UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
August 06, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from _________ to _________

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

1110 W. Commercial Blvd., Fort Lauderdale, Florida 33309

(Address of principal executive offices)

(954) 958-1200

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 35,167,627 shares of common stock, par value $0.01 per share, outstanding on August 1, 2013.

UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Universal Insurance Holdings, Inc. and Subsidiaries

Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of **Universal Insurance Holdings, Inc. (the Company) and its Subsidiaries** as of June 30, 2013, the related condensed consolidated statements of income and comprehensive income for the three and six-month periods ended June 30, 2013 and June 30, 2012, the related condensed consolidated statement of stockholders equity for the six months ended June 30, 2013 and the related condensed consolidated statements of cash flows for the six-month periods ended June 30, 2013 and 2012. These interim financial statements are the responsibility of the Company s management.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements as of June 30, 2013 and for the three and six-month periods then ended for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

Chicago, Illinois

August 6, 2013

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

	As of	
	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 180,857	$ 347,392
Restricted cash and cash equivalents	2,653	33,009
Fixed maturities (trading), at fair value		4,009
Equity securities (trading), at fair value		85,041
Fixed maturities (available for sale), at fair value	289,388	
Equity securities (available for sale), at fair value	53,507	
Prepaid reinsurance premiums	255,941	239,921
Reinsurance recoverable	79,151	89,191
Reinsurance receivable, net	24,542	24,334
Premiums receivable, net	56,846	50,125
Receivable from securities sold		1,096
Other receivables	4,172	2,017
Property and equipment, net	9,309	8,968
Deferred policy acquisition costs, net	17,241	17,282
Income taxes recoverable	9,078	2,594
Deferred income tax asset, net	16,652	19,178
Other assets	2,462	1,578
Total assets	$ 1,001,799	$ 925,735
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 166,260	$ 193,241
Unearned premiums	420,687	388,071
Advance premium	25,671	15,022
Accounts payable	5,010	4,368
Bank overdraft	24,926	25,994
Payable for securities purchased	3,104	1,275
Reinsurance payable, net	134,699	85,259
Income taxes payable	193	699
Other liabilities and accrued expenses	27,745	28,071
Long-term debt	37,476	20,221
Total liabilities	845,771	762,221
Commitments and Contingencies (Note 13)		
STOCKHOLDERS EQUITY:		

Cumulative convertible preferred stock, $.01 par value	1	1
Authorized shares - 1,000		
Issued shares - 108		
Outstanding shares - 108		
Minimum liquidation preference, $2.66 per share		
Common stock, $.01 par value	430	419
Authorized shares - 55,000		
Issued shares - 42,981 and 41,889		
Outstanding shares - 35,297 and 40,871		
Treasury shares, at cost - 7,684 and 1,018	(31,179)	(3,101)
Additional paid-in capital	38,975	38,684
Accumulated other comprehensive income, net of taxes	(2,608)	
Retained earnings	150,409	127,511
Total stockholders equity	156,028	163,514
Total liabilities and stockholders equity	$ 1,001,799	$ 925,735

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$ 219,946	$ 222,568	$ 424,085	$ 412,571
Ceded premiums written	(133,897)	(102,433)	(275,214)	(265,867)
Net premiums written	86,049	120,135	148,871	146,704
Change in net unearned premium	(19,182)	(64,441)	(16,595)	(42,370)
Premiums earned, net	66,867	55,694	132,276	104,334
Net investment income (expense)	137	(16)	149	(52)
Net realized gains (losses) on investments	(1)	(1,705)	(16,038)	(9,154)
Net change in unrealized gains (losses) on investments	23	(5,788)	7,897	3,399
Net foreign currency gains (losses) on investments				23
Commission revenue	5,271	6,131	10,257	10,672
Policy fees	3,819	4,072	7,505	7,973
Other revenue	1,640	1,540	3,165	2,980
Total premiums earned and other revenues	77,756	59,928	145,211	120,175
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	25,199	29,437	51,682	55,611
General and administrative expenses	22,869	17,499	44,079	35,343
Total operating costs and expenses	48,068	46,936	95,761	90,954
INCOME BEFORE INCOME TAXES	29,688	12,992	49,450	29,221
Income taxes, current	12,351	9,086	16,298	9,860
Income taxes, deferred	308	(3,871)	4,164	1,711
Income taxes, net	12,659	5,215	20,462	11,571
NET INCOME	$ 17,029	$ 7,777	$ 28,988	$ 17,650
Basic earnings per common share	$ 0.47	$ 0.20	$ 0.76	$ 0.44
Weighted average common shares outstanding - Basic	36,378	39,668	38,138	39,528
Fully diluted earnings per common share	$ 0.44	$ 0.19	$ 0.73	$ 0.44
Weighted average common shares outstanding - Diluted	38,314	40,377	39,760	40,460
Cash dividend declared per common share	$ 0.08	$ 0.08	$ 0.16	$ 0.18

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$ 17,029	$ 7,777	$ 28,988	$ 17,650
Change in net unrealized gains (losses) on available for sale investments, net of tax	(2,608)		(2,608)	
Comprehensive income (loss)	$ 14,421	$ 7,777	$ 26,380	$ 17,650

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (unaudited)

FOR THE SIX MONTHS ENDED JUNE 30, 2013

(in thousands)

	Common Shares Issued	Preferred Shares Issued	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance, December 31, 2012	41,889	108	$ 419	$ 1	$ 38,684	$ 127,511	$	$ (3,101)	$ 163,514
Stock option exercises	1,925		19		7,646			(9,275)	(1,610)
Restricted stock awards	850		9		(9)			(1,021)	(1,021)
Purchases of treasury stock								(28,077)	(28,077)
Retirement of treasury shares	(1,683)		(17)		(10,278)			10,295	
Stock-based compensation					2,928				2,928
Net income						28,988			28,988
Change in net unrealized gains (losses) (2)							(2,608)		(2,608)
Excess tax benefit (shortfall), net (1)					4				4
Declaration of dividends						(6,090)			(6,090)
Balance, June 30, 2013	42,981	108	$ 430	$ 1	$ 38,975	$ 150,409	$ (2,608)	$ (31,179)	$ 156,028

(1) Excess tax benefits are related to stock-based compensation.

