UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-K
March 03, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

1110 West Commercial Blvd., Suite 100, Fort Lauderdale, Florida 33309

(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 Par Value	New York Stock Exchange

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x 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 x 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. x 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 (§ 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). x 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.

Large accelerated filer	¨	Accelerated filer	x
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 Act). ¨ Yes x No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold as of June 30, 2013: $203,361,651.

Indicate the number of shares outstanding of Common Stock of Universal Insurance Holdings, Inc. as of February 18, 2014: 34,636,054

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UNIVERSAL INSURANCE HOLDINGS, INC.

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DOCUMENTS INCORPORATED BY REFERENCE

Information called for in PART III of this Form 10-K is incorporated by reference to the registrant s definitive Proxy Statement to be filed within 120 days of the close of the registrant s fiscal year in connection with the registrant s annual meeting of shareholders.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This report contains, in addition to historical information, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Business, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Risk Factors. These forward-looking statements may be identified by their use of words like plans, seeks, expects, will, should, anticipates, estimates, intends, believes, likely, targets and other wor meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements. A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section titled Risk Factors (Part I, Item 1A of this report). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I

ITEM 1. BUSINESS
THE COMPANY

Universal Insurance Holdings, Inc. (UIH) is a Delaware corporation originally incorporated as Universal Heights, Inc. in November 1990. The name was changed to Universal Insurance Holdings, Inc. in January 2001. UIH and its wholly-owned subsidiaries (we or the Company) have evolved into a vertically integrated insurance holding company. Our insurance products are offered to our customers through Universal Property & Casualty Insurance Company (UPCIC) and American Platinum Property and Casualty Insurance Company (APPCIC), collectively referred to as the Insurance Entities. Substantially all aspects of insurance underwriting, distribution and claims processing are performed by our subsidiaries. Our principal executive offices are located at 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309, and our telephone number is (954) 958-1200.

In 1997, we organized a subsidiary, UPCIC, as part of our strategy to take advantage of what management believed to be profitable business and growth opportunities in Florida s residential property and casualty insurance marketplace. UPCIC was formed to participate in the transfer of homeowners insurance policies from the Florida Residential Property and Casualty Joint Underwriting Association (JUA). UPCIC s application to become a Florida licensed property and casualty insurance company was filed with the Florida Office of Insurance Regulation (OIR) on May 14, 1997 and approved on October 29, 1997. UPCIC s proposal to begin operations through the acquisition of homeowners insurance policies issued by the JUA was approved by the JUA on May 21, 1997, subject to certain minimum capitalization and other requirements.

In September 2006, we initiated the process of acquiring all of the outstanding common stock of Atlas Florida Financial Corporation, which owned all of the outstanding common stock of Sterling Premium Finance Company, Inc. (Sterling), from certain of our executive officers for $50,000, which approximated Sterling s book value. We received approval of the acquisition from the OIR. Sterling has been renamed Atlas Premium Finance Company and commenced offering premium finance services in November 2007.

Blue Atlantic Reinsurance Corporation (BARC) was incorporated in Florida on November 9, 2007 as a wholly owned subsidiary of UIH to be a reinsurance intermediary broker. BARC became licensed by the Florida Department of Financial Services as a reinsurance intermediary broker on January 4, 2008.

We filed an application with the OIR on June 23, 2008 to open a second property and casualty insurance subsidiary, Infinity Property and Casualty Insurance Company (Infinity), in Florida. Infinity was renamed APPCIC. On October 1, 2008, we signed a consent order agreeing to the terms and conditions for the issuance of a certificate of authority to APPCIC. The final approval and issuance of the certificate of authority was granted by the OIR on December 2, 2008.

