	34,486
Other income	294	77	1
Income before income taxes	41,860	64,410	34,487
Provision for income taxes	14,502	23,397	14,145
Net income	\$ 27,358	\$ 41,013	\$ 20,342
Net income per diluted share	\$ 1.28	\$ 2.05	\$ 1.26
Book value per share	\$ 11.11	\$ 9.75	\$ 6.64
Return on average equity	12.4%	27.2%	20.8%
Loss ratio, net ¹	54.5%	44.6%	50.0%
Expense ratio ²	39.5%	36.8%	37.7%
Combined ratio (CR) ³	94.0%	81.4%	87.7%
Effect of current year catastrophe losses on CR	8.5%	0.3%	1.8%
Effect of prior year development on CR	(0.7)%	(1.5)%	2.1%
Underlying combined ratio ⁴	86.2%	82.6%	83.8%

¹ Loss ratio, net is losses and loss adjustment expenses relative to net premiums earned.

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

³ Combined ratio is the sum of the loss ratio, net and the expense ratio.

⁴ Underlying combined ratio, a measure that is not based on accounting principles generally accepted in the United States of America (GAAP), is reconciled above to the combined ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this document is in the "Definitions of Non-GAAP Measures" section of this document.

Definitions of Non-GAAP Measures

We believe that investors' understanding of UPC Insurance's performance is enhanced by our disclosure of the following non-GAAP measures. Our methods for calculating these measures may differ from those used by other companies and therefore comparability may be limited.

Combined ratio excluding the effects of current year catastrophe losses and reserve development (underlying combined ratio) is a non-GAAP ratio, which is computed as the difference between three GAAP operating ratios: the combined ratio, the effect of current year catastrophe losses on the combined ratio and the effect of prior year development on the combined ratio. We believe that this ratio is useful to investors and it is used by management to reveal the trends in our business that may be obscured by current year catastrophe losses, prior year development and assessments. Current year catastrophe losses cause our loss trends to vary significantly between periods as a result of their incidence of occurrence and magnitude, and can have a significant impact on the combined ratio. Prior year development is caused by unexpected loss development on historical reserves. We believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our performance. The most direct comparable GAAP measure is the combined ratio. The underlying combined ratio should not be considered as a substitute for the combined ratio and does not reflect the overall profitability of our business.

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

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

RECENT ACCOUNTING STANDARDS

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

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

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

- reserves for unpaid losses,
- fair value of investments, and
- investment portfolio impairments.

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

Reserves for Unpaid Losses and Loss Adjustment Expenses

General Discussion of Loss Reserving Process

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

We establish two categories of loss reserves as follows:

- **Case reserves** — When a claim is reported, we establish an automatic minimum case reserve for that claim type that represents our initial estimate of the losses that will ultimately be paid on the reported claim. Our initial estimate for each claim is based upon averages of loss payments for our prior closed claims made for that claim type. Then, our claims personnel perform an evaluation of the type of claim involved, the circumstances surrounding each claim and the policy provisions relating to the loss and adjust the reserve as necessary. As claims mature, we increase or decrease the reserve estimates as deemed necessary by our claims department based upon additional information we receive regarding the loss, the results of on-site reviews and any other information we gather while reviewing the claims.
- **Reserves for losses incurred but not reported (IBNR reserves)** — Our IBNR reserves include true IBNR reserves plus "bulk" reserves. Bulk reserves represent additional amounts that cannot be allocated to particular claims, but which are necessary to estimate ultimate losses on reported and unreported claims. We estimate our IBNR reserves by projecting the ultimate losses using the methods discussed below and then deducting actual loss payments and case reserves from the projected ultimate losses. We review and adjust our IBNR reserves on a quarterly basis based on information available to us at the balance sheet date.

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

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

Estimation of the Reserves for Unpaid Losses and Allocated Loss Adjustment Expenses

We calculate our estimate of ultimate losses by using the following actuarial methods. We separately calculate the methods using paid loss data and incurred loss data. In the versions of these methods based on incurred loss data, the incurred losses are defined as paid losses plus case reserves. For this discussion of our loss reserving process, the word “segment” refers to a subgrouping of our claims data, such as by geographic area and/or by particular line of business; it does not refer to operating segments.

- **Incurred Development Method** — The incurred development method is based upon the assumption that the relative change in a given year’s incurred loss estimates from one evaluation point to the next is similar to the relative change in prior years’ reported loss estimates at similar evaluation points. In utilizing this method, actual annual historical incurred loss data is evaluated. Successive years can be arranged to form a triangle of data. Loss development factors (LDFs) are calculated to measure the change in cumulative incurred costs from one evaluation point to the next. These historical LDFs and comparable industry benchmark factors form the basis for selecting the LDFs used in projecting the current valuation of losses to an ultimate basis. This method’s implicit assumption is that the relative adequacy of case reserves has been consistent over time, and that there have been no material changes in the rate at which claims have been reported. The paid development method is similar to the incurred development method. While the paid development method has the disadvantage of not recognizing the information provided by current case reserves, it has the advantage of avoiding potential distortions in the data due to changes in case reserving methodology. The paid development method’s implicit assumption is that the rate of payment of claims has been relatively consistent over time.
- **Expected Loss Method** — In the expected loss method, ultimate loss projections are based upon some prior measure of the anticipated losses, usually relative to some measure of exposure (i.e., earned house years). An expected loss cost is applied to the measure of exposure to determine estimated ultimate losses for each year. Actual losses are not considered in this calculation. This method has the advantage of stability over time, because the ultimate loss estimates do not change unless the exposures or loss costs change. However, this advantage of stability is offset by a lack of responsiveness, since this method does not consider actual loss experience as it emerges. This method is based on the assumption that the loss cost per unit of exposure is a good indication of ultimate losses. It can be entirely dependent on pricing assumptions (i.e., historical experience adjusted for loss trend).
- **Bornhuetter-Ferguson Method** — The incurred Bornhuetter-Ferguson (B-F) method is essentially a blend of two other methods. The first method is the loss development method whereby actual incurred losses are multiplied by an expected LDF. For slow reporting coverages, the loss development method can lead to erratic and unreliable projections because a relatively small swing in early reportings can result in a large swing in ultimate projections. The second method is the expected loss method whereby the IBNR estimate equals the difference between a predetermined estimate of expected losses and actual incurred losses. The incurred B-F method combines these two methods by setting ultimate losses equal to actual incurred losses plus expected unreported losses. As an experience year matures and expected unreported losses become smaller, the initial expected loss assumption becomes gradually less important. Two parameters are needed to apply the B-F method: the initial expected loss cost and the expected reporting pattern (LDFs). This method is often used for long-tail lines and in situations where the incurred loss experience is relatively immature or lacks sufficient credibility for the application of other methods. The paid B-F method is analogous to the incurred B-F method using paid losses and development patterns in place of incurred losses and patterns.
- **Paid-to-Paid Development Method** — In addition to the aforementioned methods, we also rely upon the paid-to-paid development method to project ultimate unallocated loss adjustment expense (ULAE). Ratios of paid ULAE to paid loss and allocated loss adjustment expense (ALAE) are compiled by calendar year and a paid-to-paid ratio selection is made. The selected ratio is applied to the estimated IBNR amounts and one half of this ratio is applied to case reserves. This method is derived from rule of thumb that half of ULAE is incurred when a claim is opened and the other half is incurred over the remaining life of the claim.

Reliance and Selection of Methods

The various methods we use have strengths and weaknesses that depend upon the circumstances of the segment and the age of the claims experience we analyze. The nature of our book of business allows us to place substantial, but not exclusive, reliance on the loss development methods. Ultimately, this means the main assumptions of the loss development methods, the selected LDFs, represent the most critical aspect of our loss reserving process. We use the same set of LDFs in the methods during our loss reserving process that we also use to calculate the premium necessary to pay expected ultimate losses.

Reasonably-Likely Changes in Variables

As previously noted, we evaluate several factors when exercising our judgment in the selection of the loss development factors that ultimately drive the determination of our loss reserves. The process of establishing our reserves is complex and necessarily imprecise, as it involves using judgment that is affected by many variables. We believe a reasonably-likely change in almost any of these aforementioned factors could have an impact on our reported results, financial condition and liquidity. However, we do not believe any reasonably-likely changes in the frequency or severity of claims would have a material impact on us.

Fair Value of Investments

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

As discussed in Note 3 in our Notes to Consolidated Financial Statements, we value our investments at fair value using quoted prices from active markets, to the extent available. For securities for which quoted prices in active markets are unavailable, we use observable inputs such as quoted prices in inactive markets, quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs. We have several investments in limited partnerships that require us to use unobservable inputs.

Investment Portfolio Impairments

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

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

If we have not made the decision to sell the fixed income security and it is not more likely than not we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. We use our best estimate of future cash flows expected to be collected from the fixed income security, discounted at the security's

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

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

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

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

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

ANALYSIS OF FINANCIAL CONDITION—DECEMBER 31, 2015 COMPARED TO DECEMBER 31, 2014

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

Investments

With respect to our investments, we primarily attempt to preserve capital, maximize after-tax investment income, maintain liquidity and minimize risk. To accomplish our goals, we purchase debt securities in sectors that represent the most attractive relative value, and we maintain a moderate equity exposure. We must comply with applicable state insurance regulations that prescribe the type, quality and concentrations of investments our insurance affiliates can make; therefore, our current investment policy limits investment in non-investment-grade fixed maturities and limits total investment amounts in preferred stock, common stock and mortgage notes receivable. We do not invest in derivative securities.

Two outside asset management companies, which have the authority and discretion to buy and sell securities for us, manage our investments subject to (i) the guidelines established by our Board of Directors, and (ii) the direction of management. We direct our asset managers to make changes and to hold, buy or sell securities in our portfolios.

The Investment Committee of our Board of Directors reviews and approves our investment policy on a regular basis. Our cash, cash equivalents and investment portfolios totaled \$537,500,000 at December 31, 2015.

The following table summarizes our investments, by type:

	December 31, 2015		December 31, 2014	
	Fair Value	Percent of Total	Fair Value	Percent of Total
U.S. government and agency securities	\$ 81,647	15.2%	\$134,434	30.4%
Foreign governments	2,075	0.4%	3,354	0.8%
States, municipalities and political subdivisions	155,905	29.0%	91,911	20.7%
Public utilities	8,493	1.6%	9,222	2.1%
Corporate securities	146,758	27.2%	112,616	25.4%
Redeemable preferred stocks	1,820	0.3%	1,093	0.2%
Total fixed maturities	396,698	73.7%	352,630	79.6%
Mutual fund	26,343	4.9%	—	— %
Public utilities	1,352	0.3%	1,433	0.3%
Common stocks	20,694	3.9%	23,048	5.2%
Nonredeemable preferred stocks	2,417	0.4%	1,506	0.3%
Total equity securities	50,806	9.5%	25,987	5.8%
Other long-term investments	5,210	1.0%	3,010	0.7%
Total investments	\$452,714	84.2%	\$381,627	86.1%
Cash and cash equivalents	\$ 84,786	15.8%	\$ 61,391	13.9%
Total cash, cash equivalents and investments	\$537,500	100.0%	\$443,018	100.0%

We classify all of our investments as available-for-sale. Our investments at December 31, 2015 and 2014 consisted mainly of U.S. government and agency securities, states, municipalities and political subdivisions and securities of investment-grade corporate issuers. Our equity holdings consisted mainly of securities issued by companies in the energy, consumer products, financial, technology and industrial sectors. Most of the corporate bonds we hold reflected a similar diversification. At December 31, 2015, approximately 83% of our fixed maturities were U.S. Treasuries, or corporate bonds rated “A” or better, and 17% were corporate bonds rated “BBB”.

At December 31, 2015, securities in an unrealized loss position for a period of twelve months or longer reflected unrealized losses of \$580,000; approximately \$532,000 of the total related to thirty-six fixed maturities, while three equity securities reflected unrealized losses of \$48,000. We currently have no plans to sell these thirty-nine securities, and we expect to fully recover our cost basis. We reviewed all of our securities and determined that we did not need to record impairment charges at December 31, 2015. Similarly, we did not record impairment charges at December 31, 2014.

Reinsurance Payable

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

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

See Note 8 in our Notes to Consolidated Financial Statements for additional information regarding our reinsurance program.

RESULTS OF OPERATIONS—2015 COMPARED TO 2014

Revenues

Net income for the year ended December 31, 2015 was \$27,358,000, compared to \$41,013,000 for the twelve-months ended December 31, 2014. The decrease in net income was primarily driven by an increase in losses and loss adjustment expenses (LAE) resulting from multiple current year catastrophe events totaling \$28,565,000. Our gross written premiums increased by \$132,983,000, or 30.4%, to \$569,736,000 primarily due to strong organic growth in new and renewal business outside of Florida. The breakdown of the year-over-year growth in total gross written premiums broken down by region and direct versus assumed is shown in the following table:

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Direct and Assumed Written Premium By Region			
Florida	\$314,588	\$304,604	\$ 9,984
Gulf	91,303	13,034	78,269
Texas	54,725	13,008	41,717
Louisiana	36,578	26	36,552
Northeast	73,128	53,348	19,780
Massachusetts	38,862	30,716	8,146
Rhode Island	23,176	17,951	5,225
New Jersey	11,087	4,681	6,406
New York	3	—	3
Southeast	69,897	46,783	23,114
South Carolina	40,365	32,001	8,364
North Carolina	29,155	14,782	14,373
Georgia	377	—	377
Total direct written premium	<u>\$548,916</u>	<u>\$417,769</u>	<u>\$131,147</u>
Assumed premium ⁽¹⁾	<u>20,820</u>	<u>18,984</u>	<u>1,836</u>
Total gross written premium	<u><u>\$569,736</u></u>	<u><u>\$436,753</u></u>	<u><u>\$132,983</u></u>

⁽¹⁾ All assumed premiums are written in Florida due to policy assumptions from Citizens that are written in Florida and are shown net of opt-outs.

	<u>2015</u>	<u>2014</u>	<u>Change</u>
New and Renewal Policies* By Region			
Florida	175,284	168,668	6,616
Gulf	58,752	9,865	48,887
Texas	39,659	9,855	29,804
Louisiana	19,093	10	19,083
Northeast	54,172	39,816	14,356
Massachusetts	25,836	20,924	4,912
Rhode Island	18,548	14,809	3,739
New Jersey	9,788	4,083	5,705
Southeast	52,522	32,392	20,130
South Carolina	26,995	20,273	6,722
North Carolina	25,128	12,119	13,009
Georgia	399	—	399
Total	<u><u>340,730</u></u>	<u><u>250,741</u></u>	<u><u>89,989</u></u>

* 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 other states in which we are currently licensed to write property and casualty insurance.

Expenses

Expenses for the twelve months ended December 31, 2015 increased \$100,106,000, or 46.4%, to \$316,003,000 for the year ended December 31, 2015 from \$215,897,000 for the same period in 2014, primarily due to increased losses, policy acquisition costs, operating costs and general and administrative expenses. The calculation of our underlying loss and combined ratios is shown below.