(2) Represents change in fair value of AFS investments for the period presented, net of tax benefit of $1,638 thousand.

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net Income	$ 28,988	$ 17,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	254	103
Depreciation	497	410
Amortization of stock-based compensation	2,928	1,692
Amortization of original issue discount	101	
Accretion of deferred credit	(101)	
Net realized (gains) losses on investments	16,038	9,154
Net change in unrealized (gains) losses on investments	(7,897)	(3,399)
Loss (gain) on disposal of assets	5	
Net foreign currency (gains) losses on investments		(23)
Amortization of premium/accretion of discount, net	287	21
Deferred income taxes	4,164	1,711
Excess tax (benefits) shortfall from stock-based compensation	(4)	71
Net change in assets and liabilities relating to operating activities:		
Restricted cash and cash equivalents	30,356	4,038
Prepaid reinsurance premiums	(16,020)	(4,740)
Reinsurance recoverables	10,040	(29,753)
Reinsurance receivables, net	(208)	(70,459)
Premiums receivable, net	(6,972)	(10,628)
Accrued investment income	(729)	199
Other receivables	(1,431)	(1,123)
Income taxes recoverable	(6,484)	(624)
Deferred policy acquisition costs, net	41	(4,748)
Purchase of trading securities	(26,009)	(200,584)
Proceeds from sales of trading securities	102,661	217,301
Other assets	(849)	17
Unpaid losses and loss adjustment expenses	(26,981)	(22,590)
Unearned premiums	32,616	47,110
Accounts payable	642	1,028
Reinsurance payable, net	49,440	186,290
Income taxes payable	(502)	(11,480)
Other liabilities and accrued expenses	(2,336)	(1,070)
Advance premium	10,649	6,216
Net cash provided by (used in) operating activities	193,184	131,790
Cash flows from investing activities:		
Proceeds from sale of property and equipment	5	18
Purchase of property and equipment	(848)	(2,227)
Purchases of equity securities, available for sale	(51,836)	
Purchases of fixed maturities, available for sale	(292,989)	
Proceeds from sales of equity securities, available for sale	14	
Proceeds from sales of fixed maturities, available for sale	531	
Maturities of fixed maturity securities, available for sale	4,000	

Net cash provided by (used in) investing activities	(341,123)	(2,209)
Cash flows from financing activities:		
Bank overdraft increase (decrease)	(1,068)	2,166
Preferred stock dividend	(10)	(259)
Common stock dividend	(6,080)	(4,012)
Issuance of common stock		91
Purchase of treasury stock	(28,077)	
Payments related to tax withholding for share-based compensation	(2,630)	(121)
Excess tax benefits (shortfall) from stock-based compensation	4	(71)
Repayment of debt	(735)	(735)
Proceeds from borrowings	20,000	
Net cash provided by (used in) financing activities	(18,596)	(2,941)
Net increase (decrease) in cash and cash equivalents	(166,535)	126,640
Cash and cash equivalents at beginning of period	347,392	229,685
Cash and cash equivalents at end of period	$ 180,857	$ 356,325
Supplemental cash and non-cash flow disclosures:		
Interest paid	$ 319	$ 241
Income taxes paid	$ 7,833	$ 21,953
Non-cash transfer of investments from trading to available for sale portfolio	$ 4,004	$

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc. (UIH) is a Delaware corporation originally incorporated as Universal Heights, Inc. in November 1990. UIH and its wholly-owned subsidiaries (collectively, the Company) are a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned subsidiaries, including Universal Property & Casualty Insurance Company (UPCIC) and American Platinum Property and Casualty Insurance Company (APPCIC), collectively referred to as the Insurance Entities , the Company is principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company s primary product is homeowners insurance offered in seven states as of June 30, 2013, including Florida, which comprises the vast majority of the Company s in-force policies. See Note 5 (Insurance Operations) for more information regarding the Company s insurance operations.

The Company generates revenues primarily from the collection of premiums and the investment of available funds in excess of those retained for claims-paying obligations and insurance operations. Other significant sources of revenue include commissions collected from reinsurers and policy fees collected from policyholders through the Company s affiliated managing general agent.

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements (Financial Statements) in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (GAAP) for complete financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the SEC on March 8, 2013. The condensed consolidated balance sheet at December 31, 2012, was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

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

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

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2012. The following are new or revised disclosures or disclosures required on a quarterly basis.

Concentrations of Credit Risk. The Company is exposed to concentrations of credit risk, consisting principally of cash and cash equivalents, restricted cash and cash equivalents, debt securities, premiums receivable, prepaid reinsurance premiums, reinsurance receivable and reinsurance recoverable.

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The Company maintains depository relationships with SunTrust Bank, Wells Fargo Bank N.A., Deutsche Bank Securities, Inc., and State Street Bank and Trust Company and invests excess cash with custodial institutions that invest primarily in money market accounts consisting of or collateralized by short-term U.S. Treasury securities and other U.S. government guaranteed securities. These accounts are held primarily by SunTrust Bank, Deutsche Bank Securities, Inc., and State Street Bank and Trust Company. The Company regularly evaluates the financial strength of the institutions with which it maintains depository relationships. SunTrust Bank has the following ratings from each of the rating agencies: BBB from Standard and Poor s Rating Services and A3 from Moody s Investors Service, Inc. Wells Fargo Bank N.A. has the following ratings from each of the rating agencies: AA- from Standard and Poor s Rating Services and Aa3 from Moody s Investors Service, Inc. Deutsche Bank Securities, Inc. has the following ratings from each of the rating agencies: A+ from Standard and Poor s Rating Services and A2 from Moody s Investors Service, Inc. State Street Bank and Trust Company has the following ratings from each of the rating agencies: AA- from Standard and Poor s Rating Services and Aa2 from Moody s Investors Service, Inc.

Restricted cash and cash equivalents are maintained in money market accounts consisting of U.S. Treasury and government agency securities.