INSURANCE BUSINESS

The Florida Insurance Code currently requires that residential property insurers holding a certificate of authority before July 1, 2011, such as our Insurance Entities, maintain capitalization, referred to as minimum capitalization, equivalent to the greater of ten percent of the insurer s total liabilities or $5 million. The dollar amount for the minimum capitalization is scheduled to increase to $10 million on July 1, 2016 and then to $15 million on July 1, 2021. Both Insurance Entities statutory capital and surplus exceeded the minimum capitalization requirements as of December 31, 2013. The Insurance Entities are also required to adhere to prescribed premium-to-capital surplus ratios which were also met as of December 31, 2013.

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Our primary product is homeowners insurance offered through the Insurance Entities. Our criteria for accepting insurance risk includes, but are not limited to, common industry underwriting standards such as, defined coverage limitations on buildings and contents and risk condition. Also, to manage exposure and risk, we utilize standard industry catastrophe modeling techniques for hurricane and windstorm exposure.

We may consider underwriting other types of policies in the future, subject to approval by the appropriate regulatory authorities. See Government Regulation and Initiatives, Competition and Product Pricing for a discussion of the material regulatory and market factors that may affect the Insurance Entities ability to obtain additional policies.

UPCIC is licensed to transact insurance business in Florida, North Carolina, South Carolina, Hawaii, Georgia, Maryland and Massachusetts. The North Carolina Department of Insurance currently restricts UPCIC to writing no more than $20.0 million of direct premiums per year. APPCIC is licensed to transact insurance business only in Florida.

The Insurance Entities average annual premium for policies in force as of December 31, 2013 was approximately $1,460.

The geographical distribution of the Insurance Entities policies-in-force and total insured values were as follows for the period presented (dollars in thousands):

	As of December 31, 2013			
State	Count	%	Total Insured Value	%
Florida	499,949	93.3%	$ 110,785,839	90.7%
Other states	36,039	6.7%	11,305,295	9.3%
Grand Total	535,988	100.0%	$ 122,091,134	100.0%

	As of December 31, 2013			
County	Count	%	Total Insured Value	%
South Florida				
Palm Beach	57,042	11.4%	$ 13,227,814	11.9%
Broward	55,928	11.2%	14,798,951	13.4%
Miami	34,704	6.9%	7,232,761	6.5%
South Florida exposure	147,674	29.5%	35,259,526	31.8%
Other significant* Florida counties				
Pinellas	37,634	7.5%	6,142,949	5.5%
Lee	30,662	6.1%	5,466,158	5.2%
Collier	23,531	4.7%	4,191,849	4.1%
Brevard	20,222	4.1%	4,076,853	3.8%
Hillsborough	20,138	4.1%	4,962,225	4.6%
Polk	19,902	4.0%	5,958,535	4.4%
Escambia	19,780	4.0%	5,356,606	5.0%
Orange	16,987	3.4%	3,884,923	2.5%

Sarasota	16,567	3.3%		2,629,658	3.3%
Manatee	12,668	2.5%		2,232,199	2.2%
Duval	12,661	2.5%		2,793,458	2.1%
Total other significant* counties	230,752	46.2%		47,695,413	42.7%

Summary for all of Florida	Count	%		Total Insured Value	%
South Florida exposure	147,674	29.5%		35,259,526	31.8%
Total other significant* counties	230,752	46.2%		47,695,413	42.7%
Other Florida counties	121,523	24.3%		27,830,900	25.5%
Total Florida	499,949	100.0%	$	110,785,839	100.0%

* Significant counties defined as policy count or insured value greater than 2.50% of total policy count or total insured value for policies-in-force as of December 31, 2013.

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The policies in force as of December 31, 2013 including and excluding wind coverage is as follows (dollars in thousands):

	As of December 31, 2013				
Type of coverage	Count	%		Total Insured Value	%
Policies with wind coverage	525,130	98.0%	$	120,123,058	98.4%
Policies without wind coverage	10,858	2.0%		1,968,076	1.6%
Grand Total	535,988	100.0%	$	122,091,134	100.0%

INSURANCE OPERATIONS

The Insurance Entities generate revenues primarily from the collection of premiums. Universal Risk Advisors, Inc. (URA), our managing general agent, generates revenue through policy fee income and other administrative fees from the marketing of the Insurance Entities insurance products through our distribution network of independent agents. URA performs underwriting, rating, policy issuance, reinsurance negotiations, and certain administration functions for the Insurance Entities. We have also formed Universal Adjusting Corporation, which adjusts claims for the Insurance Entities, and Universal Inspection Corporation, which performs property inspections for homeowners insurance policies underwritten by the Insurance Entities.