	Year Ended December 31,		
	2015	2014	Change
Net Loss and LAE	\$183,108	\$118,077	\$ 65,031
% of Gross earned premiums	36.3%	29.5%	6.8pts
% of Net earned premiums	54.5%	44.6%	9.9pts
Less:			
Current year catastrophe losses	\$ 28,565	\$ 829	\$ 27,736
Prior year reserve development	(2,368)	(4,037)	1,669
Underlying loss and LAE*	\$156,911	\$121,285	\$ 35,626
% of Gross earned premiums	31.1%	30.3%	0.8pts
% of Net earned premiums	46.7%	45.8%	0.9pts
Policy acquisition costs	\$ 87,401	\$ 65,657	\$ 21,744
Operating and underwriting	15,316	11,746	3,570
General and administrative	29,852	20,007	9,845
Total Operating Expenses	\$132,569	\$ 97,410	\$ 35,159
% of Gross earned premiums	26.3%	24.3%	2.0pts
% of Net earned premiums	39.5%	36.8%	2.7pts
Interest Expense	\$ 326	\$ 410	\$ (84)
Total Expenses	\$316,003	\$215,897	\$100,106
Combined Ratio - as % of gross earned premiums	62.6%	53.8%	8.8pts
Underlying Combined Ratio - as % of gross earned premiums	57.4%	54.6%	2.8pts
Combined Ratio - as % of net earned premiums	94.0%	81.4%	12.6pts
Underlying Combined Ratio - as % of net earned premiums	86.2%	82.6%	3.6pts

* 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" in Part II Item 7 of this document.

Losses and LAE increased \$65,031,000, or 55.1% to \$183,108,000 for the year ended December 31, 2015, from \$118,077,000 in 2014 primarily due to the growth of policies in-force and a \$27,736,000 increase in current year catastrophe losses. Current year catastrophe losses increased to \$28,565,000 for the twelve months ended December 31, 2015 from \$829,000, for the same period in 2014.

Policy acquisition costs increased \$21,744,000, or 33.1% to \$87,401,000 for the year ended December 31, 2015 from \$65,657,000 for the same period in 2014, primarily due to our ongoing growth in gross earned premium.

Operating expenses increased \$3,570,000, or 30.4% to \$15,316,000 for the year ended December 31, 2015 from \$11,746,000 for the same period in 2014 due to increased costs related our ongoing growth and continuing expansion into new states.

General and administrative expenses increased \$9,845,000, or 49.2%, to \$29,852,000 for the year ended December 31, 2015, from \$20,007,000 for the same period in 2014 primarily due to an increase in personnel costs and infrastructure development related to our continued growth and ongoing systems migrations.

Our net loss and loss adjustment expense ratio history along with the impact of reserve development and catastrophe losses is as follows:

(\$ in thousands, except ratios)	Historical Reserve Development				
	2015	2014	2013	2012	2011
Reserve development (unfavorable)	\$2,368	\$4,037	\$(4,078)	\$(670)	\$4,158
Development as a % of earnings before interest and taxes	5.7%	6.2%	11.7%	4.3%	32.3%
Consolidated net loss ratio (LR)	54.5%	44.6%	50.0%	47.9%	43.1%
Reserve (favorable) unfavorable development on LR	(0.7)%	(1.5)%	2.1%	0.6%	(3.9)%
Current year catastrophe losses on LR	8.5%	0.3%	1.8%	3.0%	— %
Underlying net loss ratio*	46.7%	45.8%	46.1%	44.3%	47.0%

* Underlying Net Loss Ratio is a non-GAAP measure and is reconciled above to the Consolidated Net Loss Ratio, the most directly comparable GAAP measure. Additional information regarding non-GAAP financial measures presented in this document is in the “Definitions of Non-GAAP Measures” Part II Item 7 of this document.

Overall our attritional loss experience by accident year excluding catastrophes has been trending upwards for the last two accident years due to higher overall frequency and severity of water related losses and lower premiums per unit of exposure resulting from our growth outside of Florida.

RESULTS OF OPERATIONS—2014 COMPARED TO 2013

Revenues

Revenues for the year ended December 31, 2014 increased \$72,150,000, or 35%, to \$280,230,000, from \$208,080,000 for the twelve months ended December 31, 2013. The increase in revenues primarily resulted from a \$67,472,000, or 34%, increase in net premiums earned. The growth in net premiums earned for the year was driven by continued growth in new business production in Florida and other states.

Our direct gross written premiums increased by \$78,005,000, or 23%, primarily due to the strong organic growth in new and renewal business generated in all states in which we wrote policies, but especially outside Florida which represented nearly 73% of the total growth in direct written premiums. The breakdown of the year-over-year growth in total gross written premiums broken down by region and direct versus assumed is shown in the following table:

Direct and Assumed Written Premium By State	2014	2013	YOY Growth
Florida	\$304,604	\$283,460	\$ 21,144
Northeast	53,348	28,102	25,246
Massachusetts	30,716	16,156	14,560
Rhode Island	17,951	11,381	6,570
New Jersey	4,681	565	4,116
Southeast	46,783	28,052	18,731
South Carolina	32,001	24,666	7,335
North Carolina	14,782	3,386	11,396
Gulf	13,034	150	12,884
Texas	13,008	150	12,858
Louisiana	26	—	26
Total direct written premium	<u>\$417,769</u>	<u>\$339,764</u>	<u>\$ 78,005</u>
Assumed premium ⁽¹⁾	18,984	41,588	(22,604)
Total gross written premium	<u>\$436,753</u>	<u>\$381,352</u>	<u>\$ 55,401</u>

⁽¹⁾ All assumed premiums shown above are from policy assumptions from Citizens that are written in Florida and are shown net of opt-outs.

New and Renewal Policies By State	2014 Policies *	2013 Policies *	YOY Growth
Florida	168,668	155,410	13,258
Northeast	39,816	21,993	17,823
Massachusetts	20,924	11,145	9,779
Rhode Island	14,809	10,405	4,404
New Jersey	4,083	443	3,640
Southeast	32,392	18,489	13,903
South Carolina	20,273	15,795	4,478
North Carolina	12,119	2,694	9,425
Gulf	9,865	104	9,761
Texas	9,855	104	9,751
Louisiana	10	—	10
Total	<u>250,741</u>	<u>195,996</u>	<u>54,745</u>

* 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 write policies and as we expand into other states that we are licensed to write property and casualty insurance.

Expenses

Expenses for the twelve months ended December 31, 2014 increased \$42,303,000, or 24%, primarily due to increased losses, policy acquisition costs and general and administrative expenses.

Our GAAP combined ratio improved 6.3 points to 81.4% for the year compared to 87.7% for the same period in 2013. Our underlying combined ratio, which excludes losses from catastrophes and all effects of reserve development, improved 1.2 points for the year to 82.6% compared to 83.8% for the same period in 2013. Both the combined and underlying combined ratios decreased primarily due to lower gross loss ratio and a lower ceded reinsurance premium percentage for the year compared to the prior year. The calculation of our underlying loss and combined ratios is shown below:

	Year Ended December 31,		
	2014	2013	Change
Net Loss and LAE	\$118,077	\$98,830	\$19,247
% of Gross earned premiums	29.5%	31.2%	-1.7 pts
% of Net earned premiums	44.6%	50.0%	-5.4 pts
Less:			
Current year catastrophe losses	\$ 829	\$ 3,602	\$(2,773)
Prior year reserve development	(4,037)	4,078	(8,115)
Underlying loss and LAE*	\$121,285	\$91,150	\$30,135
% of Gross earned premiums	30.3%	28.8%	1.5 pts
% of Net earned premiums	45.8%	46.1%	-0.3 pts
Policy acquisition costs	\$ 65,657	\$50,623	\$15,034
Operating and underwriting	11,746	9,222	2,524
General and administrative	20,007	14,552	5,455
Total Operating Expenses	\$ 97,410	\$74,397	\$23,013
% of Gross earned premiums	24.3%	23.5%	0.8 pts
% of Net earned premiums	36.8%	37.7%	-0.9 pts
Combined Ratio - as % of gross earned premiums	53.8%	54.7%	-0.9 pts
Underlying Combined Ratio - as % of gross earned premiums	54.6%	52.3%	2.3 pts
Combined Ratio - as % of net earned premiums	81.4%	87.7%	-6.3 pts
Underlying Combined Ratio - as % of net earned premiums	82.6%	83.8%	-1.2 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 increased to 30.3% for the year ended December 31, 2014, which was up 1.5 points from 28.8% for the year ended December 31, 2013. The increase in our gross underlying loss ratio was primarily due to a shift in the mix toward business outside of Florida, where non-catastrophe loss costs as a percentage of gross earned premium tend to be higher.

Policy acquisition costs increased to \$65,657,000 for the year ended December 31, 2014, from \$50,623,000 for the same period of 2013, or 30%. These costs vary directly with the growth in gross premiums earned, which increased 27% over the prior year.

Operating and underwriting expenses increased \$2,524,000 to \$11,746,000 for the year ended December 31, 2014 compared to \$9,222,000 for the same period in 2013 primarily due to increased costs for home inspections, underwriting reports, licensing costs, and systems costs resulting from our ongoing growth and continuing expansion into new states.

General and administrative expenses increased \$5,455,000, to \$20,007,000 compared to \$14,552,000 in 2013 due primarily to an increase in salaries and related expenses to support our growth.

LIQUIDITY AND CAPITAL RESOURCES

We generate cash through premium collections, reinsurance recoveries, investment income, the sale or maturity of invested assets and the issuance of additional shares of our stock. We use our cash to pay reinsurance premiums, claims and related costs, policy acquisition costs, salaries and employee benefits, other expenses and stockholder dividends, as well as to purchase investments.

As a holding company, we do not conduct any business operations of our own and as a result, we rely on cash dividends or intercompany loans from our management affiliates to pay our general and administrative expenses. Insurance regulatory authorities in the states in which we operate heavily regulate our insurance affiliates, including restricting any dividends paid by our insurance affiliates and requiring approval of any management fees our insurance affiliates pay to our management affiliates for services rendered; however, nothing restricts our non-insurance company subsidiaries from paying us dividends other than state corporate laws regarding solvency. In accordance with Florida law, United Property & Casualty Insurance Company 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. Under the insurance regulatory laws of Hawaii, Family Security Insurance Company, Inc. may pay dividends or make distributions out of its statutory surplus or net income less realized capital gains. See Part II Item 5 for additional information regarding the limitations on dividend payments by our insurance affiliates. The risk-based capital guidelines published by the National Association of Insurance Commissioners may further restrict the ability of our insurance affiliates to pay dividends or make distributions if the amount of the intended dividend or distribution would cause their respective surplus as regards policyholders to fall below minimum risk-based capital guidelines. Most states, including Florida and Hawaii, 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 affiliates.

Our non-insurance company subsidiaries may pay us dividends from any positive net cash flows that they generate. Our management affiliates pay us dividends primarily using cash from the collection of management fees from our insurance affiliates, pursuant to the management agreements in effect between those entities.

On September 26, 2015, we entered into a Stock Purchase Agreement with Interboro LLC to acquire Interboro Insurance Company (Interboro), a New York domiciled property and casualty insurer authorized in New York, South Carolina, Alabama, Louisiana, and Washington, D.C. Under the terms of the agreement, we will acquire all of the outstanding common stock of Interboro for \$57,000,000. We will pay \$48,500,000 of cash at closing and issue an \$8,500,000 promissory note to Interboro LLC. The transaction is subject to customary conditions, including receipt of required regulatory approval from the New York Department of Financial Services without the imposition of burdensome conditions that would materially reduce the expected benefits of the transaction. We currently expect the transaction will close on or about April 1, 2016. Either party may terminate the Stock Purchase Agreement if the closing shall not have occurred on or before June 26, 2016.

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

Operating Activities

During the year ended December 31, 2015, our operations generated cash of \$98,319,000, compared to generating \$68,918,000 of cash during the same period in 2014. The \$29,401,000 year over year increase in operating cash was primarily driven by a \$221,822,000 increase in premium collections during the year ended December 31, 2015 compared to the same period in 2014 and by an increase of \$8,648,000 in reinsurance recoveries during 2015 compared to 2014. In addition, we paid \$13,223,000 of income taxes during the year ended December 31, 2015 compared to paying \$27,901,000 of income taxes for the same period in 2014. Partially offsetting these increases in cash inflows were increases in cash outflows related to claims payments, operating expenses, reinsurance payments and agent commission expenses. Claims payments increased approximately

\$92,145,000, primarily due to the increase in exposures and payments on claims from current and prior accident years. Operating expenses and agents' commission payments increased \$37,152,000 and \$25,265,000, respectively, due to our continuing growth. Reinsurance payments increased \$73,950,000 because we purchased more reinsurance coverage under our 2015-2016 contracts than we purchased under our 2014-2015 contracts.

Investing Activities

During the year ended December 31, 2015, our investing activities used \$67,015,000 of cash compared to using \$91,466,000 of cash in 2014. The \$24,451,000 year over year decrease in investing cash was primarily due to the fact that we purchased and sold fewer investments during the year ended December 31, 2015 compared to the same period in 2014. Partially offsetting the decrease in investing cash, we acquired \$14,467,000 of cash from the acquisition of Family Security Holdings, LLC. In addition, our investments in property and equipment increased \$4,570,000 primarily due to the renovation of our new headquarters.

See Note 3 in our Notes to Consolidated Financial Statements for a table that summarizes our fixed maturities at December 31, 2015, by contractual maturity periods.

Financing Activities

During the year ended December 31, 2015, our financing activities used cash of \$7,909,000 compared to providing \$49,051,000 of cash in 2014. The decrease in cash provided by financing activity primarily relates to the \$54,041,000 in net proceeds generated during the first quarter of 2014, by the public offering of 4,600,000 shares of our common stock, while no such offering proceeds were generated during 2015. See Note 18 in our Notes to Consolidated Financial statements for additional information on the underwritten offering. In addition, repayments of borrowings increased \$2,245,000 because we paid off the outstanding loan payable balance acquired in the Family Security Holdings, LLC transaction during the first quarter of 2015.

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. See Note 12 to our Notes to Consolidated Financial Statements for further discussion of requirements we must meet to retain our certificate of authority.

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 December 31, 2015, we had no off-balance-sheet arrangements.

CONTRACTUAL OBLIGATIONS

The following table summarizes our expected payments for contractual obligations at December 31, 2015:

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
Leases ⁽¹⁾	\$ 245	\$ 169	\$ 74	\$ 2	\$ —
Interboro stock purchase agreement	48,500	48,500	—	—	—
Service agreements	17,086	4,708	5,442	4,565	2,371
Long-term debt ⁽²⁾	20,853	6,843	5,186	2,353	6,471
Employment agreements ⁽³⁾	670	482	188	—	—
Unpaid loss and loss adjustment expenses ⁽⁴⁾	76,792	52,753	18,268	4,528	1,243
Total	<u>\$164,146</u>	<u>\$113,455</u>	<u>\$29,158</u>	<u>\$11,448</u>	<u>\$10,085</u>

⁽¹⁾ Represents operating and capital leases for our subsidiaries.

⁽²⁾ Represents principal payments over the life of the debt, see Note 10 in our Notes to Consolidated Financial Statements for additional information regarding our long-term debt. Also includes a note payable for \$8,500,000 including 6% interest over an 18 month period, which we will be obligated to pay upon the closing of the Interboro transaction.