The following table presents the amount of cash and cash equivalents as of the periods presented (in thousands):

	Cash and cash equivalents							
	As of June 30, 2013				As of December 31, 2012			
Institution	Cash	Money Market Funds	Total	% by institution	Cash	Money Market Funds	Total	% by institution
U. S. Bank IT&C	$	$	$	0.0%	$	$ 40,463	$ 40,463	11.6%
SunTrust Bank	3,093	5,099	8,192	4.5%	773	1,055	1,828	0.5%
SunTrust Bank Escrow Services		69,548	69,548	38.5%		300,843	300,843	86.6%
Wells Fargo Bank N.A.	3,088		3,088	1.7%	1,991	3	1,994	0.6%
Deutsche Bank Securities, Inc.		37,692	37,692	20.8%	1,796	468	2,264	0.7%
State Street Bank and Trust Company		61,582	61,582	34.1%				
All Other Banking Institutions	755		755	0.4%				
Total	$ 6,936	$ 173,921	$ 180,857	100.0%	$ 4,560	$ 342,832	$ 347,392	100.0%

The following table presents the amount of restricted cash and cash equivalents as of the periods presented (in thousands):

	Restricted cash and cash equivalents							
	As of June 30, 2013				As of December 31, 2012			
Institution	Funds held in Trust	State Deposits	Total	% by institution	Funds held in Trust	State Deposits	Total	% by institution
U. S. Bank IT&C	$	$ 800	$ 800	30.2%	$	$ 800	$ 800	2.4%
Bank of New York Mellon Trust Co.	53		53	2.0%				
Florida Department of Financial Services		1,800	1,800	67.8%		32,209	32,209	97.6%
Total	$ 53	$ 2,600	$ 2,653	100.0%	$	$ 33,009	$ 33,009	100.0%

Concentrations of credit risk with respect to premiums receivable are limited due to the large number of individuals comprising the Company s customer base. However, the majority of the Company s revenues are currently derived from products and services offered to customers in Florida, which could be adversely affected by economic downturns, an increase in competition or other environmental changes.

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

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The following table presents the unsecured amounts due from the Company s reinsurers whose aggregate balance exceeded 3% of the Company s stockholders equity as of the periods presented (in thousands):

	Current Ratings			As of	
Reinsurer	AM Best Company	Standard and Poor s Rating Services	Moody s Investors Service, Inc.	June 30, 2013	December 31, 2012
Everest Reinsurance Company	A+	A+	A1	$ 83,281	$ 44,392
Florida Hurricane Catastrophe Fund	n/a	n/a	n/a		31,970
Odyssey Reinsurance Company	A	A-	A3	159,643	192,096
Total (1)				$ 242,924	$ 268,458

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

n/a No rating available

Recently Issued Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) updated its guidance to the Comprehensive Income Topic 220 of the FASB Accounting Standards Codification (ASC) and in February 2013, the FASB further amended such topic. This February 2013 guidance requires disclosure about amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This guidance is to be applied prospectively to interim and annual reporting periods beginning after December 15, 2012. The Company adopted this guidance effective January 1, 2013. The adoption of this guidance will result in additional disclosure but did not impact the Company s results of operations, cash flows or financial position. The updated guidance provided by the FASB in June 2011 increases the prominence of items reported in other comprehensive income by eliminating the option of presenting components of other comprehensive income as part of the statement of changes in stockholders equity. The guidance requires that total comprehensive income (including both the net income components and other comprehensive income components) be reported in either a single continuous statement of comprehensive income (the approach currently used in the Company s financial statements), or two separate but consecutive statements. This guidance is to be applied retrospectively to fiscal years (and interim periods within those years) beginning after December 15, 2011. The Company adopted this guidance effective January 1, 2012. The adoption did not have an impact on the presentation of the Company s financial statements and notes herein, as the Company has presented amounts of other comprehensive income consistent with this updated guidance.

In May 2011, the FASB updated its guidance related to the Fair Value Measurement, Topic 820 of the ASC, to achieve common fair value measurement and disclosure requirements with International Financial Reporting Standards. The amendments change the wording used to describe many of the requirements under GAAP, to clarify the intent of application of existing fair value measurement and disclosure requirements, and to change particular principles or requirements for measuring and disclosing fair value measurements. The amendments are to be applied prospectively to interim and annual reporting periods beginning after December 15, 2011. The Company adopted this guidance effective January 1, 2012. The adoption of this guidance resulted in additional disclosure but did not impact the Company s results of operations, cash flows or financial position.

In September 2010, the FASB issued guidance related to accounting for costs associated with acquiring or renewing insurance contracts. This guidance defines allowable deferred policy acquisition costs as costs incurred by insurance entities for the successful acquisition of new and renewal contracts. Such costs result directly from and are essential to the contract transaction(s) and would not have been incurred by the insurance entity had the contract(s) not occurred. This

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guidance is effective for periods beginning after December 15, 2011, with early adoption permitted. The Company adopted this guidance prospectively effective January 1, 2012. Under the new guidance, the Company s net deferred policy acquisition costs were reduced from $13.0 million to $11.4 million, a difference of 13% at December 31, 2011. The resulting $1.6 million difference was charged directly to earnings during the three months ended March 31, 2012. This charge represents a charge-off of capitalized costs existing at December 31, 2011, which would have been amortized to earnings within a twelve-month period under the old guidance.

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3. Investments

The Company liquidated its trading portfolio of equity securities and transferred the fixed maturities that were outstanding at December 31, 2012 into its portfolio of securities available for sale effective March 1, 2013. The unrealized gain (loss) associated with the fixed maturities trading portfolio was recognized in earnings up to the date of transfer.