Atlas Premium Finance Company offers premium finance services to policyholders of the Insurance Entities. BARC performs reinsurance negotiations on behalf of URA for the Insurance Entities. Universal Logistics Corporation assists with operational duties associated with our day-to-day business.

APPCIC is authorized to write homeowners multi-peril coverage on homes valued in excess of $1.0 million, which are limits and coverages currently not targeted through its affiliate, UPCIC. APPCIC began writing insurance policies in Florida in November 2011.

We also generate income by investing available funds in excess of those retained for claims-paying obligations and insurance operations. See the Investments section below.

Coastal Homeowners Insurance Specialists, Inc., a wholly owned subsidiary of UIH, was incorporated in Florida on July 2, 2001 to solicit voluntary business. This entity represents our agency operations and seeks to generate income from commissions and other charges.

Management of Exposure to Catastrophic Losses

The Insurance Entities are exposed to potentially numerous insured losses arising out of single or multiple occurrences, such as natural catastrophes. The Insurance Entities exposure to catastrophic losses arises principally out of hurricanes and windstorms. Through the use of standard industry modeling techniques that are susceptible to change, the Insurance Entities manage their exposure to such losses on an ongoing basis from an underwriting perspective. The catastrophe models we utilize analyze credible scientific evidence, regarding the potential impact of global climate change which the Company considers to determine the potential impact of laws and regulations intended to combat climate change and the effect of such change, laws and regulations on our ability to manage exposure under the Insurance Entities policies.

The Insurance Entities protect themselves against the risk of catastrophic loss by obtaining annual reinsurance coverage as of the beginning of hurricane season on June 1 of each year.

The Insurance Entities rely on reinsurers to limit the amount of risk retained under their policies and to increase their ability to write additional risks. Our intention is to limit the Insurance Entities exposure and therefore protect their capital, even in the event of catastrophic occurrences, through reinsurance agreements. The Insurance Entities obtain a significant portion of their reinsurance coverage from the Florida Hurricane Catastrophe Fund (FHCF).

Our reinsurance program consists of excess of loss, quota share and catastrophe reinsurance for multiple hurricanes. Our catastrophe reinsurance program is subject to the terms and limitations of the reinsurance contracts and currently covers certain levels of the Insurance Entities projected exposure through three catastrophe events. However, we may not buy enough reinsurance to cover multiple storms going forward or be able to timely or cost-effectively obtain reinsurance. The Insurance Entities are responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by our reinsurance program and for losses that otherwise are not covered by the reinsurance program.

UPCIC has in recent years purchased reinsurance coverage up to and above the 100-year Probable Maximum Loss (PML). PML is a general concept applied in the insurance industry for defining high loss scenarios that should be considered when underwriting insurance risk. Catastrophe models such as AIR CLASIC/2 and RMS Risk Link, produce loss estimates that are quantified in terms of dollars and probabilities. The Insurance Entities PML amounts are modeled using both the AIR CLASIC/2 and RMS Risk Link versions in effect at the date of the calculation. Probability of exceedance or the probability that the actual loss level will exceed a particular threshold is a standard catastrophe model output. For example, the 100-year PML represents a 1.00% Annual Probability of Exceedance. It is estimated that the 100-year PML is likely to be equaled or exceeded in one year out of 100 on average, or 1 percent of the time. It is the 99th percentile of the annual loss distribution. However, as the Insurance Entities write policies throughout the year, the 100-year PML will change. It is possible that the reinsurance in place may not always surpass the 100-year PML at every point in time in one specific model. In addition, modeling results are merely estimates and are subject to various assumptions. Please see Item 1A. Risk Factors As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events.