⁽³⁾ Represents base salary for the unfulfilled portion of the original employment agreements with certain executive officers.

⁽⁴⁾ As of December 31, 2015, United Property & Casualty Insurance Company and Family Security Insurance Company, Inc. had unpaid loss and loss adjustment expenses (LAE) of \$76,792,000. The specific amounts and timing of obligations related to known and unknown reserves and related LAE reserves are not set contractually, and the amounts and timing of these obligations are unknown. Nonetheless, based upon our cumulative claims paid over the last 16 years, we estimate that the loss and LAE reserves will be paid in the periods shown above. While we believe that historical performance of loss payment patterns is a reasonable source for projecting future claims payments, there is inherent uncertainty in this estimated projected settlement of loss and LAE reserves, and as a result these estimates will differ, perhaps significantly, from actual future payments.

RELATED PARTY TRANSACTIONS

See Note 15 in our Notes to Consolidated Financial Statements for a discussion of our related party transactions.

Item 7A. 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 of Directors (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 December 31, 2015:

<u>Hypothetical Change in Interest Rates</u>	<u>Estimated Fair Value</u>	<u>Change in Estimated Fair Value</u>	<u>Percentage Increase (Decrease) in Estimated Fair Value</u>
300 basis point increase	\$348,913	\$(47,785)	(12.0)%
200 basis point increase	\$364,845	\$(31,853)	(8.0)%
100 basis point increase	\$380,774	\$(15,924)	(4.0)%
Fair value	\$396,698	\$ —	— %
100 basis point decrease	\$412,558	\$ 15,860	4.0%
200 basis point decrease	\$426,403	\$ 29,705	7.5%
300 basis point decrease	\$433,053	\$ 36,355	9.2%

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 December 31, 2015:

<u>Comparable Rating</u>	<u>Amortized Cost</u>	<u>% of Total Amortized Cost</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>
AAA	\$ 44,547	11.2%	\$ 45,148	11.4%
AA+, AA, AA-	190,980	48.2	192,112	48.4
A+, A, A-	71,505	18.0	71,465	18.0
BBB+, BBB, BBB-	88,327	22.3	87,083	22.0
BB+, BB, BB-	1,056	0.3	890	0.2
Total	<u>\$396,415</u>	<u>100.0%</u>	<u>\$396,698</u>	<u>100.0%</u>

EQUITY PRICE RISK

Our equity investment portfolio at December 31, 2015 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 December 31, 2015:

<u>Stocks by Sector</u>	<u>Fair Value</u>	<u>% of Total Fair Value</u>
Funds	\$26,343	51.9%
Consumer, non-cyclical	7,454	14.7
Industrial	4,359	8.6
Financial	3,790	7.5
Consumer, cyclical	2,652	5.2
Technology	2,192	4.3
Utility	2,057	4.0
Communications	823	1.6
Energy	577	1.1
Basic Materials	559	1.1
Total	<u>\$50,806</u>	<u>100.0%</u>

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of United Insurance Holdings Corp. and subsidiaries (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015, and the financial statement schedules of United Insurance Holdings Corp. listed in Item 15. These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of United Insurance Holdings Corp. and subsidiaries as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), United Insurance Holdings Corp. and subsidiaries internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 1, 2016 expressed an unqualified opinion on the effectiveness of United Insurance Holdings Corp’s internal control over financial reporting.

/s/ RSM US LLP

Omaha, Nebraska
March 1, 2016

Consolidated Balance Sheets

	December 31,	
	2015	2014
ASSETS		
Investments available for sale, at fair value:		
Fixed maturities (amortized cost of \$396,415 and \$350,063, respectively)	\$396,698	\$352,630
Equity securities (adjusted cost of \$48,679 and \$22,278, respectively)	50,806	25,987
Other investments (amortized cost of \$4,980 and \$2,749, respectively)	5,210	3,010
	452,714	381,627
Cash and cash equivalents	84,786	61,391
Accrued investment income	2,915	2,239
Property and equipment, net	17,135	8,022
Premiums receivable, net	41,170	31,369
Reinsurance recoverable on paid and unpaid losses	2,961	2,068
Prepaid reinsurance premiums	79,399	63,827
Goodwill	3,413	—
Deferred policy acquisition costs	46,732	31,925
Other assets	8,796	1,701
	\$740,021	\$584,169
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 76,792	\$ 54,436
Unearned premiums	304,653	229,486
Reinsurance payable	64,542	45,254
Other liabilities	42,470	37,701
Notes payable	12,353	13,529
	500,810	380,406
Commitments and contingencies (Note 13)		
Stockholders' Equity:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.0001 par value; 50,000,000 shares authorized; 21,736,431 and 21,116,497 issued; 21,524,348 and 20,904,414 outstanding, respectively	2	2
Additional paid-in capital	97,163	82,380
Treasury shares, at cost; 212,083 shares	(431)	(431)
Accumulated other comprehensive income	1,620	4,011
Retained earnings	140,857	117,801
	239,211	203,763
Total Liabilities and Stockholders' Equity	\$740,021	\$584,169

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Year Ended December 31,		
	2015	2014	2013
REVENUE:			
Gross premiums written	\$ 569,736	\$ 436,753	\$ 381,352
Increase in gross unearned premiums	(65,521)	(36,058)	(64,644)
Gross premiums earned	504,215	400,695	316,708
Ceded premiums earned	(168,257)	(135,845)	(119,330)
Net premiums earned	335,958	264,850	197,378
Investment income	9,212	6,795	3,871
Net realized gains (losses)	827	(20)	(129)
Other revenue	11,572	8,605	6,960
Total revenue	357,569	280,230	208,080
EXPENSES:			
Losses and loss adjustment expenses	183,108	118,077	98,830
Policy acquisition costs	87,401	65,657	50,623
Operating expenses	15,316	11,746	9,222
General and administrative expenses	29,852	20,007	14,552
Interest expense	326	410	367
Total expenses	316,003	215,897	173,594
Income before other income	41,566	64,333	34,486
Other income	294	77	1
Income before income taxes	41,860	64,410	34,487
Provision for income taxes	14,502	23,397	14,145
Net income	\$ 27,358	\$ 41,013	\$ 20,342
OTHER COMPREHENSIVE INCOME:			
Change in net unrealized gain (loss) on investments	(3,070)	6,367	(4,233)
Reclassification adjustment for net realized investment (gains) losses	(827)	20	129
Income tax benefit (expense) related to items of other comprehensive income	1,506	(2,468)	1,583
Total comprehensive income	\$ 24,967	\$ 44,932	\$ 17,821
Weighted average shares outstanding			
Basic	21,218,233	19,933,652	16,100,882
Diluted	21,452,540	20,045,907	16,183,098
Earnings per share			
Basic	\$ 1.29	\$ 2.06	\$ 1.26
Diluted	\$ 1.28	\$ 2.05	\$ 1.26
Dividends declared per share	\$ 0.20	\$ 0.16	\$ 0.12

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount					
December 31, 2012	15,448,839	\$ 2	\$24,076	\$(431)	\$ 2,613	\$ 61,726	\$ 87,986
Net income	—	—	—	—	—	20,342	20,342
Other comprehensive income	—	—	—	—	(2,521)	—	(2,521)
Restricted stock award	10,476	—	133	—	—	—	133
Issuance of common stock, net of costs	750,000	—	3,591	—	—	—	3,591
Cash dividends on common stock	—	—	—	—	—	(1,944)	(1,944)
December 31, 2013	16,209,315	2	27,800	(431)	92	80,124	107,587
Net income	—	—	—	—	—	41,013	41,013
Other comprehensive income	—	—	—	—	3,919	—	3,919
Restricted stock award	95,099	—	539	—	—	—	539
Issuance of common stock, net of costs	4,600,000	—	54,041	—	—	—	54,041
Cash dividends on common stock	—	—	—	—	—	(3,336)	(3,336)
December 31, 2014	20,904,414	2	82,380	(431)	4,011	117,801	203,763
Net income	—	—	—	—	—	27,358	27,358
Other comprehensive income	—	—	—	—	(2,391)	—	(2,391)
Restricted stock award	116,077	—	1,789	—	—	—	1,789
Issuance of common stock	503,857	—	12,994	—	—	—	12,994
Cash dividends on common stock	—	—	—	—	—	(4,302)	(4,302)
December 31, 2015	<u>21,524,348</u>	<u>\$ 2</u>	<u>\$97,163</u>	<u>\$(431)</u>	<u>\$ 1,620</u>	<u>\$140,857</u>	<u>\$239,211</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2015	2014	2013
OPERATING ACTIVITIES			
Net income	\$ 27,358	\$ 41,013	\$ 20,342
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,328	801	697
Bond amortization and accretion	1,997	1,522	1,323
Net realized (gains) losses	(827)	20	129
Provision for uncollectible premiums	272	73	59
Deferred income taxes, net	2,305	(1,181)	1,150
Stock based compensation	1,974	649	133
Changes in operating assets and liabilities:			
Accrued investment income	(676)	(487)	(992)
Premiums receivable	(8,577)	(5,366)	(8,981)
Reinsurance recoverable on paid and unpaid losses	(893)	358	(154)
Prepaid reinsurance premiums	(15,572)	(8,559)	(5,352)
Deferred policy acquisition costs, net	(14,807)	(6,739)	(8,208)
Other assets	(3,897)	(1,493)	28
Unpaid losses and loss adjustment expenses	19,966	6,985	11,759
Unearned premiums	65,521	36,058	64,644
Reinsurance payable	18,290	5,771	13,420
Other liabilities	2,557	(507)	19,769
Net cash provided by operating activities	98,319	68,918	109,766
INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments available for sale	199,575	219,893	102,227
Purchases of investments available for sale	(270,141)	(305,013)	(246,514)
Proceeds from acquisition	14,467	—	—
Cost of property, equipment and capitalized software acquired	(10,916)	(6,346)	(1,867)
Net cash used in investing activities	(67,015)	(91,466)	(146,154)
FINANCING ACTIVITIES			
Tax withholding payment related to net settlement of equity awards	(185)	(110)	—
Repayments of borrowings	(3,422)	(1,177)	(1,176)
Dividends	(4,302)	(3,336)	(1,944)
Bank overdrafts	—	(367)	(400)
Proceeds from issuance of common stock, net of costs	—	54,041	3,591
Net cash (used in) provided by financing activities	(7,909)	49,051	71
Increase (decrease) in cash	23,395	26,503	(36,317)
Cash and cash equivalents at beginning of period	61,391	34,888	71,205
Cash and cash equivalents at end of period	\$ 84,786	\$ 61,391	\$ 34,888
Supplemental Cash Flows Information			
Interest paid	\$ 296	\$ 389	\$ 341
Income taxes paid	\$ 13,223	\$ 27,901	\$ 9,867

See accompanying notes to consolidated financial statements.

1) ORGANIZATION, CONSOLIDATION AND PRESENTATION

(a) Business

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

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

We conduct our operations under one business segment.

(b) Consolidation and Presentation

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

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

We reclassified certain amounts in the 2014 and 2013 financial statements to conform to the 2015 presentation. These reclassifications had no impact on our results of operations, cash flows, or stockholders' equity, as previously reported.

2) SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

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

(b) Investments

We currently classify all of our investments in fixed maturities, equity securities and other investments as available-for-sale, and report them at fair value. Subsequent to our acquisition of available-for-sale securities, we record changes in value through the date of disposition as unrealized holding gains and losses, net of tax effects, and include them as a component of comprehensive income. We include realized gains and losses, which we

calculate using the specific-identification method for determining the cost of securities sold, in net income. We amortize any premium or discount on fixed maturities over the remaining maturity period of the related securities using the effective interest method, and we report the amortization in net investment income. We recognize dividends and interest income when earned.

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

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

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

(c) Fair Value

See Note 3 in our Notes to Consolidated Financial Statements for a discussion regarding the fair value measurement of our investments at December 31, 2015.

(d) Premiums

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

Premiums receivable represents amounts due from our policyholders for billed premiums and related policy fees. We perform a policy-level evaluation to determine the extent to which the balance of premium receivable exceeds the balance of unearned premium. We then age any resulting exposure based on the last date the policy was billed to the policyholder, and we establish an allowance for credit losses for any amounts outstanding for more than 90 days. When we receive payments on amounts previously charged off, we credit bad debt expense in the period we receive the payment. The balances of our allowance for uncollectible premiums totaled \$132,000 and \$34,000 at December 31, 2015 and 2014, respectively.

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

(e) Policy Acquisition Costs

We incur policy acquisition costs that vary with, and are directly related to, the production of new business. We capitalize policy acquisition costs to the extent recoverable, then we amortize those costs over the contract period of the related policy.

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

(f) Long-lived Assets

i) Property and Equipment

We record our property and equipment, at cost less accumulated depreciation and amortization. We use the straight-line method of calculating depreciation over the estimated useful lives of the assets. We periodically review estimated useful lives and, where appropriate, we make changes prospectively. We charge maintenance and repair costs to expense as incurred.

ii) Capitalized Software

We capitalize certain direct development costs associated with internal-use software. We expect to amortize the capitalized software costs related to our new policy administration system and data warehouse over their expected seven year useful lives. We amortize the costs related to our new claims processing system over its expected seven year useful life.

See Note 7 in our Notes to Consolidated Financial Statements for a discussion of our property, equipment and capitalized software, including our new property, that was purchased during 2015.

iii) Impairment of Long-lived Assets

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

(g) Unpaid Losses and Loss Adjustment Expenses

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

We estimate our reserves for unpaid losses using individual case-basis estimates for reported claims and actuarial estimates for IBNR claims, and we continually review and adjust our estimated losses as necessary based on our historical experience and as we obtain new information. If our unpaid loss reserves prove to be deficient or redundant, we increase or decrease the liability in the period in which we identify the difference, thereby impacting net income. Though our estimate of the ultimate cost of settling all reported and unreported

claims may change at any point in the future, a reasonable possibility exists that our estimate may vary significantly in the near term from the estimated amounts included in our consolidated financial statements.

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

(h) Managing General Agent Fees and Policy Fees

Our policy fees consist of the managing general agent fee and a pay-plan fee. Regulatory authorities in Florida, Georgia, and Rhode Island allow managing general agents to charge policyholders a \$25 fee on each policy written. The regulatory authority in Hawaii allows managing general agents to charge policyholders a \$50 fee on each policy written, while the regulatory authority in Texas allows managing general agents to charge policyholders a \$25 or \$75 fee, depending on the type of policy issued. Regulatory authorities in Louisiana, Massachusetts and Texas also allow managing general agents to charge a \$25 inspection fee, depending on the type of homeowner policy issued. We defer such fees as unearned revenue and then include them in income on a pro rata basis over the term of the underlying policies. We record our pay-plan fees, which we charge to all policyholders that pay their premium in more than one installment, as income when collected. We report all policy-related fees in other revenue on our Consolidated Statements of Comprehensive Income.

(i) Reinsurance

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

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

We record amounts recoverable from our reinsurers on paid losses plus an estimate of amounts recoverable on unpaid losses. The estimate of amounts recoverable on unpaid losses is a function of our liability for unpaid losses associated with the reinsured policies; therefore, the amount changes in conjunction with any changes to our estimate of unpaid losses. Though our estimate of amounts recoverable from reinsurers on unpaid losses may change at any point in the future because of its relation to our reserves for unpaid losses, a reasonable possibility exists that our estimate may change significantly in the near term from the amounts included in our consolidated financial statements.