The following table presents the Company s investment holdings by type of instrument as of the periods presented (in thousands):

	As of June 30, 2013			As of December 31, 2012		
	Cost or Amortized Cost	Fair Value	Carrying Value	Cost or Amortized Cost (4)	Fair Value	Carrying Value
Cash and cash equivalents (1)	$ 180,857	$ 180,857	$ 180,857	$ 347,392	$ 347,392	$ 347,392
Restricted cash and cash equivalents	2,653	2,653	2,653	33,009	33,009	33,009
Trading portfolio:						
Fixed maturities:						
U.S. government obligations and agencies				3,192	4,009	4,009
Equity securities: (4)						
Common stock:						
Metals and mining				31,113	26,130	26,130
Energy				12,053	10,868	10,868
Other				8,416	8,215	8,215
Exchange-traded and mutual funds:						
Metals and mining				22,687	21,989	21,989
Agriculture				10,705	10,265	10,265
Energy				4,992	5,068	5,068
Indices				2,827	2,506	2,506
Non-hedging derivative asset (liability), net (2)				69	(21)	(21)
Other investments (3)				517	317	317
Total trading portfolio investments				96,571	89,346	89,346
Available for sale portfolio:						
Fixed maturities:						
U.S. government obligations and agencies	105,235	104,154	104,154			
Corporate bonds	95,437	93,971	93,971			
Mortgage-backed and asset-backed securities	91,544	91,263	91,263			
Equity securities:						
Common stock	11,999	11,625	11,625			
Mutual funds	42,925	41,882	41,882			
Total available for sale investments	347,140	342,895	342,895			
Total investments	$ 530,650	$ 526,405	$ 526,405	$ 476,972	$ 469,747	$ 469,747

(1) Cash and cash equivalents include short-term debt securities consisting of direct obligations of the U.S. Treasury or money-market accounts that invest in or are collateralized by direct obligations of the U.S. Treasury and other U.S. government guaranteed securities.
(2) Derivatives are included in Other assets and Other liabilities and accrued expenses in the Consolidated Balance Sheets.
(3) Other investments represent physical metals held by the Company and are included in Other assets in the Consolidated Balance Sheets.
(4) The cost for equity securities as of December 31, 2012 has been restated from the amounts reported on Form 10-K for the year ended December 31, 2012. The amounts previously reported represented the cost determined under a statutory basis of accounting. The restatement does not affect any amounts reported in the consolidated financial statements including the carrying amount of equity securities reported in the consolidated balance sheet as of December 31, 2012 and unrealized gains and losses reported in the consolidated statement of income for the year ended December 31, 2012.

The Company has made an assessment of its invested assets for fair value measurement as further described in Note 14 (Fair Value Measurements).

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cash and cash equivalents (1)	$ 122	$ 60	$ 242	$ 239
Fixed maturities	(30)	1	(30)	11
Equity securities	279	160	367	219
Total investment income	371	221	579	469
Less investment expenses	(234)	(237)	(430)	(521)
Net investment (expense) income	$ 137	$ (16)	$ 149	$ (52)

(1) Includes interest earned on restricted cash and cash equivalents.

Trading Portfolio

The following table provides the effect of trading activities on the Company s results of operations for the periods presented by type of instrument and by line item in the consolidated statements of income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Realized gains (losses) on investments:				
Fixed maturities	$	$	$	$
Equity securities		(1,836)	(15,969)	(9,429)
Derivatives (non-hedging instruments) (1)		131	(68)	275
Total realized gains (losses) on trading portfolio		(1,705)	(16,037)	(9,154)
Change in unrealized gains (losses) on investments:				
Fixed maturities		100	13	137
Equity securities		(5,817)	7,758	3,172
Derivatives (non-hedging instruments) (1)		(30)	89	117
Other		(41)	14	(27)
Total change in unrealized gains (losses) on trading portfolio		(5,788)	7,874	3,399
Net gains (losses) recognized on trading portfolio	$	$ (7,493)	$ (8,163)	$ (5,755)

(1) This table provides the alternative quantitative disclosures permitted for derivatives that are not used as hedging instruments and are included in the trading portfolio.

Securities Available for Sale

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

	June 30, 2013			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities:				
US government and agency obligations	$ 105,235	$	$ (1,081)	$ 104,154
Corporate bonds	95,437	1	(1,467)	93,971
Mortgage-backed and asset-backed securities	91,544	40	(321)	91,263
Equity Securities:				
Common stock	11,999	101	(475)	11,625
Mutual funds	42,925	107	(1,150)	41,882
Total	$ 347,140	$ 249	$ (4,494)	$ 342,895

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The following table summarizes the fair value and gross unrealized losses on securities available for sale, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2013 (in thousands):

	Less than 12 months			12 months or longer		
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses
Fixed maturities:						
US government and agency obligations	9	$ 104,118	$ (1,081)		$	$
Corporate bonds	77	92,771	(1,467)			
Mortgage-backed and asset-backed securities	14	61,831	(321)			
Equity securities:						
Common stock	33	8,314	(475)			
Mutual funds	7	36,211	(1,150)			
Total	140	$ 303,245	$ (4,494)		$	$

At June 30, 2013, we held fixed maturity and equity securities that were in an unrealized loss position as presented in the table above. Since the Company liquidated its trading portfolio and transferred the remaining fixed maturities into its portfolio of securities available for sale effective March 1, 2013, there were no positions held in our portfolio of securities available for sale for longer than 12 months. We did not recognize the unrealized losses in earnings on these fixed maturity securities at June 30, 2013, because we either do not intend to sell the securities or we do not believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. Furthermore, we expect to recover the entire amortized cost basis of these securities. For fixed maturity securities with significant declines in value, we perform fundamental credit analysis on a security-by-security basis, which includes consideration of credit enhancements, review of relevant industry analyst reports and forecasts and other available market data. For equity securities, the Company considers various factors, including whether it has the intent and ability to hold the equity securities for a period of time sufficient to recover its costs basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the equity security s decline in fair value is considered other than temporary and is recording in earnings. However, the Company expects to recover the entire amortized cost basis of these equity securities.