Although we use what we believe to be widely recognized and, commercially available models to estimate hurricane loss exposure, discrepancies between the assumptions and scenarios utilized in the models and the characteristics of future hurricane events could result in losses that are not covered by the Insurance Entities reinsurance program. See Item 1A. Risk Factors As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events.

Management evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. However, see Item 1A. Risk Factors Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded risks, which could have a material adverse effect on our operating results and financial condition. While ceding premiums to reinsurers reduces the Insurance Entities risk of exposure in the event of catastrophic losses, it also reduces their potential for greater profits in the event that such catastrophic events do not occur. We believe that the extent of our Insurance Entities reinsurance is typical of companies similar in size and geographic exposure in the homeowners insurance industry.

Liability for Unpaid Losses and LAE

The liability for unpaid losses and loss adjustment expenses (LAE) periodically established by the Insurance Entities, also known as reserves, are estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses. The estimates necessarily will be based on certain assumptions related to the ultimate cost to settle such claims. There is an inherent degree of uncertainty involved in the establishment of a liability for unpaid losses and LAE and there may be substantial differences between actual losses and the Insurance Entities liability estimates. The inherent degree of uncertainty involved in the establishment of a liability for unpaid losses and LAE can be more pronounced during periods of rapid growth in written premiums such as those experienced by UPCIC in previous years. We rely on industry data, as well as the expertise and experience of independent actuaries in an effort to establish accurate estimates and an adequate liability. Furthermore, factors such as storms and weather conditions, climate changes and patterns, inflation, claim settlement patterns, legislative activity and litigation trends may have an impact on the Insurance Entities future loss experience.

The Insurance Entities are directly liable for loss and LAE payments under the terms of the insurance policies that they write. In many cases, several years may elapse between the occurrence of an insured loss and the Insurance Entities payment of that loss. As required by insurance regulations and accounting rules, the Insurance Entities reflect their liability for the ultimate payment of all incurred losses and LAE by establishing a liability for those unpaid losses and LAE for both reported and unreported claims, which represent estimates of future amounts needed to pay claims and related expenses.

When a claim involving a probable loss is reported, the Insurance Entities establish a liability for the estimated amount of their ultimate loss and LAE payments. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions. All newly reported claims received are set up with an initial average liability. That claim is then evaluated and the liability is adjusted upward or downward according to the facts and damages of that particular claim. In addition, management provides for a liability on an aggregate basis to provide for losses incurred but not reported (IBNR). We utilize independent actuaries to help establish liabilities for unpaid losses and LAE. We do not discount the liability for unpaid losses and LAE for financial statement purposes.

The estimates of the liability for unpaid losses and LAE are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, we review historical data and consider various factors, including known and anticipated legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data become available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for unpaid losses and LAE. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

Liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim to the Insurance Entities and the final settlement than do property claims. Liability claims often involve third parties filing suit and the ensuing litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time with the vast majority of these claims resulting in an adjustment without litigation.

Based upon consultations with our independent actuarial consultants and their statement of opinion on losses and LAE, we believe that the liability for unpaid losses and LAE is currently adequate to cover all claims and related expenses which may arise from incidents reported and IBNR. However, if our liability for unpaid losses and LAE proves to be inadequate, we will be required to increase the liability with a corresponding reduction in net income in the period in which the deficiency is identified. Future losses in excess of established liabilities for unpaid losses and LAE could have a material adverse effect on our business, results of operations and financial condition. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources .

Investments

We generate income by investing funds in excess of those retained for claims-paying obligations and insurance operations. We conduct these investment activities through each of the Insurance Entities and UIH. We have retained investment advisers to advise us and manage the investment portfolio. Our investment committee reports overall investment results to our Board of Directors, at least on a quarterly basis. Our investment advisers may assist in such reports to the Board of Directors.