We estimate uncollectible amounts receivable from reinsurers based on an assessment of factors including the creditworthiness of the reinsurers and the adequacy of collateral obtained, where applicable. We recorded no bad debt expense related to reinsurance during the years ended December 31, 2015, 2014 or 2013.

(j) Assessments

We record guaranty fund and other insurance-related assessments imposed upon us as an expense in the period the regulatory agency imposes the assessment. To recover Florida Insurance Guaranty Association (FIGA) assessments, we calculate and begin collecting a policy surcharge that will allow us to collect the entire assessment over a 12-month period, based on our estimate of the number of policies we expect to write. We then submit an information only filing, pursuant to Florida Statute 631.57(3)(h), to the insurance regulatory authority requesting formal approval of the policy FIGA surcharge. The process may be repeated in successive 12-month periods until we collect the entire assessment. We record the recoveries as revenue in the period that we collect

the cash. While current regulations allow us to recover from policyholders the amount of assessments imposed upon us, our payment of the assessments and our recoveries may not offset each other in the same fiscal period in our consolidated financial statements.

Where permitted by law or regulatory authority, we collect assessments imposed upon policyholders as a policy surcharge and we record the amounts collected as a liability until we remit the amounts to the regulatory agency that imposed the assessment. During 2015, we did not receive any significant assessments from the regulatory authorities in the states in which our insurance affiliates operate.

(k) Income Taxes

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

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

We record any income tax penalties and income-tax-related interest as income tax expense in the period incurred. We did not incur any material tax penalties or income-tax-related interest during the years ended December 31, 2015, 2014 or 2013.

(l) Advertising Costs

We expense all advertising costs when we incur those costs. For the years ended December 31, 2015, 2014 and 2013, we incurred advertising costs of \$2,630,000, \$1,819,000, and \$1,801,000, respectively.

(m) Earnings Per Share

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

(n) Concentrations of Risk

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

- a concentration of revenue because we write primarily homeowners policies
- a geographic concentration resulting from the fact that, though we now operate in ten states, we still write approximately 59% of our gross written premium in Florida
- a group concentration of credit risk with regard to our reinsurance recoverable, since all of our reinsurers engage in similar activities and have similar economic characteristics that could cause their ability to repay us to be similarly affected by changes in economic or other conditions
- a concentration of credit risk with regard to our cash, because we choose to deposit all our cash at two financial institutions

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

With regard to our cash balances held at financial institutions, we had \$72,405,000 and \$61,385,000 in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits at December 31, 2015 and 2014, respectively. The \$11,020,000 increase in excess of FDIC insurance limits is the result of holding more cash and at the end of 2015 than we did in 2014.

(o) Accounting Pronouncements

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

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-09 (ASU 2015-09), *Financial Services — Insurance* (Topic 944), which improves disclosure requirements for all insurance entities that issue short-duration contracts. The amendments in ASU 2015-09 increase transparency of significant estimates made in measuring the liability for unpaid claims and claim adjustment expenses, improve comparability by requiring consistent disclosure of information, and provide financial statement users with additional information to facilitate analysis of the amount, timing, and uncertainty of cash flows and the development of loss reserve estimates. ASU 2015-09 is effective for all public entities for annual periods, beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments are effective for annual years beginning after December 15, 2016, and for interim periods within annual years beginning after December 15, 2017. Early adoption is permitted. We do not expect that our adoption of ASU 2015-09 will have a material effect on our consolidated financial statements.

In August 2015, the SEC issued Final Rulemaking Release No. 33-9877: *Pay Ratio Disclosure*. The amendments covered by the Final Rules to Implement Section 953(b) of the Dodd-Frank Concerning Pay Ratio Disclosures requires disclosure of (1) an entity's median annual compensation for all employees, other than the chief executive officer, and the total annual compensation for the entity's chief executive officer, and (2) the two amounts expressed as a ratio. The release is effective for all public entities in the annual report for the first full fiscal year beginning on or after January 1, 2017, with a transition period provided for new registrants. We are evaluating the impact of the new guidance on our consolidated financial statements; however, we do not expect that our adoption of this guidance will have a material effect on our consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). This update substantially revises standards for the recognition, measurement and presentation of financial instruments. This standard revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted for certain requirements. We are assessing the impact of adopting this new accounting standard on our consolidated financial statements and related disclosures.

3) INVESTMENTS

The following table details the difference between cost or adjusted/amortized cost and estimated fair value, by major investment category, at December 31, 2015 and 2014:

	Cost or Adjusted/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
U.S. government and agency securities	\$ 81,973	\$ 148	\$ 474	\$ 81,647
Foreign governments	2,038	37	—	2,075
States, municipalities and political subdivisions	154,004	2,391	490	155,905
Public utilities	8,398	128	33	8,493
Corporate securities	148,170	880	2,292	146,758
Redeemable preferred stocks	1,832	37	49	1,820
Total fixed maturities	396,415	3,621	3,338	396,698
Mutual Funds	26,357	—	14	26,343
Public utilities	1,342	44	34	1,352
Other common stocks	18,624	2,615	545	20,694
Nonredeemable preferred stocks	2,356	67	6	2,417
Total equity securities	48,679	2,726	599	50,806
Other investments	4,980	230	—	5,210
Total investments	<u>\$450,074</u>	<u>\$6,577</u>	<u>\$3,937</u>	<u>\$452,714</u>
December 31, 2014				
U.S. government and agency securities	\$134,601	\$ 423	\$ 590	\$134,434
Foreign government	3,275	79	—	3,354
States, municipalities and political subdivisions	90,262	1,866	217	91,911
Public utilities	9,044	217	39	9,222
Corporate securities	111,787	1,409	580	112,616
Redeemable preferred stocks	1,094	9	10	1,093
Total fixed maturities	350,063	4,003	1,436	352,630
Public utilities	1,222	211	—	1,433
Other common stocks	19,560	3,738	250	23,048
Nonredeemable preferred stocks	1,496	17	7	1,506
Total equity securities	22,278	3,966	257	25,987
Other investments	2,749	261	—	3,010
Total investments	<u>\$375,090</u>	<u>\$8,230</u>	<u>\$1,693</u>	<u>\$381,627</u>

When we sell investments, we calculate the gain or loss realized on the sale by comparing the sales price (fair value) to the cost or adjusted/amortized cost of the security sold. We determine the cost or adjusted/amortized cost of the security sold using the specific-identification method. The following tables detail our realized gains (losses) by major investment category for the years ended December 31, 2015, 2014 and 2013:

	2015		2014		2013	
	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale
Fixed maturities	\$ 727	\$ 87,141	\$ 92	\$ 5,598	\$ 103	\$23,187
Equity securities	1,895	7,790	298	111,325	31	155
Total realized gains	2,622	94,931	390	116,923	134	23,342
Fixed maturities	(595)	38,485	(228)	11,389	(261)	43,751
Equity securities	(1,200)	4,172	(182)	1,529	(2)	28
Total realized losses	(1,795)	42,657	(410)	12,918	(263)	43,779
Net realized investment gains (losses)	\$ 827	\$137,588	\$ (20)	\$129,841	\$(129)	\$67,121

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

	December 31, 2015			
	Cost or Amortized Cost	Percent of Total	Fair Value	Percent of Total
Due in one year or less	\$ 50,080	12.6%	\$ 50,135	12.6%
Due after one year through five years	163,917	41.3%	163,621	41.2%
Due after five years through ten years	131,968	33.3%	131,678	33.2%
Due after ten years	50,450	12.8%	51,264	13.0%
Total	\$396,415	100.0%	\$396,698	100.0%

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

	Year Ended December 31,		
	2015	2014	2013
Fixed maturities	\$8,092	\$5,866	\$3,512
Equity securities	859	734	280
Cash and cash equivalents	25	9	31
Other investments	222	166	48
Other assets	14	20	—
Investment income	\$9,212	\$6,795	\$3,871
Investment expenses	(267)	(312)	(206)
Net investment income	\$8,945	\$6,483	\$3,665

Portfolio monitoring

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

For each fixed income security in an unrealized loss position, we determine if the loss is temporary or other-than-temporary. If our management decides to sell the security or determines that it is more likely than not that we will be required to sell the security before recovery of the cost or amortized cost basis for reasons such as liquidity, contractual or regulatory purposes, then the security's decline in fair value is considered other-than-temporary and is recorded in earnings.

If we have not made the decision to sell the fixed income security and it is not more likely than not that we will be required to sell the fixed income security before recovery of its amortized cost basis, we evaluate whether we expect the security to receive cash flows sufficient to recover the entire cost or amortized cost basis of the security. We calculate the estimated recovery value by discounting the best estimate of future cash flows at the security's original or current effective rate, as appropriate, and compare this to the cost or amortized cost of the security. If we do not expect to receive cash flows sufficient to recover the entire cost or amortized cost basis of the fixed income security, the credit loss component of the impairment is recorded in earnings, with the remaining amount of the unrealized loss related to other factors recognized in other comprehensive income.

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

Our portfolio monitoring process includes a quarterly review of all securities to identify instances where the fair value of a security compared to its cost or amortized cost (for fixed income securities) or cost (for equity securities) is below established thresholds. The process also includes the monitoring of other impairment indicators such as ratings, ratings downgrades and payment defaults. The securities identified, in addition to other securities for which we may have a concern, are evaluated for potential other-than-temporary impairment using all reasonably available information relevant to the collectability or recovery of the security. Inherent in our evaluation of other-than-temporary impairment for these fixed income and equity securities are assumptions and estimates about the financial condition and future earnings potential of the issue or issuer. Some of the factors that may be considered in evaluating whether a decline in fair value is other-than-temporary are: (1) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry specific market conditions and trends, geographic location and implications of rating agency actions and offering prices; (2) the specific reasons that a security is in an unrealized loss position, including overall market conditions which could affect liquidity; and (3) the length of time and extent to which the fair value has been less than amortized cost or cost.

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

	Less Than Twelve Months			Twelve Months or More		
	Number of Securities*	Gross Unrealized Losses	Fair Value	Number of Securities*	Gross Unrealized Losses	Fair Value
December 31, 2015						
U.S. government and agency securities	73	\$ 265	\$ 44,786	21	\$209	\$11,250
States, municipalities and political subdivisions	61	463	56,971	5	27	7,620
Public utilities	8	4	1,961	1	29	1,015
Corporate securities	242	2,025	92,429	9	267	10,047
Redeemable preferred stocks	7	49	746	—	—	—
Total fixed maturities	391	2,806	196,893	36	532	29,932
Mutual Funds	1	14	26,343	—	—	—
Public utilities	4	34	697	—	—	—
Other common stocks	63	497	6,665	3	48	118
Nonredeemable preferred stocks	19	6	1,161	—	—	—
Total equity securities	87	551	34,866	3	48	118
Total	478	\$3,357	\$231,759	39	\$580	\$30,050
December 31, 2014						
U.S. government and agency securities	32	\$ 285	\$ 36,081	20	\$305	\$16,947
States, municipalities and political subdivisions	24	100	22,272	11	117	14,310
Public utilities	1	1	1,274	1	38	1,014
Corporate securities	23	271	23,738	16	309	20,215
Redeemable preferred stocks	4	10	408	—	—	—
Total fixed maturities	84	667	83,773	48	769	52,486
Other common stocks	54	247	3,992	1	3	31
Nonredeemable preferred stocks	4	7	378	—	—	—
Total equity securities	58	254	4,370	1	3	31
Total	142	\$ 921	\$ 88,143	49	\$772	\$52,517

* 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 years ended December 31, 2015, 2014 and 2013, we recorded no other-than-temporary impairment charges related to our equity or debt securities.

Fair value measurement

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

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

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

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

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

We estimate the fair value of our investments using the closing prices on the last business day of the reporting period, obtained from active markets such as the NYSE, NASDAQ, and NYSE MKT. For securities for which quoted prices in active markets are unavailable, we use a third-party pricing service that utilizes quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs to estimate the fair value of those securities for which quoted prices are unavailable. Our estimates of fair value reflect the interest rate environment that existed as of the close of business on December 31, 2015 and 2014. Changes in interest rates subsequent to December 31, 2015 may affect the fair value of our investments.

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

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

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

The carrying amounts for the following financial instrument categories approximate their fair values at December 31, 2015 and 2014 because of their short-term nature: cash and cash equivalents, accrued investment income, premiums receivable, reinsurance recoverable, reinsurance payable, and accounts payable and accrued expenses. The carrying amount of notes payable also approximates fair value as the interest rate is variable.

The following table presents the fair value measurements of our financial instruments on a recurring basis by level at December 31, 2015 and December 31, 2014:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2015				
U.S. government and agency securities	\$ 81,647	\$ —	\$ 81,647	\$ —
Foreign governments	2,075	—	2,075	—
States, municipalities and political subdivisions	155,905	—	155,905	—
Public utilities	8,493	—	8,493	—
Corporate securities	146,758	—	146,758	—
Redeemable preferred stocks	1,820	1,820	—	—
Total fixed maturities	<u>396,698</u>	<u>1,820</u>	<u>394,878</u>	<u>—</u>
Mutual Funds	26,343	26,343	—	—
Public utilities	1,352	1,352	—	—
Other common stocks	20,694	20,694	—	—
Nonredeemable preferred stocks	2,417	2,417	—	—
Total equity securities	<u>50,806</u>	<u>50,806</u>	<u>—</u>	<u>—</u>
Other investments	5,210	300	3,055	1,855
Total investments	<u>\$452,714</u>	<u>\$52,926</u>	<u>\$397,933</u>	<u>\$1,855</u>
December 31, 2014				
U.S. government and agency securities	\$134,434	\$ —	\$134,434	\$ —
Foreign governments	3,354	—	3,354	—
States, municipalities and political subdivisions	91,911	—	91,911	—
Public utilities	9,222	—	9,222	—
Corporate securities	112,616	—	112,616	—
Redeemable preferred stocks	1,093	1,093	—	—
Total fixed maturities	<u>352,630</u>	<u>1,093</u>	<u>351,537</u>	<u>—</u>
Public utilities	1,433	1,433	—	—
Other common stocks	23,048	23,048	—	—
Nonredeemable preferred stocks	1,506	1,506	—	—
Total equity securities	<u>25,987</u>	<u>25,987</u>	<u>—</u>	<u>—</u>
Other investments	3,010	300	739	1,971
Total investments	<u>\$381,627</u>	<u>\$27,380</u>	<u>\$352,276</u>	<u>\$1,971</u>

The table below presents the rollforward of our Level 3 investments held at fair value during the year ended December 31, 2015:

	<u>Other Investments</u>
December 31, 2014	\$1,971
Transfers in	—
Partnership income	101
Return of capital	(186)
Unrealized gains in accumulated other comprehensive income	<u>(31)</u>
December 31, 2015	<u>\$1,855</u>

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

At the end of each quarter, we determine whether we need to transfer the fair values of any securities between levels of the fair value hierarchy and, if so, we report the transfer as of the end of the quarter. During 2015, we transferred no investments between levels. We used unobservable inputs to derive our estimated fair value for Level 3 investments and the unobservable inputs are significant to the overall fair value measurement.