The following table presents the amortized cost and fair value of fixed maturities available for sale by contractual maturity as of June 30, 2013 (in thousands):

	Fixed Maturities Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 5,903	$ 5,893
Due after one year through five years	189,607	187,391
Due after five years through ten years	5,162	4,841
Due after ten years		
Mortgage-backed and asset-backed securities	91,544	91,263
Total	$ 292,216	$ 289,388

The following table provides certain information related to securities available for sale during the periods presented (in thousands):

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
Sales proceeds (fair value)	$ 14	$ 14
Gross realized gains	$	$
Gross realized losses	$ (1)	$ (1)

Other than temporary losses	$	$

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4. Reinsurance

The Company seeks to reduce its risk of loss by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers, generally, as of the beginning of the hurricane season on June 1 of each year. The Company s reinsurance program consists of excess of loss, quota share and catastrophe reinsurance, subject to the terms and conditions of the applicable agreements. The Company is responsible for insured losses related to catastrophes and other events in excess of coverage provided by its reinsurance program. The Company also remains responsible for the settlement of insured losses in the event of the failure of any of its reinsurers to make payments otherwise due to the Company. The estimated insured value of the Company s in-force policyholder coverage for windstorm exposures as of June 30, 2013 was approximately $124.8 billion.

The Company has reduced the percentage of premiums ceded by UPCIC to its quota share reinsurers to 45% beginning with the reinsurance program which became effective June 1, 2012, from 50% under the prior year quota share contract effective June 1, 2011 through May 31, 2012. The two quota share reinsurance contracts, which became effective June 1, 2013, provide coverage to UPCIC through May 31, 2014 and one extends and provides coverage through May 31, 2015. The Company s intent is to increase its profitability over the contract term by ceding 5% less premium to its quota share reinsurer. This reduction of cession rate also decreases the amount of losses and loss adjustment expenses that may be ceded by UPCIC and effectively increases the amount of risk retained by UPCIC and the Company. The reduction of cession rate also reduces the amount of ceding commissions earned from the Company s quota share reinsurer during the contract term and decreases the amount of deferred ceding commission, as of June 30, 2013, that is a component of net deferred policy acquisition costs.

Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance contracts. Reinsurance premiums, losses and loss adjustment expenses (LAE) are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Deferred ceding commissions are netted against policy acquisition costs and amortized over the effective period of the related insurance policies.

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

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 219,946	$ 197,302	$ 50,350	$ 424,085	$ 391,470	$ 100,946
Ceded	(133,897)	(130,435)	(25,151)	(275,214)	(259,194)	(49,264)
Net	$ 86,049	$ 66,867	$ 25,199	$ 148,871	$ 132,276	$ 51,682

	Three Months Ended June 30, 2012			Six Months Ended June 30, 2012		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 222,568	$ 186,656	$ 56,533	$ 412,571	$ 365,460	$ 109,140
Ceded	(102,433)	(130,962)	(27,096)	(265,867)	(261,126)	(53,529)
Net	$ 120,135	$ 55,694	$ 29,437	$ 146,704	$ 104,334	$ 55,611

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

	As of June 30, 2013	As of December 31, 2012
Prepaid reinsurance premiums	$ 255,941	$ 239,921
Reinsurance recoverable on unpaid losses and LAE	$ 67,820	$ 81,415
Reinsurance recoverable on paid losses	11,331	7,776
Reinsurance receivable, net	24,542	24,334
Reinsurance recoverable and receivable	$ 103,693	$ 113,525

5. Insurance Operations

The Company s primary product is homeowners insurance currently offered by APPCIC in one state (Florida) and by UPCIC in seven states, including Florida.

The following table provides the percentage of concentrations with respect to the Insurance Entities nationwide policies-in-force as of the periods presented:

	As of June 30, 2013	As of December 31, 2012
Percentage of Policies-In-Force:		
In Florida	95%	96%
With wind coverage	98%	98%
With wind coverage in South Florida (1)	28%	28%

(1) South Florida is comprised of Miami-Dade, Broward and Palm Beach counties.

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Deferred Policy Acquisition Costs, net

The Company defers certain costs in connection with written policies, called Deferred Policy Acquisition Costs (DPAC), net of corresponding amounts of ceded reinsurance commissions, called Deferred Reinsurance Ceding Commissions (DRCC). Net DPAC is amortized over the effective period of the related insurance policies.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
DPAC, beginning of period (1)	$ 55,391	$ 51,872	$ 54,431	$ 50,200
Capitalized Costs	30,241	29,536	58,933	55,680
Amortization of DPAC	(26,599)	(24,486)	(54,331)	(48,958)
DPAC, end of period	$ 59,033	$ 56,922	$ 59,033	$ 56,922
DRCC, beginning of period (1)	$ 38,014	$ 40,074	$ 37,149	$ 38,845
Ceding Commissions Written	26,222	21,286	48,534	44,775
Earned Ceding Commissions	(22,444)	(22,182)	(43,891)	(44,442)
DRCC, end of period	$ 41,792	$ 39,178	$ 41,792	$ 39,178
DPAC (DRCC), net, beginning of period (1)	$ 17,377	$ 11,798	$ 17,282	$ 11,355
Capitalized Costs, net	4,019	8,250	10,399	10,905
Amortization of DPAC (DRCC), net	(4,155)	(2,304)	(10,440)	(4,516)
DPAC (DRCC), net, end of period	$ 17,241	$ 17,744	$ 17,241	$ 17,744

(1) The beginning balances for the six months ended June 30, 2012 have been adjusted in connection with the adoption of the FASB s updated guidance related to deferred policy acquisition costs as discussed below.

As discussed in Note 2 (Significant Accounting Policies) , the Company prospectively adopted new accounting guidance effective January 1, 2012 related to accounting for costs associated with acquiring or renewing insurance contracts. This guidance resulted in a 13% reduction of our net deferred policy acquisition costs as of December 31, 2011, and a corresponding pre-tax charge of $1.6 million against earnings during the first quarter of 2012. This charge represents a charge-off of capitalized costs existing at December 31, 2011, which would have been amortized to earnings within a twelve-month period under the old guidance. In the period of adoption (three months ended March 31, 2012), approximately $9 million of net costs would have been deferred under the old guidance compared to the $5.6 million under the new guidance. The effect of this change in periods subsequent to March 31, 2012, on income and per share amounts is not determinable as the historical methodology was discontinued after adoption.