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

Other investments

We acquired investments in limited partnerships, recorded in the other investments line of our Consolidated Balance Sheets, that are currently being accounted for at fair value utilizing a discounted cash flow methodology. The estimated fair value of our investments in the limited partnership interests was \$4,910,000. We have fully funded our investments in DCR Mortgage Partners VI, L.P., DCR Mortgage Partners VII, L.P., and RCH Mortgage Fund VI Investors, LP; however, we are still obligated to fund an additional \$995,000 and \$950,000 for our investments in Kayne Anderson Senior Credit Fund II, L.P. (Kayne) and Blackstone Alternative Solutions 2015 Trust, respectively.

The information presented in the table below is as of December 31, 2015.

	<u>Initial Investment</u>	<u>Book Value</u>	<u>Unrealized Gain</u>	<u>Fair Value</u>
DCR Mortgage Partners VI, L.P.	\$ 627	\$ 660	\$208	\$ 868
RCH Mortgage Fund VI Investors, LP	1,000	965	22	987
Total Level 3 limited partnership investments	<u>1,627</u>	<u>1,625</u>	<u>230</u>	<u>1,855</u>
Kayne Senior Credit Fund II, L.P.	1,005	1,005	—	1,005
DCR Mortgage Partners VII, L.P.	2,000	2,000	—	2,000
Blackstone Alternative Solutions 2015 Trust	50	50	—	50
Total Level 2 limited partnership investments	<u>3,055</u>	<u>3,055</u>	<u>—</u>	<u>3,055</u>
Total limited partnership investments	<u>\$4,682</u>	<u>\$4,680</u>	<u>\$230</u>	<u>\$4,910</u>
Other short-term investments	300	300	—	300
Total other investments	<u>\$4,982</u>	<u>\$4,980</u>	<u>\$230</u>	<u>\$5,210</u>

On October 20, 2015, we acquired our investment in DCR Mortgage Partners VII, L.P. (DCR VII), a limited partnership, that is currently being accounted for at cost. Our total investment in the partnership is \$2,000,000 and we are not required to fund any additional amounts in excess of our initial investment. When the funding for the partnership closes, DCR VII will acquire and manage performing, sub-performing, and non-performing loans secured by income-producing commercial real estate. As the limited partnership was still in the formation phase at December 31, 2015, the cost basis of our investment approximated its fair value.

In October 2015, we started funding our investment in Blackstone Alternatives Solution 2015 Trust (BTAS). BTAS is a private placement offered by The Blackstone Group, L.P. (NYSE: BX), a publicly traded investment firm with approximately \$336 billion in assets under management. Blackstone is one of the largest independent alternative asset managers in the world providing a broad range of opportunities in four key alternative investment categories: private equity, real estate, credit and hedge funds.

BTAS is not a fund of funds and will generally participate directly in deals originated by Blackstone during its three year investment period. All deals will have been evaluated and approved by a Blackstone investment committee providing diversified exposure to private market investments across many of Blackstone's alternative investment strategies. BTAS invests substantially all of its assets in investments in which other Blackstone investment vehicles, managed accounts or other Blackstone affiliates participate and also generally parallels the Blackstone annual employee investment program.

Our investment in BTAS is currently being accounted for at cost. Our total investment in the partnership is \$50,000. We are obligated to fund an additional amount of \$950,000 to reach our initial \$1,000,000 commitment. As the limited partnership is still in the formation phase, the cost basis of our investment approximated its fair value at December 31, 2015.

In December 2014, we began funding our investment in the Kayne Anderson Senior Credit Fund II (KSCF). KSCF is a private placement offered by Kayne Anderson Capital Advisors, L.P., an S.E.C. registered investment advisor with approximately \$25 billion in assets under management. KSCF will deploy its assets across a variety of loan types with three to five year maturities in senior secured positions to support acquisitions, growth, add-ons, recapitalizations, restructuring and bridge financing. KSCF's investment strategies include upstream oil and gas companies, energy infrastructure, specialized real estate, middle market credit, growth private equity and distressed municipal opportunities.

On September 27, 2013, we acquired our investment in RCH Mortgage Fund VI Investors, LP (RCH). RCH is a limited partnership that acquires and manages performing, sub-performing, and non-performing loans secured by income-producing commercial real estate.

On September 25, 2012, we acquired our investment in DCR Mortgage Partners VI, L.P. (DCR VI). DCR VI is a limited partnership that acquires and manages performing, sub-performing, and non-performing loans secured by income-producing commercial real estate.

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

	<u>Fair Value Impact</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Rate Adjustment</u>
December 31, 2015				
DCR VI	\$ (88)	Discounted cash flow	Discount rate based on D&B paydex scale	2.35%
RCH	\$(341)	Discounted cash flow	Discount rate based on D&B paydex scale	7.35%
December 31, 2014				
DCR VI	\$ (89)	Discounted cash flow	Discount rate based on D&B paydex scale	2.35%
RCH	\$(292)	Discounted cash flow	Discount rate based on D&B paydex scale	6.10%

4) ACQUISITION

We account for acquisitions under the provisions of Accounting Standards Committee (ASC) Topic 805—*“Business Combinations.”*

On February 3, 2015, we successfully completed the acquisition of Family Security Holdings, LLC and its two wholly-owned subsidiaries. The purchase price for FSH and its subsidiaries consisted of an initial purchase price of \$12,994,000 in common stock and contingent consideration based on a percentage of gross written premiums written on the renewal of FSH policies during the one year period following the closing date, which we estimated to be \$540,000 as of December 31, 2015. The contingent consideration will be paid in shares of our common stock one year after the closing of the merger.

The business combination has been accounted for using the acquisition method of accounting, which requires, among other things, that most assets acquired, liabilities assumed and earn-out consideration be recognized at their fair values as of the acquisition date.

The purchase price consisted of the following amounts:

Fair market value of common stock issued	\$12,994
Estimate of potential contingent consideration ⁽¹⁾	540
Total purchase price	<u>\$13,534</u>

⁽¹⁾ The amount of the contingent consideration reflected in the table above reflects our estimate, as of December 31, 2015, of the amount of contingent consideration that we will be required to pay to the former shareholders of FSH pursuant to the purchase agreement to acquire FSH and its subsidiaries. The contingent consideration will be paid out in additional shares of our stock based on the 180 day average of the closing price of our stock in the 180 days immediately prior to the one year anniversary of the closing of the acquisition. The contingent consideration will be measured at each reporting date with changes in its fair value recognized in our Consolidated Statements of Comprehensive Income.

The operations of FSH and its subsidiaries are included in our Consolidated Statements of Comprehensive Income effective February 3, 2015. We had one year from the acquisition date to finalize the allocation of the purchase price of FSH and its subsidiaries. The final purchase price allocation is as follows:

Cash	\$14,467
Investments	5,588
Premium and agents' receivable	1,496
Intangible assets	6,312
Goodwill	3,413
Other assets	609
Loss reserves	(2,390)
Unearned premiums	(9,646)
Reinsurance payable	(998)
Loans payable	(2,246)
Deferred taxes	(1,399)
Other liabilities	<u>(1,672)</u>
Total purchase price	<u><u>\$13,534</u></u>

The unaudited pro forma financial information has been prepared as if the FSH acquisition had taken place on January 1, 2015. The unaudited pro forma information is not necessarily indicative of the results that we would have achieved had the transaction taken place on January 1, 2015, and the unaudited pro forma information does not purport to be indicative of future financial operating results.

	<u>For the Year Ended December 31, 2015</u>		
	<u>As Reported</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma</u>
Revenues	\$357,569	\$1,127	\$358,696
Net income	\$ 27,358	\$ 77	\$ 27,435
Diluted earnings per share	\$ 1.28	\$ —	\$ 1.28

5) EARNINGS PER SHARE

Basic earnings per share (EPS) is based on the weighted average number of common shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution resulting from vesting of restricted stock awards. The following table shows the computation of basic and diluted EPS for the years ended December 31, 2015, 2014 and 2013:

	<u>Year Ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Numerator:			
Net income attributable to common stockholders	\$ 27,358	\$ 41,013	\$ 20,342
Denominator:			
Weighted-average shares outstanding	21,218,233	19,933,652	16,100,882
Effect of dilutive securities	234,307	112,255	82,216
Weighted-average diluted shares	<u>21,452,540</u>	<u>20,045,907</u>	<u>16,183,098</u>
Basic earnings per share	<u>\$ 1.29</u>	<u>\$ 2.06</u>	<u>\$ 1.26</u>
Diluted earnings per share	<u>\$ 1.28</u>	<u>\$ 2.05</u>	<u>\$ 1.26</u>

See Note 19 for additional information on the stock grants related to dilutive securities.

6) DEFERRED POLICY ACQUISITION COSTS

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

	<u>2015</u>	<u>2014</u>
Balance at January 1	\$ 31,925	\$ 25,186
Policy acquisition costs deferred	101,221	71,853
Amortization	<u>(86,414)</u>	<u>(65,114)</u>
Balance at December 31	<u>\$ 46,732</u>	<u>\$ 31,925</u>

7) PROPERTY AND EQUIPMENT, NET

Property and equipment, net consists of the following:

	Year Ended December 31,	
	2015	2014
Land	\$ 2,114	\$ 2,114
Building and building improvements	4,298	1,469
Computer hardware and software	13,574	6,001
Office furniture and equipment	1,831	1,319
Leasehold improvements	141	141
Total, at cost	<u>21,958</u>	<u>11,044</u>
Less: accumulated depreciation and amortization	<u>(4,823)</u>	<u>(3,022)</u>
Property and equipment, net	<u>\$17,135</u>	<u>\$ 8,022</u>

On September 5, 2014, we entered into a purchase and sale agreement to acquire approximately 40,000 square feet of commercial office space and associated property in St. Petersburg, Florida. At acquisition, the real estate consisted of approximately 2.3 acres of land and an office building, plus an additional 1.5 acres of leased parking space. We are depreciating the building over its expected useful life of 39 years.

On September 9, 2015, we entered into a purchase and sale agreement to acquire approximately 7,800 square feet of commercial office space in St. Petersburg, Florida. We are depreciating the building over its expected useful life of 39 years.

Depreciation and amortization expense under property and equipment was \$1,803,000, \$731,000 and \$697,000, respectively, for the years ended December 31, 2015, 2014 and 2013.

8) 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 stockholders an acceptable return on the risks assumed in our property business, and to reduce variability of earnings, while providing protection to our policyholders.

During the second quarter of 2015, we placed our reinsurance program for the 2015 treaty year beginning June 1, 2015 and ending on May 31, 2016. The agreements incorporate the mandatory coverage required by and placed with the FHCF. The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes.

For the treaty year beginning June 1, 2015 and ending on May 31, 2016, UPC Insurance has obtained reinsurance protection of \$1,243,122,000 excess \$25,000,000, providing sufficient protection for approximately a 1-in-100 year hurricane event and a second 1-in-50 year hurricane event as calculated using a blended model

result predominately based on our licensed modeling software, AIR model version 15, using long-term event rates excluding demand surge. For a single first event hurricane or tropical storm, UPC Insurance will pay, or “retain”, 100% of losses up to \$25,000,000 in a Florida event and 100% of losses up to \$5,000,000 in an event outside of Florida. The catastrophe excess of loss reinsurance program provides 100% coverage for all losses in excess of \$25,000,000 up to \$1,173,122,000 for a first event and \$1,243,122,000 for any number of subsequent events until all limit is exhausted.

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

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

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

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

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

	Year Ended December 31,		
	2015	2014	2013
Excess-of-loss	\$(163,106)	\$(125,638)	\$(108,696)
Equipment & identity theft	(6,169)	(4,370)	(2,608)
Flood	(14,533)	(14,396)	(13,378)
Ceded premiums written	\$(183,808)	\$(144,404)	\$(124,682)
Increase in ceded unearned premiums	15,551	8,559	5,352
Ceded premiums earned	<u>\$(168,257)</u>	<u>\$(135,845)</u>	<u>\$(119,330)</u>

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

	<u>Number of Events ⁽⁸⁾</u>	<u>Incurred Loss and LAE ⁽⁷⁾</u>	<u>Combined Ratio Impact</u>
December 31, 2015			
Current period catastrophe losses incurred			
\$ 5 million to \$10 million ⁽¹⁾	2	\$11,523	3.4%
\$ 1 million to \$5 million ⁽²⁾	7	14,699	4.4%
Less than \$1 million ⁽³⁾	<u>5</u>	<u>2,343</u>	<u>0.7%</u>
Total	<u>14</u>	<u>\$28,565</u>	<u>8.5%</u>
December 31, 2014			
Current period catastrophe losses incurred			
Less than \$1 million ⁽⁴⁾	<u>3</u>	<u>829</u>	<u>0.3%</u>
Total	<u>3</u>	<u>\$ 829</u>	<u>0.3%</u>
December 31, 2013			
Current period catastrophe losses incurred			
\$ 1 million to \$5 million ⁽⁵⁾	1	1,839	0.9%
Less than \$1 million ⁽⁶⁾	<u>2</u>	<u>1,763</u>	<u>0.9%</u>
Total	<u>3</u>	<u>\$ 3,602</u>	<u>1.8%</u>

⁽¹⁾ Reflects losses from winter storms in 2015.

⁽²⁾ Reflects losses from winter storms, hail storms and wind storms in 2015.

⁽³⁾ Reflects losses from winter storms, hail storms, Texas flooding, Hurricane Anna and Tropical Storm Bill in 2015.

⁽⁴⁾ Reflects losses from the Richland hailstorm, Hurricane Arthur and the Revere Tornado in 2014.

⁽⁵⁾ Reflects losses from Winter Storm Nemo in 2013.

⁽⁶⁾ Reflects losses from the Orlando weather event and Tropical Storm Andrea in 2013.

⁽⁷⁾ Incurred loss and LAE is equal to losses and LAE paid plus the change in case and incurred but not reported reserves.

⁽⁸⁾ These amounts represent the actual number of catastrophic events. The numbers are not presented in thousands.

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

	December 31,	
	<u>2015</u>	<u>2014</u>
Reinsurance recoverable on unpaid losses and LAE	\$2,114	\$1,252
Reinsurance recoverable on paid losses and LAE	847	816
Reinsurance recoverable	<u>\$2,961</u>	<u>\$2,068</u>

During the years ended December 31, 2015 and 2014, we realized recoveries under our reinsurance agreements totaling \$10,282,000 and \$2,667,000, respectively. These recoveries were primarily related to losses from the Northeast winter storms that occurred during the first half of 2015.

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

We write flood insurance under an agreement with the National Flood Insurance Program. We cede 100% of the premiums written and the related risk of loss to the federal government. We earn commissions for the issuance of flood policies based upon a fixed percentage of net written premiums and the processing of flood claims based upon a fixed percentage of incurred losses, and we can earn additional commissions by meeting certain growth targets for the number of in-force policies. We recognized commission revenue from our flood program of \$959,000, \$1,078,000, and \$570,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

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

	Year ended December 31,		
	2015	2014	2013
Premium written:			
Direct	\$ 548,916	\$ 417,769	\$ 339,765
Assumed	20,820	18,984	41,587
Ceded	<u>(183,808)</u>	<u>(144,404)</u>	<u>(124,682)</u>
Net premium written	<u>\$ 385,928</u>	<u>\$ 292,349</u>	<u>\$ 256,670</u>
Change in unearned premiums:			
Direct	\$ (65,300)	\$ (38,995)	\$ (44,422)
Assumed	(221)	2,937	(20,222)
Ceded	<u>15,551</u>	<u>8,559</u>	<u>5,352</u>
Net increase	<u>\$ (49,970)</u>	<u>\$ (27,499)</u>	<u>\$ (59,292)</u>
Premiums earned:			
Direct	\$ 483,616	\$ 378,774	\$ 295,343
Assumed	20,599	21,921	21,365
Ceded	<u>(168,257)</u>	<u>(135,845)</u>	<u>(119,330)</u>
Net premiums earned	<u>\$ 335,958</u>	<u>\$ 264,850</u>	<u>\$ 197,378</u>
Losses and LAE incurred:			
Direct	\$ 188,270	\$ 111,820	\$ 92,526
Assumed	7,861	8,672	9,240
Ceded	<u>(13,023)</u>	<u>(2,415)</u>	<u>(2,936)</u>
Net losses and LAE incurred	<u>\$ 183,108</u>	<u>\$ 118,077</u>	<u>\$ 98,830</u>

Ceded losses incurred increased by \$10,608,000 during the year ended December 31, 2015, compared to the year ended December 31, 2014, primarily because we paid more ceded losses in 2015 than in 2014. A portion of the losses we incurred in 2015 exceeded our retained loss thresholds, therefore we received reinsurance recoveries for some of the losses that we incurred on these storms. The losses we incurred in 2014 and 2013 related to storms that occurred in those same years but did not exceed our retained loss thresholds.

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

	December 31,		
	2015	2014	2013
Unpaid losses and LAE:			
Direct	\$ 72,373	\$ 49,734	\$ 42,954
Assumed	4,419	4,702	4,497
Gross unpaid losses and LAE	76,792	54,436	47,451
Ceded	(2,114)	(1,252)	(1,957)
Net unpaid losses and LAE	<u>\$ 74,678</u>	<u>\$ 53,184</u>	<u>\$ 45,494</u>
Unearned premiums:			
Direct	\$287,148	\$212,201	\$173,206
Assumed	17,506	17,285	20,222
Gross unearned premiums	304,654	229,486	193,428
Ceded	(79,400)	(63,827)	(55,268)
Net unearned premiums	<u>\$225,254</u>	<u>\$165,659</u>	<u>\$138,160</u>

9) RESERVE FOR UNPAID LOSSES

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

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

	2015	2014	2013
Balance at January 1	\$ 54,436	\$ 47,451	\$35,692
Acquisition of Family Security Insurance Company, Inc. reserves	2,390	—	—
Less: reinsurance recoverable on unpaid losses	1,252	1,957	1,935
Net balance at January 1	<u>\$ 55,574</u>	<u>\$ 45,494</u>	<u>\$33,757</u>
Incurred related to:			
Current year	185,476	122,114	94,752
Prior years	(2,368)	(4,037)	4,078
Total incurred	<u>\$183,108</u>	<u>\$118,077</u>	<u>\$98,830</u>
Paid related to:			
Current year	127,306	83,967	62,494
Prior years	36,698	26,420	24,599
Total paid	<u>\$164,004</u>	<u>\$110,387</u>	<u>\$87,093</u>
Net balance at December 31	\$ 74,678	\$ 53,184	\$45,494
Plus: reinsurance recoverable on unpaid losses	2,114	1,252	1,957
Balance at December 31	<u>\$ 76,792</u>	<u>\$ 54,436</u>	<u>\$47,451</u>

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

As reflected by our losses incurred related to prior years, we had a reserve deficiency in 2013. Since we place substantial reliance on loss-development-based actuarial models when determining our estimate of ultimate losses, the deficiencies resulted from additional development on prior accident years which caused our ultimate losses to increase. The favorable development experienced in 2015 were primarily the result of losses related to the 2014 and 2013 accident years coming in better than expected. The favorable development experienced in 2014 were primarily the result of losses related to the 2013 and 2012 accident years coming in better than expected.

10) LONG-TERM DEBT

Our long-term debt at December 31, 2015 and 2014 consisted of a note payable to the Florida State Board of Administration. As of December 31, 2015 and 2014, we owed \$12,353,000 and \$13,529,000, respectively, on the note and the interest rate was 2.05% and 2.50%, respectively.

At December 31, 2015, the annual maturities of our long-term debt were as follows:

	<u>Amount</u>
2016	\$ 1,176
2017	1,176
2018	1,176
2019	1,176
2020	1,176
Thereafter	<u>6,473</u>
Total debt	<u>\$12,353</u>

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

The note payable to the Florida State Board of Administration (SBA note) requires United Property & Casualty Insurance Company to maintain surplus as regards policyholders at or above a calculated level, which was \$29,578,000 at December 31, 2015. Each quarter, we monitor the surplus as regards policyholders for both of our insurance affiliates and, for various reasons, we occasionally provide additional capital to our insurance affiliates. We contributed \$30,845,000 of capital during 2014; however, we did not contribute any capital to our insurance affiliates in 2015 and 2013. We may make future contributions of capital to our insurance affiliates as circumstances require.

Our SBA note requires that United Property & Casualty Insurance Company maintain either a 2:1 ratio of net written premium to surplus, or net writing ratio, or a 6:1 ratio of gross written premium to surplus, or gross writing ratio, to avoid additional interest penalties. The SBA note agreement defines surplus for the purpose of calculating the required ratios as the \$20,000,000 of capital contributed to United Property & Casualty Insurance Company under the agreement plus the outstanding balance of the note. At December 31, 2015, United Property & Casualty Insurance Company's net written premium to surplus ratio was 6.5:1, which is well above the 2:1 required ratio. United Property & Casualty Insurance Company's gross written premium to surplus ratio was 10.1:1, which exceeds the required gross ratio of 6:1. Should United Insurance Property & Casualty Insurance Company fail to exceed either a net writing ratio of 1.5:1 or a gross writing ratio of 4.5:1, United Property & Casualty Insurance Company's interest rate will increase by 450 basis points above the 10-year Constant Maturity Treasury rate which was 2.27% at the end of December 2015. Any other writing ratio deficiencies result in an interest rate penalty of 25 basis points above the stated rate of the note, which was 2.05% at December 31, 2015. Our SBA note further provides that the SBA may, among other things, declare its loan immediately due and payable for all defaults existing under the SBA note; however, any payment is subject to approval by the insurance regulatory authority. At December 31, 2015, we were in compliance with the covenants as specified in the SBA note.

11) INCOME TAXES

The following table summarizes the provision for income taxes:

	Year Ended December 31,		
	2015	2014	2013
Federal:			
Current	\$10,143	\$21,633	\$11,413
Deferred	2,103	(996)	1,026
Provision for Federal income tax expense	<u>12,246</u>	<u>20,637</u>	<u>12,439</u>
State:			
Current	2,054	2,945	1,581
Deferred	202	(185)	125
Provision for State income tax expense	<u>2,256</u>	<u>2,760</u>	<u>1,706</u>
Provision for income taxes	<u>\$14,502</u>	<u>\$23,397</u>	<u>\$14,145</u>

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

	Year Ended December 31,		
	2015	2014	2013
Expected income tax expense at federal rate	\$14,671	\$22,545	\$12,070
State tax expense, net of federal deduction benefit	1,023	1,660	1,140
Dividend received deduction	—	(350)	(47)
Prior period adjustment	42	—	699
Section 847 payments	(693)	—	—
Other, net	<u>(541)</u>	<u>(458)</u>	<u>283</u>
Reported income tax expense	<u>\$14,502</u>	<u>\$23,397</u>	<u>\$14,145</u>

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

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

	December 31,	
	2015	2014
Deferred tax assets:		
Unearned premiums	\$ 18,182	\$ 13,483
Tax-related discount on loss reserve	936	671
Bad debt expense	51	13
Other-than-temporary impairment	28	56
Other	432	651
Total deferred tax assets	19,629	14,874
Deferred tax liabilities:		
Unrealized gain	(1,019)	(2,526)
Deferred acquisitions costs	(18,976)	(12,128)
Capitalized software	(251)	(443)
Intangible asset	(1,974)	—
Other	(433)	(772)
Total deferred tax liabilities	(22,653)	(15,869)
Net deferred tax liability	<u>\$ (3,024)</u>	<u>\$ (995)</u>

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

The statute of limitations related to our consolidated Federal income tax returns and our Florida income tax returns expired for all tax years up to and including 2011; therefore, only the 2012 through 2015 tax years remain subject to examination by taxing authorities. No taxing authorities are currently examining any of our federal or state income tax returns.

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

As of December 31, 2015, we have not taken any uncertain tax positions with regard to our tax returns.

12) STATUTORY ACCOUNTING AND REGULATION

The insurance industry is heavily-regulated. State laws and regulations, as well as national regulatory agency requirements, govern the operations of all insurers such as our insurance affiliates. The various laws and regulations require that insurers maintain minimum amounts of statutory surplus and risk-based capital, they restrict insurers' ability to pay dividends, they specify allowable investment types and investment mixes, and they subject insurers to assessments. At December 31, 2015, and during the twelve months then ended, our insurance affiliates met all regulatory requirements of the states in which they operate, and did not incur any material assessments.

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

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Expected recoveries of assessments, January 1	\$ —	\$ 7	\$ 1,646
Assessments expensed	226	72	31
Assessments recovered	1	(2)	(1,528)
Assessments not recoverable	<u>(227)</u>	<u>(77)</u>	<u>(142)</u>
Expected recoveries of assessments, December 31	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7</u>

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

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

Our insurance affiliates, United Property & Casualty Insurance Company (UPC) and Family Security Insurance Company, Inc. (FSIC) are domiciled in Florida and Hawaii, respectively. The laws of the state of Florida require that UPC maintain capital and surplus equal to the greater of 10% of its total liabilities or \$5,000,000. The laws of the state of Hawaii require that FSIC maintain capital and surplus of \$3,250,000. State law also requires our insurance affiliates to adhere to prescribed premium-to-capital surplus ratios, with which we were in compliance at December 31, 2015. Our reinsurance affiliate is domiciled in the Cayman Islands and is subject to the regulatory authority of the Cayman Island Monetary Authority. The insurance regulations in the Cayman Islands stipulate that our reinsurance affiliate must maintain a minimum capital requirement of \$100,000. The table below shows the amount of surplus as regards policyholders for our regulated entities at December 31, 2015 and 2014.

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
UPC	\$135,288	\$126,249
UPC Re	\$ 728	\$ 19,048
FSIC	\$ 15,572	N/A ⁽¹⁾

⁽¹⁾ There is not a reportable value for FSIC at December 31, 2014 as we did not own the company until February 2015.

The amount of restricted net assets of UPC, FSIC and UPC Re at December 31, 2015 was \$122,627,000, \$18,158,000, and \$100,000, respectively.

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

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

1. No Action Level — If RBC is greater than 200%, no further action is required.
2. Company Action Level — If RBC is between 150% -200%, the insurer must prepare a report to the regulator outlining a comprehensive financial plan that identifies conditions that contributed to the insurer's financial condition and proposes corrective actions.
3. Regulatory Action Level — If RBC is between 100% -150%, the state insurance commissioner is required to perform any examinations or analyses to the insurer's business and operations that he or she deems necessary as well as issuing appropriate corrective orders.
4. Authorized Control Level — If RBC is between 70%—100%, this is the first point that the regulator may take control of the insurer even if the insurer is still technically solvent and is in addition to all the remedies available at the higher action levels.
5. Mandatory Control Level — If RBC is less than 70%, the regulator is required to take steps to place the insurer under its control regardless of the level of capital and surplus.

At December 31, 2015, United Property & Casualty Insurance Company's and Family Security Insurance Company, Inc.'s RBC ratios were 419% and 445%, respectively.

Florida law limits an insurer's investment in equity instruments and also restricts investments in medium to low quality debt instruments. We were in compliance with all investment restrictions at December 31, 2015 and 2014.

The state laws of Florida and Hawaii permit an insurer to pay dividends or make distributions out of that part of statutory surplus derived from net operating profit and net realized capital gains. The state laws further provide calculations to determine the amount of dividends or distributions that can be made without the prior approval of the insurance regulatory authorities and the amount of dividends or distributions that would require prior approval of the insurance regulatory authorities in those states. Statutory risk-based capital requirements may further restrict our insurance affiliates' ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause statutory surplus to fall below minimum risk-based capital requirements.

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

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

- Statutory accounting requires that we exclude certain assets, called non-admitted assets, from the balance sheet.
- Statutory accounting requires us to expense policy acquisition costs when incurred, while GAAP allows us to defer to the extent realizable, and amortize policy acquisition costs over the estimated life of the policies.
- Statutory accounting requires that surplus notes, also known as surplus debentures, be recorded in statutory surplus, while GAAP requires us to record surplus notes as a liability.

- Statutory accounting allows certain investments to be carried at amortized cost or fair value based on the rating received from the Securities Valuation Office of the National Association of Insurance Commissioners, while they are recorded at fair value for GAAP because the investments are held as available for sale.
- Statutory accounting allows ceding commission income to be recognized when written if the cost of acquiring and renewing the associated business exceeds the ceding commissions, but under GAAP such income is deferred and recognized over the coverage period.
- Statutory accounting requires that unearned premiums and loss reserves are presented net of related reinsurance rather than on a gross basis under GAAP.
- Statutory accounting requires 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 affiliates must file with the various insurance regulatory authorities an “Annual Statement” which reports, among other items, statutory net income (loss) and surplus as regards policyholders, which is called stockholders’ equity under GAAP.

The table below reconciles our consolidated GAAP net income to the statutory net income of our insurance affiliates:

	Year Ended December 31,		
	2015	2014	2013
Consolidated GAAP net income	\$ 27,358	\$ 41,013	\$20,342
Increase (decrease) due to:			
Commissions	339	(12,258)	2,281
Deferred income taxes	(2,518)	64	(3,992)
Deferred policy acquisition costs	(4,962)	(788)	(868)
Allowance for doubtful accounts	97	5	5
Assessments	—	(78)	(1,567)
Prepaid expenses	131	(136)	22
Operations of non-statutory subsidiaries	(10,077)	(14,915)	(9,023)
January net income for Family Security Insurance Company, Inc.	152	—	—
Statutory net income of insurance affiliates	<u>\$ 10,520</u>	<u>\$ 12,907</u>	<u>\$ 7,200</u>

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

	December 31,	
	2015	2014
Consolidated GAAP stockholders' equity	\$239,211	\$203,763
Increase (decrease) due to:		
Deferred policy acquisition costs	(9,031)	(4,069)
Deferred income taxes	917	(668)
Investments	185	(596)
Non-admitted assets	(1,066)	(274)
Surplus debentures	12,353	13,529
Provision for reinsurance	(734)	(566)
Equity of non-statutory subsidiaries	(96,825)	(85,250)
Commissions	876	538
Prepaid expenses	(26)	(158)
Paid in surplus	5,000	—
Statutory surplus as regards policyholders of insurance affiliates	<u>\$150,860</u>	<u>\$126,249</u>

13) 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.