Liability for Unpaid Losses and Loss Adjustment Expenses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Balance at beginning of period	$ 182,528	$ 172,300	$ 193,241	$ 187,215
Less reinsurance recoverable	(75,680)	(79,285)	(81,415)	(88,002)
Net balance at beginning of period	106,848	93,015	111,826	99,213
Incurred (recovered) related to:				
Current year	26,675	29,362	53,329	55,711
Prior years	(1,476)	75	(1,647)	(100)
Total incurred	25,199	29,437	51,682	55,611
Paid related to:				
Current year	16,303	14,382	17,475	15,335
Prior years	17,304	16,614	47,593	48,033
Total paid	33,607	30,996	65,068	63,368
Net balance at end of period	98,440	91,456	98,440	91,456
Plus reinsurance recoverable	67,820	73,169	67,820	73,169
Balance at end of period	$ 166,260	$ 164,625	$ 166,260	$ 164,625

Regulatory Requirements and Restrictions

The Insurance Entities are subject to regulations and standards of the Florida Office of Insurance Regulation (OIR). These standards require the Insurance Entities to maintain specified levels of statutory capital and restrict the timing and amount of dividends and other distributions that may be paid to the parent company. Except in the case of extraordinary dividends, these standards generally permit dividends to be paid from statutory unassigned surplus of the regulated subsidiary and are limited based on the regulated subsidiary s level of statutory net income and statutory capital and surplus. The maximum dividend that may be paid by UPCIC and APPCIC to their immediate parent company, Universal Insurance Holding Company of Florida (UIHCF), without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or 10.0% of statutory unassigned surplus as of the preceding year end. These dividends are referred to as ordinary dividends and generally can be paid without prior regulatory approval. If the dividend, together with other dividends paid within the preceding twelve months, exceeds a specified statutory limit or is paid from sources other than earned surplus, the entire dividend is generally considered an extraordinary dividend and must receive prior regulatory approval.

Based on the 2012 statutory net income and statutory capital and surplus levels, UPCIC and APPCIC do not have the capacity to pay ordinary dividends during 2013. For the three and six months ended June 30, 2013, no dividends were paid from UPCIC or APPCIC to UIHCF. Dividends paid to the shareholders of UIH are paid from the equity of UIH and not from the capital and surplus of the Insurance Entities.

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The Florida Insurance Code requires companies to maintain capitalization equivalent to the greater of ten percent of the insurer s total liabilities or $5.0 million. The following table presents the amount of statutory capital and surplus, and an amount representing ten percent of total liabilities for both UPCIC and APPCIC as of the periods presented (in thousands):

	As of June 30, 2013	As of December 31, 2012
Ten percent of total liabilities		
UPCIC	$ 47,089	$ 39,260
APPCIC	$ 991	$ 694
Statutory capital and surplus		
UPCIC	$ 137,665	$ 134,034
APPCIC	$ 14,229	$ 14,330

At such dates in the table above, both UPCIC and APPCIC met the Florida capitalization requirement. UPCIC and APPCIC are also required to adhere to prescribed premium-to-capital surplus ratios and have met those requirements at such dates.

The Company is required by various state laws and regulations to maintain certain assets in depository accounts. In addition, the Company at times maintains amounts on deposit with insurance regulators in connection with certain reinsurance agreements. The following table represents assets held by insurance regulators as of the periods presented (in thousands):

	As of June 30, 2013	As of December 31, 2012
Restricted cash and cash equivalents	$ 2,600	$ 33,009
Investments	$ 3,743	$ 4,009

The Company received an order from the OIR dated May 30, 2013 related to the OIR s recent Target Market Conduct Final Examination Report of UPCIC for the period January 2009 through May 2013. The Order alleges certain violations and findings and seeks to impose certain requirements and a financial penalty of $1.3 million upon UPCIC which has been accrued for by the Company. UPCIC intends to exercise its right to a formal administrative hearing to dispute the Order, the examination report and other alleged violations.

6. Long-Term Debt

Long-term debt consists of a surplus note with carrying values of $19.5 million and $20.2 million as of June 30, 2013 and December 31, 2012, respectively, a term loan with a carrying value of $18.0 million as of June 30, 2013 and any amounts drawn upon an unsecured line of credit.

On March 29, 2013, UIH entered into a revolving loan agreement and related revolving note (DB Loan) with Deutsche Bank Trust Company Americas (Deutsche Bank). The DB Loan makes available to UIH an unsecured line of credit in an aggregate amount not to exceed $10.0 million. Draws under the DB Loan have a maturity date of March 27, 2015 and carry an interest rate of LIBOR plus a margin of 5.50% or Deutsche Bank s prime rate plus a margin of 3.50%. The interest rate is at the election of UIH. The DB loan contains financial covenants. As of June 30, 2013, UIH was in compliance with all such covenants. UIH had not drawn any amounts under the unsecured line of credit as of June 30, 2013.

On May 23, 2013, UIH entered into a $20 million unsecured term loan agreement and related term note (Term Loan) with RenaissanceRe Ventures Ltd. (RenRe Ventures). See Note 9 (Related Party Transactions) for a discussion of a series of agreements entered into with RenRe Ventures and its affiliate Renaissance Reinsurance Ltd. (RenRe), including an assignment of a portion of the Company s right of first refusal to repurchase shares of the Company s common stock owned by Bradley I. Meier, the Company s former Chairman, President and Chief Executive Officer and principal stockholder of UIH. The Term Loan bears interest at the rate of 50 basis points per annum and matures on the earlier of May 23, 2016 or the date that all principal under the Term Loan is pre-paid or deemed paid in full. The Term Loan is amortized over the three-year term and UIH may prepay the loan without penalty. Principal is payable annually on the anniversary of the closing date in three annual installments of $6 million, $7 million and $7 million, respectively, and interest is payable in arrears on the same dates as the principal payments. The Term Loan contains financial covenants and as of June 30, 2013, UIH was in compliance with such covenants.

The stated interest rate of the Term Loan of 0.50% is below the Company s borrowing rate resulting in imputed interest and an original issue discount computed by calculating the present value of the future principal and interest payments utilizing the Company s borrowing rate. Concurrent with the establishment of the original issue discount, the Company recorded a deferred credit, a component of other liabilities and accrued expenses, for an equal amount against premium payments the Company will make in connection with a catastrophe risk-linked transaction contract entered into with RenRe on the same date and with the same maturity date as the Term Loan. The original issue discount will be amortized to interest expense over the life of the Term Loan and the deferred credit will be amortized as a reduction in insurance expense, a component of general and administrative expenses, over the life of the covered loss index swap. The following table provides the principal amount and unamortized discount of the Term Loan for the period presented (in thousands):

	As of June 30, 2013
Principal amount	$ 20,000
Less: unamortized discount	(2,009)
Term Loan, net of unamortized discount	$ 17,991

The effective interest rate on the Term loan was 5.99% for the three months ended June 30, 2013. Amortization of the discount was $101 thousand and is included in interest expense, a component of general and administrative expenses, in the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2013.

Should either the DB Loan or the Term Loan be in default, no dividends can be paid by UIH to its shareholders.

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7. Share-Based Compensation

The following table provides certain information related to stock options and restricted stock for the periods presented (in thousands, except per share data):

	Three Months Ended June 30, 2013					
	Stock Options				Restricted Stock	
	Number of Options	Weighted Average Exercise Price per Share (1)	Aggregate Intrinsic Value	Weighted Average Remaining Term	Number of Shares (2)	Weighted Average Grant Date Fair Value per Share (1)
Outstanding as of March 31, 2013	5,815	$ 4.33			600	$ 4.12
Granted					850	4.88
Exercised	(1,725)	3.99			n/a	n/a
Vested	n/a	n/a				
Expired	(850)	3.90			n/a	n/a
Outstanding as of June 30, 2013	3,240	$ 4.62	$ 7,986	3.63	1,450	$ 4.56
Exercisable as of June 30, 2013	2,055	$ 4.92	$ 4,441	2.65		

	Six Months Ended June 30, 2013					
	Stock Options				Restricted Stock	
	Number of Options	Weighted Average Exercise Price per Share (1)	Aggregate Intrinsic Value	Weighted Average Remaining Term	Number of Shares (2)	Weighted Average Grant Date Fair Value per Share (1)
Outstanding as of December 31, 2012	5,330	$ 4.29			1,152	$ 4.37
Granted	685	4.51			850	4.88
Exercised	(1,925)	3.98			n/a	n/a
Vested	n/a	n/a			(552)	4.64
Expired	(850)	3.90			n/a	n/a
Outstanding as of June 30, 2013	3,240	$ 4.62	$ 7,986	3.63	1,450	$ 4.56
Exercisable as of June 30, 2013	2,055	$ 4.92	$ 4,441	2.65		

(1) Unless otherwise specified, such as in the case of the exercise of stock options, the per share prices were determined using the closing price of the Company s Common Stock as quoted on the NYSE MKT LLC. Shares issued upon exercise of options represent original issuances in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended or issuances under the Company s 2009 Omnibus Incentive Plan.

(2) All shares outstanding as of June 30, 2013 are expected to vest.

n/a Not applicable

The following table provides certain information in connection with the Company s share-based compensation arrangements for the periods presented (in thousands):

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Compensation expense:				
Stock options	$ 309	$ 309	$ 613	$ 646
Restricted stock	1,452	371	2,315	1,046
Total	$ 1,761	$ 680	$ 2,928	$ 1,692
Deferred tax benefits:				
Stock options	$ 119	$ 119	$ 236	$ 249
Restricted stock	87	87	256	291
Total	$ 206	$ 206	$ 492	$ 540
Realized tax benefits:				
Stock options	$ 1,690	$ 128	$ 1,750	$ 141
Restricted stock			374	291
Total	$ 1,690	$ 128	$ 2,124	$ 432
Excess tax benefits (shortfall):				
Stock options	$ 155	$ 71	$ 63	$ 71
Restricted stock			(59)	(142)
Total	$ 155	$ 71	$ 4	$ (71)
Weighted average fair value per option or share:				
Stock option grants	$	$	$ 0.37	$
Restricted stock grants	$ 4.88	$	$ 4.88	$
Intrinsic value of options exercised	$ 4,381	$ 332	$ 4,537	$ 367
Fair value of restricted stock vested	$	$	$ 2,548	$ 1,164
Cash received for strike price and tax withholdings	$	$	$	$ 518
Shares acquired through cashless exercise (1)	1,284	147	1,683	147
Value of shares acquired through cashless exercise (1)	$ 8,443	$ 583	$ 10,295	$ 583

(1) All shares acquired represent shares tendered to cover the strike price for options and tax withholdings on the intrinsic value of options exercised or restricted stock vested. These shares have been cancelled by the Company.

The following table presents the amount of unrecognized compensation expense as of the most recent balance sheet date and the weighted average period over which those expenses will be recorded for both stock options and restricted stock (dollars in thousands):

	As of June 30, 2013 Stock Options	As of June 30, 2013 Restricted Stock
Unrecognized expense	$ 463	$ 4,733
Weighted average remaining years	1.72	0.96

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8. Stockholders Equity

Common Stock

The following table summarizes the activity relating to shares of the Company s common stock during the periods presented (in thousands):

	Issued Shares	Treasury Shares	Outstanding Shares
Balance, as of December 31, 2012	41,889	(1,018)	40,871
Shares repurchased		(6,666)	(6,666)
Options exercised	1,925		1,925
Restricted stock grant	850		850
Shares acquired through cashless exercise (1)		(1,683)	(1,683)
Shares cancelled	(1,683)	1,683	
Balance, as of June 30, 2013	42,981	(7,684)	35,297

(1) All shares acquired represent shares tendered to cover the strike price for options and tax withholdings on the intrinsic value of options exercised or restricted stock vested. These shares have been cancelled by the Company.