At December 31, 2015, we were not involved in any material non claims-related legal actions.

See Note 10 for information regarding commitments related to long-term debt, and Note 12 for commitments related to regulatory actions.

14) LEASES

We lease office space and office equipment under operating leases. In November 2015, upon moving to our newly renovated corporate headquarters, we terminated our previous leases on office spaces held by UPC Insurance and FSH. In February 2015, we acquired an office space lease in Hawaii held by FSH which will expire in November 2016.

We have office equipment leases with various expiration dates. Lease expense amounted to \$922,000, \$783,000, and \$698,000 for the years ended December 31, 2015, 2014, and 2013, respectively. At December 31, 2015, our minimum future lease payments under non-cancellable operating leases are:

	<u>Amount</u>
2016	\$113
2017	63
2018	2
2019*	1

* There are no lease payments beyond 2019.

15) RELATED PARTY TRANSACTIONS

One of our executive officers, Ms. Salmon is a former partner at the law firm of Groelle & Salmon, PA, where her spouse remains partner and co-owner. Groelle & Salmon, PA provides legal representation to us related to our claims litigation, and also provided representation to us for several years prior to Ms. Salmon joining UPC Insurance in 2014. During the years ended December 31, 2015 and 2014, Groelle & Salmon, PA billed us approximately \$1,439,000 and \$795,000, respectively. Ms. Salmon's spouse has a 50% interest in these billings, or approximately \$719,500 and \$397,500 for the years ended December 31, 2015 and 2014, respectively.

16) EMPLOYEE BENEFIT PLAN

We provide a 401(k) plan for substantially all of our employees. We match 100% of the first 5% of employees' contributions to the plan. For the years ended December 31, 2015, 2014, and 2013, our contributions to the plan on behalf of the participating employees were \$365,000, \$267,000, and \$180,000, respectively.

17) ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

	<u>Pre-Tax Amount</u>	<u>Tax (Expense) Benefit</u>	<u>Net-of-Tax Amount</u>
December 31, 2012	\$ 4,254	\$(1,641)	\$ 2,613
Changes in net unrealized gain on investments	(4,233)	1,633	(2,600)
Reclassification adjustment for net realized losses	129	(50)	79
December 31, 2013	150	(58)	92
Changes in net unrealized loss on investments	6,367	(2,460)	3,907
Reclassification adjustment for net realized losses	20	(8)	12
December 31, 2014	6,537	(2,526)	4,011
Changes in net unrealized gain on investments	(3,070)	1,187	(1,883)
Reclassification adjustment for net realized gains	(827)	319	(508)
December 31, 2015	<u>\$ 2,640</u>	<u>\$(1,020)</u>	<u>\$ 1,620</u>

18) STOCKHOLDERS' EQUITY

Our Board declared dividends on our outstanding shares of common stock to shareholders of record as follows for the periods presented (in thousands, except per share amounts):

	<u>Year Ended December 31,</u>					
	<u>2015</u>		<u>2014</u>		<u>2013</u>	
	<u>Per Share Amount</u>	<u>Aggregate Amount</u>	<u>Per Share Amount</u>	<u>Aggregate Amount</u>	<u>Per Share Amount</u>	<u>Aggregate Amount</u>
First Quarter	\$0.05	\$1,073	\$0.04	\$832	\$0.03	\$486
Second Quarter	\$0.05	\$1,077	\$0.04	\$834	\$0.03	\$486
Third Quarter	\$0.05	\$1,076	\$0.04	\$834	\$0.03	\$486
Fourth Quarter	\$0.05	\$1,076	\$0.04	\$836	\$0.03	\$486

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

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 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.

We are authorized to issue 875,000 shares of "blank check" preferred stock, which may be issued from time to time in one or more series upon authorization by our board of directors. Our Board, without further approval of the stockholders, is authorized to fix the designations, powers, including voting powers, preferences and the relative, participating optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof. As of December 31, 2015, we had not issued any shares of preferred stock.

See Note 19 for information regarding the activity of our common stock and share-based compensation.

19) STOCK-BASED COMPENSATION

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

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

We granted 130,442 shares of restricted common stock awards during the twelve-month period ended December 31, 2015, which had a weighted-average grant date fair value of \$20.38 per share. We granted 103,156 shares of restricted stock during the twelve-month period ended December 31, 2014, which had a weighted-average grant date fair value of \$13.86 per share.

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

	<u>Number of Restricted Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding as of December 31, 2012	86,990	\$ 5.25
Granted	10,476	7.64
Vested	<u>17,398</u>	<u>5.25</u>
Outstanding as of December 31, 2013	80,068	5.56
Granted	103,156	13.86
Forfeited	8,057	7.69
Vested	<u>21,784</u>	<u>6.40</u>
Outstanding as of December 31, 2014	153,383	10.91
Granted	130,442	20.38
Forfeited	14,365	13.80
Vested	<u>90,277</u>	<u>12.71</u>
Outstanding as of December 31, 2015	<u>179,183</u>	<u>\$16.67</u>

We had approximately \$1,343,000 and \$619,000 of unrecognized stock compensation expense on December 31, 2015 and 2014, respectively, related to non-vested stock-based compensation granted, that we expect to recognize over the next three years. We recognized \$808,000, \$280,000 and \$133,000 of stock-based compensation expense during the twelve months ended December 31, 2015, 2014 and 2013, respectively.

We had approximately \$360,000 and \$477,000 of unrecognized director stock-based compensation expense at December 31, 2015 and 2014, respectively, related to non-vested director stock-based compensation granted, which we expect to recognize ratably until the 2016 Annual Meeting of Stockholders. We recognized \$1,166,000 and \$371,000 of director stock-based compensation expense during the twelve months ended December 31, 2015 and 2014, respectively.

20) SUBSEQUENT EVENTS

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

On February 17, 2016, our Board of Directors declared a \$0.05 per share quarterly cash dividend payable on March 18, 2016, to stockholders of record on March 4, 2016.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act, as of the end of the period covered by this report. Based on our evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Report on Internal Control over Financial Reporting

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on the criteria set forth in the Internal Control-Integrated Framework, our management believes that as of December 31, 2015, our internal control over our financial reporting is effective.

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

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended December 31, 2015, we made no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

Because of the inherent limitations of internal controls, we do not expect our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that our objectives will be met. Further, no evaluation of controls can provide absolute assurance that we will prevent all misstatements due to error or fraud or that we will detect all control issues and instances of fraud, if any, within our company.

Item 9B. Other Information

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited United Insurance Holding Corp. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, United Insurance Holdings Corp. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Insurance Holdings Corp. and subsidiaries as of December 31, 2015, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the year then ended, and our report dated March 1, 2016 expressed an unqualified opinion.

/s/ RSM US LLP

Omaha, Nebraska
March 1, 2016

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Other than the information regarding our Code of Conduct and Ethics set forth below, all information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2016 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

CODE OF CONDUCT AND ETHICS

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

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2016 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

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

Information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2016 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

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

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2016 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement for the 2016 Annual Meeting of our Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2015.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this Report:

- (1) Consolidated Financial Statements.** In Part II, Item 8, we have included our consolidated financial statements, the notes thereto and the report of the Independent Registered Public Accounting Firm.
- (2) Financial Statement Schedules.** Schedule I — Summary of Investments, Schedule II — Condensed Financial Information of Registrant, Schedule IV — Reinsurance, and Schedule V — Valuation and Qualifying Accounts are filed as a part hereof along with the related report of the Independent Registered Public Accounting Firm included in Part II, Item 8. All other schedules have been omitted because the information required to be set forth therein is not applicable or is included in the consolidated financial statements or notes thereto.
- (3) Exhibits.** We hereby file as part of this Annual Report on Form 10-K the Exhibits listed on the attached Exhibit Index. Exhibits which are incorporated herein by reference can be inspected and copied at the public reference facilities maintained by the SEC, 100 F Street, N.E., Room 1580, Washington D.C. 20549, at prescribed rates or on the SEC website at www.sec.gov.

SCHEDULE I. SUMMARY OF INVESTMENTS

	December 31, 2015		
	Cost or Amortized Cost	Fair Value	Amount Shown in Consolidated Balance Sheet
Bonds:			
U.S. government and agency securities	\$ 81,973	\$ 81,647	\$ 81,647
Foreign governments	2,038	2,075	2,075
States, municipalities and political subdivisions	154,004	155,905	155,905
Public utilities	8,398	8,493	8,493
Corporate securities	148,170	146,758	146,758
Redeemable preferred stocks	1,832	1,820	1,820
Total fixed maturities	396,415	396,698	396,698
Mutual Funds	26,357	26,343	26,343
Common stocks:			
Public utilities	1,342	1,352	1,352
Other common stocks	18,624	20,694	20,694
Nonredeemable preferred stocks	2,356	2,417	2,417
Total equity securities	48,679	50,806	50,806
Other investments	4,980	5,210	5,210
Total investments	\$450,074	\$452,714	\$452,714

SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Condensed Balance Sheets

	December 31,	
	2015	2014
Assets		
Fixed maturities, available for sale, at fair value	\$ 8,157	\$ —
Equity securities, available for sale, at fair value	26,343	—
Cash and cash equivalents	11,555	4,097
Accrued investment income	3	—
Investment in subsidiaries	195,940	201,584
Property and equipment, net	6,838	3,583
Other assets	2	651
Total Assets	<u>\$248,838</u>	<u>\$209,915</u>
Liabilities		
Intercompany payable	\$ 8,657	\$ 6,100
Other liabilities	970	52
Total Liabilities	9,627	6,152
Stockholders' Equity		
Common stock	2	2
Additional paid-in capital	97,163	82,380
Treasury stock	(431)	(431)
Accumulated other comprehensive income	1,620	4,011
Retained earnings	140,857	117,801
Total Stockholders' Equity	<u>239,211</u>	<u>203,763</u>
Total Liabilities and Stockholders' Equity	<u>\$248,838</u>	<u>\$209,915</u>

SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT, CONTINUED

Condensed Statements of Comprehensive Income

	Years Ended December 31,		
	2015	2014	2013
Revenues			
Net income from subsidiaries (equity method)	\$27,562	\$40,108	\$20,786
Net realized investment gain	951	—	—
Net investment income	239	—	—
Total revenues	<u>28,752</u>	<u>40,108</u>	<u>20,786</u>
Expenses			
Operating and underwriting	138	86	42
General and administrative	1,252	130	120
Interest expense	—	—	1
Total expenses	<u>1,390</u>	<u>216</u>	<u>163</u>
Income before other income	27,362	39,892	20,623
Other income	245	61	—
Income before income taxes	27,607	39,953	20,623
Provision for income tax expense (benefit)	249	(1,060)	281
Net income	<u>\$27,358</u>	<u>\$41,013</u>	<u>\$20,342</u>
Unrealized loss on investments	25	—	—
Reclassification adjustments—gain	(951)	—	—
Income tax benefit (expense) related to other items of comprehensive income	(357)	—	—
Total Comprehensive Income	<u>\$26,075</u>	<u>\$41,013</u>	<u>\$20,342</u>

SCHEDULE II. CONDENSED FINANCIAL INFORMATION OF REGISTRANT, CONTINUED

Condensed Statements of Cash Flows

	Year Ended December 31,		
	2015	2014	2013
OPERATING ACTIVITIES			
Net income	\$ 27,358	\$ 41,013	\$ 20,342
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	74	—	—
Net realized investment gains	(951)	—	—
Deferred income taxes, net	126	(44)	(49)
Stock based compensation	1,974	649	133
Changes in operating assets and liabilities:			
Accrued investment income	(3)	—	—
Other assets	450	(548)	58
Intercompany payable	2,557	(47,033)	(1,687)
Other liabilities	918	(352)	341
Net cash provided by (used in) operating activities	<u>32,503</u>	<u>(6,315)</u>	<u>19,138</u>
INVESTING ACTIVITIES			
Proceeds from sales of investments available for sale	19,633	—	—
Purchases of investments available for sale	(53,212)	—	—
Additional investment in subsidiaries	16,276	(36,608)	(20,785)
Cost of property and equipment acquired	(3,255)	(3,583)	—
Net cash used in investing activities	<u>(20,558)</u>	<u>(40,191)</u>	<u>(20,785)</u>
FINANCING ACTIVITIES			
Tax withholding payment related to net settlement of equity awards	(185)	(110)	—
Dividends	(4,302)	(3,336)	(1,944)
Proceeds from offering	—	54,041	3,591
Net cash provided by financing activities	<u>(4,487)</u>	<u>50,595</u>	<u>1,647</u>
Increase in cash	7,458	4,089	—
Cash and cash equivalents at beginning of period	4,097	8	8
Cash and cash equivalents at end of period	<u>\$ 11,555</u>	<u>\$ 4,097</u>	<u>\$ 8</u>

Notes to Condensed Financial Statements—Basis of Presentation

The Company's investment in subsidiaries is stated at cost plus equity in the undistributed earnings of subsidiaries since the date of acquisition. The Company's share of net income of its subsidiaries is included in income using the equity method. These financial statements should be read in conjunction with UPC Insurance's consolidated financial statements.

SCHEDULE IV. REINSURANCE

	Property and Casualty Insurance				
	Direct Premium Written	Premiums Ceded to Other Companies	Premiums Assumed from Other Companies	Net Premiums Written	Percentage of Premiums Assumed to Net
Years Ended December 31,					
2015	\$ 548,916	183,808	20,820	\$ 385,928	5.4%
2014	417,769	144,404	18,984	292,349	6.5%
2013	339,765	124,682	41,587	256,670	16.2%

SCHEDULE V. VALUATION AND QUALIFYING ACCOUNTS

	Uncollectible Premium Liability			
	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
Years Ended December 31,				
2015	\$ 34	198	(100)	\$ 132
2014	29	42	(37)	34
2013	24	21	(16)	29

EXHIBIT INDEX

<u>Exhibit</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of December 12, 2014, by and among Family Security Holdings, LLC and United Insurance Holdings Corp. (included as exhibit 2.1 to the Form 10-K filed on February 25, 2015, and incorporated herein by reference).
2.2	Stock Purchase Agreement, dated as of September 26, 2015, by and between United Insurance Holdings Corp and Interboro LLC (included as exhibit 2.1 to the Form 8-K filed on September 28, 2015, and incorporated herein by reference).
3.1	Second Amended and Restated Certificate of Incorporation (as amended to include the Certificate of Designations, Powers, Preferences and Rights of Series A Junior Participating Preferred Stock of United Insurance Holdings Corp.) (filed as exhibit 3.1 to the Form 10-Q filed on August 8, 2012, and incorporated herein by reference).
3.2	Bylaws (included as exhibit 3.3 to the Form S-1 (Registration No. 333-143466), filed June 4, 2007, and incorporated herein by reference).
4.1	Specimen Common Stock Certificate (included as exhibit 4.2 to Amendment No. 1 to Post-Effective Amendment No. 1 on Form S-3 (Registration No. 333-150327), filed on December 23, 2008, and incorporated herein by reference).
4.2	Registration Rights Agreement, dated October 4, 2007, by and among FMG Acquisition Corp. and the investors named therein (included as exhibit 10.4 to the Form 8K, filed October 12, 2007, and incorporated herein by reference).
4.3	Rights Agreement, dated as of July 20, 2012, between United Insurance Holdings Corp and Continental Stock Transfer & Trust Company, which includes as Exhibit A thereto a summary of the terms of the Series A Junior Participating Preferred Stock, as Exhibit B thereto the Form of Right Certificate, and as Exhibit C thereto the Summary of Rights to Purchase Preferred Shares (included as Exhibit 4.1 to the Form 8-A filed July 23, 2012, and incorporated herein by reference.).
10.1	Investment Management Agreement between United Property & Casualty Insurance Company and Synovus Trust Company, dated October 8, 2003 (included as exhibit 10.18 to the Form S-4/A (Registration No. 333-150327), filed June 13, 2008, and incorporated herein by reference).
10.2	Insurance Capital Build-up Incentive Program Surplus Note between United Property & Casualty Insurance Company and the State Board of Administration of Florida dated September 22, 2006 (included as exhibit 10.31 to the Form S-4/A (Registration No. 333-150327), filed June 13, 2008, and incorporated herein by reference).
10.3	Master Business Process Outsourcing Services Agreement between United Insurance Management, LLC and Computer Sciences Corporation, dated March 11, 2008 (included as exhibit 10.24 to the Form S-4/A (Registration No. 333-150327), filed June 13, 2008, and incorporated herein by reference).
10.4	Addendum Number One to Insurance Capital Build-Up Incentive Program Surplus Note, dated November 7, 2008 and effective July 1, 2008, between the State Board of Administration of Florida and United Property & Casualty Insurance Company (included as exhibit 10.1 to the Form 8-K, filed November 12, 2008, and incorporated herein by reference).
10.5	Federal Income Tax Allocation Agreement between United Insurance Holdings Corp., United Insurance Management, L.C., Skyway Claims Services, LLC, United Property & Casualty Insurance Company, UPC Re and amended to include Family Security Holdings, LLC and its subsidiaries dated July 1, 2012 (filed as exhibit 10.11 to the Form 10-Q filed on August 8, 2012, and incorporated herein by reference).

<u>Exhibit</u>	<u>Description</u>
10.6	Florida Hurricane Catastrophe Fund Reimbursement Contract between United Property & Casualty Insurance Company and the State Board of Administration of Florida and including Addenda 1, effective June 1, 2015 (included as exhibit 10.1 to the Form 8-K filed on May 27, 2015, and incorporated herein by reference).
10.7	Property Catastrophe Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and Family Security Insurance Company and Various Reinsurance Companies, effective June 1, 2015 (included as exhibit 10.2 to the Form 8-K filed on May 27, 2015 and incorporated herein by reference).
10.8	Property Catastrophe Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and Family Security Insurance Company and Various Reinsurance Companies, effective June 1, 2015 (included as exhibit 10.3 to the Form 8-K filed on May 27, 2015 and incorporated herein by reference).
10.9	Florida Hurricane Catastrophe Fund Replacement Contract between United Property & Casualty Insurance Company and Various Reinsurance Companies, effective June 1, 2015 (included as exhibit 10.4 to the Form 8-K filed on May 27, 2015, and incorporated herein by reference).
10.10	Multi-Year 1 CAT Contract between United Property & Casualty Insurance Company and Family Security Insurance Company and Various Reinsurance Companies, effective June 1, 2015 (included as exhibit 10.5 to the Form 8-K filed on May 27, 2015, and incorporated herein by reference).
10.11	Multi-Year 2 CAT Contract between United Property & Casualty Insurance Company and Various Reinsurance Companies, effective June 1, 2015 (included as exhibit 10.6 to the Form 8-K filed on May 27, 2015, and incorporated herein by reference).
10.12	Property Per Risk Excess of Loss (Excluding Florida) Reinsurance Agreement between United Property & Casualty Insurance Company, Family Security Insurance Company, Inc. (and any and/or all future affiliate companies excluding Interboro Insurance Company) and the Subscribing Reinsurer(s), effective January 1, 2016 (included as exhibit 10.1 to the Form 8-K filed on January 27, 2016, and incorporated herein by reference).
10.13	Property Per Risk Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company, Family Security Insurance Company, Inc. and the Subscribing Reinsurer(s), effective January 1, 2016 (included as exhibit 10.2 to the Form 8-K filed on January 27, 2016, and incorporated herein by reference).
10.14	Optional Amendment to Change Prior Elections Made in the Reimbursement Contract or the addenda to the Reimbursement Contract between United Property & Casualty Insurance Company and the State Board of Administration of Florida, effective June 1, 2015 (included as exhibit 10.7 to the Form 8-K filed on May 27, 2015 and incorporated herein by reference).
10.15	Underlying Property Catastrophe Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and Family Security Insurance Company and Various Reinsurance Companies, effective June 1, 2015 (included as exhibit 10.8 to the Form 8-K filed on May 27, 2015 and incorporated herein by reference).
10.16	Assumption Agreement between Sunshine State Insurance Company and United Property & Casualty Insurance Company, effective July 1, 2010 (included as exhibit 10.7 to the Form 10-Q, filed August 9, 2010, and incorporated herein by reference).
10.17 (a)	Continuing Employment and Senior Advisor Agreement between United Insurance Holdings Corp. and Don Cronin effective November 1, 2011 (included as exhibit 10.19 to the Form 10-K, filed March 13, 2012, and incorporated herein by reference).

<u>Exhibit</u>	<u>Description</u>
10.18 (a)	Employment Agreement between United Insurance Holdings Corp. and John Forney, dated June 8, 2012 (included as Exhibit 10.1 to the Form 8-K, filed June 12, 2012, and incorporated herein by reference).
10.19 (a)	First Amendment to Employment Agreement between United Insurance Holdings Corp. and John Forney, dated June 12, 2012 (included as Exhibit 10.2 to the Form 8-K filed on June 12, 2012, and incorporated herein by reference).
10.20 (a)	Restricted Stock Award Agreement, dated September 14, 2012, by and between United Insurance Holdings Corp. and John Forney (included as Exhibit 10.1 to the Form 8-K, filed September 14, 2012, and incorporated herein by reference).
10.21	Form of Indemnification Agreement between United Insurance Holdings Corp. and its Directors (included as Exhibit 10.1 to the Form 8-K, filed October 10, 2012, and incorporated herein by reference).
10.22 (a)	Employment Agreement, dated November 5, 2012, between United Insurance Management, L.C. and John Langowski (filed as Exhibit 10.1 to the Form 8-KA filed on November 8, 2012, and incorporated herein by reference).
10.23 (a)	Employment Agreement between United Insurance Holdings Corp. and B. Bradford Martz, dated October 31, 2012 and effective October 1, 2012 (filed as Exhibit 10.1 to the Form 8-KA filed on November 6, 2012, and incorporated herein by reference).
10.24	Assumption Agreement between Citizens and United Property Casualty Insurance Company, effective November 20, 2012 (filed as Exhibit 10.1 to the Form 10-Q, filed May 8, 2013, and incorporated herein by reference).
10.25 (a)	Employment Agreement, dated July 10, 2013 between United Insurance Holdings Corp. and Deepak Menon (included as Exhibit 10.1 to the Form 8-K filed on July 11, 2013, and incorporated herein by reference).
10.26 (a)	Employment Agreement, dated August 26, 2013 between United Insurance Holdings Corp. and Andrew Swenson (included as Exhibit 10.1 to the Form 8-K filed on August 26, 2013, and incorporated herein by reference).
10.27 (a)	Form of Restricted Stock Award under the United Insurance Holdings Corp. 2013 Omnibus Incentive Plan (included as Exhibit 10.1 to the Form 8-K, filed September 30, 2013, and incorporated herein by reference).
10.28 (a)	Employment Agreement, dated February 5, 2014 between United Insurance Holdings Corp. and Kimberly Salmon (included as Exhibit 10.1 to the Form 8-K filed on February 6, 2014, and incorporated herein by reference).
10.29 (a)	United Insurance Holdings Corp. 2013 Omnibus Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy statement for its 2013 Annual Meeting, filed on April 16, 2013).
10.30 (a)	Restricted Stock Award Agreement, dated March 21, 2014, by and between United Insurance Holdings Corp. and Kimberly Salmon (included as exhibit 10.2 to the Form 10-Q filed on May 1, 2014, and incorporated herein by reference).
10.31 (a)	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).
10.32 (a)	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).

<u>Exhibit</u>	<u>Description</u>
10.33 (a)	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).
10.34 (a)	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).
10.35	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).
10.36	Property Per Risk Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and General Reinsurance Corporation, effective January 1, 2015 (included as exhibit 10.9 to the Form 10-K filed on February 25, 2015, and incorporated herein by reference).
10.37	Property Per Risk Excess of Loss Reinsurance Agreement between United Property & Casualty Insurance Company and Swiss Reinsurance America Corporation, effective January 1, 2015 (included as exhibit 10.10 to the Form 10-K filed on February 25, 2015, and incorporated herein by reference).
12.1	Computation of Ratio of Earnings to Fixed Charges
14.1	Code of Conduct and Ethics (included as exhibit 14 to the Form S-1 (Registration No. 333-143466), filed June 4, 2007, and incorporated herein by reference).
21.1	Subsidiaries of United Insurance Holdings Corp.
23.1	Consent of RSM US LLP.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

(a) Indicates management contract or compensatory plan

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED INSURANCE HOLDINGS CORP.

Date: March 1, 2016

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

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

<u>/s/ John L. Forney</u> John L. Forney	President, Chief Executive Officer and Director (principal executive officer)	March 1, 2016
<u>/s/ B. Bradford Martz</u> B. Bradford Martz	Chief Financial Officer (principal financial and accounting officer)	March 1, 2016
<u>/s/ Gregory C. Branch</u> Gregory C. Branch	Chairman of the Board	March 1, 2016
<u>/s/ Kern M. Davis, M.D.</u> Kern M. Davis, M.D.	Director	March 1, 2016
<u>/s/ William H. Hood, III</u> William H. Hood, III	Director	March 1, 2016
<u>/s/ Alec L. Poitevint, II</u> Alec L. Poitevint, II	Director	March 1, 2016
<u>/s/ Kent G. Whittemore</u> Kent G. Whittemore	Director	March 1, 2016
<u>/s/ Sherrill W. Hudson</u> Sherrill W. Hudson	Director	March 1, 2016

United Insurance Holdings Corp.
Computation of Ratio of Earnings to Fixed Charges
(in thousands, except ratios)

Includes realized gains and losses	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Earnings before income taxes	\$41,860	\$64,410	\$34,487	\$15,714	\$13,016
Fixed charges:					
Interest expensed and capitalized	326	410	367	355	548
Interest within rental expense	74	63	56	39	35
Total fixed charges	\$ 400	\$ 473	\$ 423	\$ 394	\$ 583
Earnings before income taxes and fixed charges	\$42,260	\$64,883	\$34,910	\$16,108	\$13,599
Ratio of earnings to fixed charges	105.71	137.28	82.56	40.89	23.34

For purposes of calculating these ratios, earnings consist of pre-tax income from continuing operations and fixed charges. Fixed charges consist of interest expensed and capitalized; amortized premiums, discounts and capitalized expenses related to debt; and estimated interest within rental expense.

We did not have any preferred stock outstanding and we did not pay or accrue any preferred stock dividends during the periods presented above.

SUBSIDIARIES OF UNITED INSURANCE HOLDINGS CORP.

United Insurance Management, L.C. (incorporated in Florida)

United Property & Casualty Insurance Company (incorporated in Florida)

Skyway Claims Services, LLC d/b/a UPC Claims (incorporated in Florida)

UPC Re (incorporated in the Cayman Islands)

Family Security Holdings, LLC (incorporated in Delaware)

Family Security Underwriters, LLC (incorporated in Florida)

Family Security Insurance Company, Inc. (incorporated in Hawaii)

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement (No. 333-201425) on Form S-3, Registration Statement (No. 333-196532) on Form S-3, and Registration Statement (No. 333-191473) on Form S-8 of United Insurance Holdings Corp. of our report dated March 1, 2016, relating to our audits of the consolidated financial statements, the financial statement schedules and internal control over financial reporting which appear in this Annual Report on Form 10-K of United Insurance Holdings Corp. for the year ended December 31, 2015.

/s/ RSM US LLP

Omaha, Nebraska
March 1, 2016

**CERTIFICATIONS PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT**

I, John Forney, certify that:

1. I have reviewed this Form 10-K of United Insurance Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Forney

John Forney
President and Chief Executive Officer
(principal executive officer)

March 1, 2016

**CERTIFICATIONS PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT**

I, B. Bradford Martz, certify that:

1. I have reviewed this Form 10-K of United Insurance Holdings Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ B. Bradford Martz

B. Bradford Martz
Chief Financial Officer
(principal financial officer and
principal accounting officer)

March 1, 2016

**CERTIFICATION PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT**

In connection with the Form 10-K of United Insurance Holdings Corp. for the quarter ended December 31, 2015, as filed with the Securities and Exchange Commission (the Report), I, John Forney, the President and Chief Executive Officer (principal executive officer) of United Insurance Holdings Corp. hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of United Insurance Holdings Corp.

By: */s/ John Forney* _____

John Forney
President and Chief Executive Officer
(principal executive officer)

March 1, 2016

**CERTIFICATION PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT**

In connection with the Form 10-K of United Insurance Holdings Corp. for the quarter ended December 31, 2015, as filed with the Securities and Exchange Commission (the Report), I, B. Bradford Martz, the Chief Financial Officer (principal financial officer and principal accounting officer) of United Insurance Holdings Corp. hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of United Insurance Holdings Corp.

By: /s/ B. Bradford Martz

B. Bradford Martz
Chief Financial Officer
(principal financial officer and
principal accounting officer)

March 1, 2016

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CORPORATE HEADQUARTERS

United Insurance Holdings Corp.
800 2nd Ave S.
St. Petersburg, FL 33701

TRANSFER AGENT

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

INDEPENDENT AUDITORS

RSM US LLP
1299 Farnam Street
Suite 530
Omaha, NE 68102

INVESTOR RELATIONS

The Equity Group, Inc.
800 Third Avenue
36th Floor
New York, NY 10022

STOCK LISTING

NASDAQ; symbol UIHC

ANNUAL MEETING

The 2016 Annual Meeting will be held on Thursday, May 5, 2016 at 1:00 p.m. EDT at the corporate headquarters of United Insurance Holdings Corp.

DIRECTORS

Gregory C. Branch, Chairman – Chairman and President of Branch Properties, Inc.
Kern M. Davis, M.D. – President of Pathology Associates, P.A.
Alec L. Poitevint, II – Chairman and President of Southeastern Minerals, Inc.
Kent G. Whittemore – President and a shareholder of The Whittemore Law Group, P.A.
William H. Hood, III – Managing member of Hall Capital Holdings LLC
Sherrill W. Hudson – Chairman of TECO Energy, Inc.
John Forney, CFA – President and Chief Executive Officer of United Insurance Holdings Corp.

EXECUTIVE OFFICERS

John Forney, CFA – President, Chief Executive Officer and Director
B. Bradford Martz, CPA – Chief Financial Officer
John F. Langowski, III – Vice President of Claims
Deepak Menon – Chief Revenue Officer
Kimberly Salmon – General Counsel, Chief Legal Officer and Corporate Secretary
Andrew D. Swenson – Vice President and Chief Information Officer



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