On April 1, 2013, UIH entered into a repurchase agreement with Bradley I. Meier, the Company s former Chairman, President and Chief Executive Officer and a principal stockholder of UIH, to repurchase an aggregate of four million shares of UIH s common stock owned by Mr. Meier. The initial repurchase of two million of Mr. Meier s shares occurred on April 1, 2013, and the subsequent repurchase of two million shares occurred on May 23, 2013, each at a price of $4.02 per share, representing a discount from the then-current market price of UIH s common stock.

Also on May 23, 2013, UIH entered into a second repurchase agreement with Mr. Meier to repurchase an additional 2.666 million shares of UIH s common stock owned by Mr. Meier. The repurchase of 2.666 million of Mr. Meier s shares occurred on May 23, 2013 for a repurchase price of $4.50 per share, representing a discount from the then-current market price of the Company s common stock.

Dividends

On February 8, 2013, the Company declared a dividend of $0.08 per share on its outstanding common stock paid on April 5, 2013, to the shareholders of record at the close of business on March 14, 2013.

On April 18, 2013, the Company declared a dividend of $0.08 per share on its outstanding common stock paid on June 17, 2013, to the shareholders of record at the close of business on June 3, 2013.

9. Related Party Transactions

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, President and Chief Executive Officer of the Company.

Scott P. Callahan, a director of the Company, provides the Company with consulting services and advice with respect to the Company s reinsurance and related matters through SPC Global RE Advisors LLC. The Company entered into the consulting agreement with SPC Global RE Advisors LLC effective June 6, 2013.

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The following table provides payments made by the Company to Downes and SPC Global RE Advisors LLC for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Downes and Associates	$ 130	$ 130	$ 259	$ 260
SPC Global RE Advisors LLC	$	$	$	$

There were no amounts due to Downes and Associates as of June 30, 2013 and December 31, 2012. Amounts due to SPC Global RE Advisors LLC were $8 thousand at June 30, 2013. Payments due to Downes and Associates and SPC Global RE Advisors LLC are generally made in the month the services are provided.

See Note 8 (Stockholders Equity) for details on the repurchase agreements entered into on April 1, 2013 and May 23, 2013 between the Company and with Bradley I. Meier, the Company s former Chairman, President and Chief Executive Officer.

RenRe currently is, and has been a participant in the Company s reinsurance programs. On May 23, 2013, the Company entered into a series of contracts with RenRe and its affiliate RenRe Ventures. As discussed in Note 6 (Long-Term Debt) , UIH entered into an unsecured Term Loan and related Term Note with (RenRe Ventures). The Term Loan and Term Note are part of a series of agreements entered into by the Company and RenRe and its RenRe Ventures pursuant to which, among other things, the Company has purchased a catastrophe risk-linked transaction contract from RenRe and entered into an agreement whereby RenRe will reserve reinsurance capacity for the Company s reinsurance program and receive a right of first refusal in respect of a portion thereof. As part of the series of agreements with, on May 23, 2013, the Company, RenRe Ventures and Mr. Meier agreed to assign to RenRe Ventures a portion of the Company s right of first refusal to repurchase shares of the Company s common stock owned by Mr. Meier under the first repurchase agreement entered into on April 1, 2013. RenRe Ventures will have a right of first refusal to repurchase one-third of the shares offered by Mr. Meier, up to the lesser of 2 million shares and 4.99% of the Company s outstanding common stock.

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10. Income Taxes

Deferred income taxes represent the temporary differences between the GAAP and tax basis of the Company s assets and liabilities. The tax effects of temporary differences are as follows for the periods presented (in thousands):

	As of June 30, 2013	As of December 31, 2012
Deferred income tax assets:		
Unearned premiums	$ 12,710	$ 11,430
Advance premium	1,945	1,132
Unpaid losses and LAE	3,116	3,449
Regulatory assessments	1,384	2,447
Stock-based compensation	1,420	3,048
Accrued wages	478	778
Allowance for uncollectible receivables	208	205
Additional tax basis of securities	45	573
Unrealized losses on trading investments		2,782
Capital loss carryforwards	622	
Other comprehensive loss	1,638	
Total deferred income tax assets	23,566	25,844
Deferred income tax liabilities:		
Deferred policy acquisition costs, net	(6,650)	(6,666)
Unrealized gains on trading investments	(264)	
Total deferred income tax liabilities	(6,914)	(6,666)
Net deferred income tax asset	$ 16,652	$ 19,178

A valuation allowance is deemed unnecessary as of June 30, 2013 and December 31, 2012, respectively, because management believes it is probable that the Company will generate taxable income sufficient to realize the tax benefits associated with the net deferred income tax asset shown above in the near future.

Tax years that remain open for purposes of examination of its income tax liability due to taxing authorities, include the years ended December 31, 2012, 2011 and 2010.

The following table reconciles the statutory federal income tax rate to the Company s effective tax rate for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Statutory federal income tax rate	35.0%	35.0%	35.0%	35.0%
Increases (decreases) resulting from:				
Disallowed meals & entertainment	0.4%	0.2%	0.3%	0.2%
Fines and penalties	1.5%		0.9%	
Disallowed compensation	2.0%	1.0%	1.5%	0.7%
State income tax, net of federal tax benefit (1)	3.6%	3.6%	3.6%	3.6%
Other, net	0.1%	0.3%	0.1%	0.1%

Effective tax rate	42.6%	40.1%	41.4%	39.6%

(1) Included in income tax is Florida income tax at a statutory rate of 5.5%.

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11. 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 exercises of stock options, vesting of restricted stock and conversion of preferred stock.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Numerator for EPS:				
Net income	$ 17,029	$ 7,777	$ 28,988	$ 17,650
Less: Preferred stock dividends	(5)	(5)	(10)	(259)
Income available to common stockholders	$ 17,024	$ 7,772	$ 28,978	$ 17,391
Denominator for EPS:				
Weighted average common shares outstanding	36,378	39,668	38,138	39,528
Plus: Assumed conversion of stock-based compensation (1)	1,448	221	1,134	444
Assumed conversion of preferred stock	488	488	488	488
Weighted average diluted common shares outstanding	38,314	40,377	39,760	40,460
Basic earnings per common share	$ 0.47	$ 0.20		