In recent years we have actively traded investment securities and other investments to supplement income derived from our insurance operations. Our investment trading strategy was:

- primarily to maximize after-tax investment income; and
- to obtain favorable risk-adjusted real after-tax investment returns to achieve long-term growth of the Insurance Entities statutory surplus and consolidated stockholders equity.

During 2013, our investment committee authorized management to engage Deutsche Bank, a leading global investment adviser specializing in the insurance industry, to manage our investment portfolio. Working with the investment adviser, we transitioned the composition of our portfolio to a more traditional insurance company investment portfolio, which we expect will provide a more stable stream of investment income and reduce the effects of market volatility. Our overall investment objective is to maximize total rate of return while maintaining liquidity and minimizing risk. Our investment strategy includes maintaining investments to support unpaid losses and loss adjustment expenses for our insurance subsidiaries in accordance with guidelines established by insurance regulators.

As of December 31, 2013, the fair value of our consolidated investment portfolio was $474.3 million, comprised of the following (in thousands):

Type of Investment	As of December 31, 2013
Cash and cash equivalents	$ 117,275

Restricted cash and cash equivalents		2,600
Fixed maturities		289,418
Equity securities		65,022
Total	$	474,315

The investment activities of the Insurance Entities are subject to regulation and supervision by the OIR. See Government Regulation and Initiatives below. The Insurance Entities may only make investments that are consistent with regulatory guidelines, and our investment policies for the Insurance Entities correspondingly limit the amount of investment in, among other things, non-investment grade fixed maturity securities (including high-yield bonds) and total investments in preferred stock and common stock. While we seek to appropriately limit the size and scope of investments in the UIH portfolio, UIH is not similarly restricted by Florida law. Therefore, the investments made by UIH may significantly differ from those made by the Insurance Entities. We do not purchase securities on margin. As of December 31, 2013, approximately 97% of our portfolio is held by our Insurance Entities and 3% is held by UIH.

See Note 3 INVESTMENTS in the accompanying notes to our consolidated financial statements in Part II, Item 8 below.

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Government Regulation and Initiatives

Florida insurance companies, such as the Insurance Entities, are subject to regulation and supervision by the OIR. The OIR has broad regulatory, supervisory and administrative authority. Such authority includes but is not limited to: the granting and revocation of licenses to transact business; the enforcement of standards of solvency that must be met and maintained; the nature of, and limitations on, investments; the review and approval of policy forms and rates; the review of reinsurance contracts; the periodic examination of the affairs of insurance companies; and the review of the form and content of required financial statements. A separate agency, the Florida Department of Financial Services, is responsible for the licensure and regulation of agents. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of investors.

Florida created the Citizens Property Insurance Corporation (Citizens) to provide insurance to Florida homeowners in high-risk areas and to others without private insurance options. As of December 31, 2013, there were 1,021,694 Citizens policies in force compared to 1,314,811 as of December 31, 2012. In May 2007, Florida passed legislation that froze property insurance rates for Citizens customers at December 2006 levels through December 31, 2008. This same legislation permitted insurance customers to opt into Citizens when the price of a privately-offered insurance policy is 15% more than the Citizens rate, compared to the previous opt-in threshold of 25%. Although Citizens rates have risen since 2008, legislative initiatives, together with any future initiatives that seek to further relax eligibility requirements or reduce premium rates for Citizens customers, could adversely affect our ability and the ability of the Insurance Entities to conduct profitable business. State and federal legislation relating to insurance is affected by a number of political and economic factors that are beyond our control. The Florida Legislature and the National Association of Insurance Commissioners (NAIC) from time to time consider proposals that may affect, among other things, regulatory assessments and reserve requirements.

In addition, the Insurance Entities are required to offer wind mitigation discounts in accordance with a program mandated by the Florida Legislature and implemented by the OIR. The level of wind mitigation discounts mandated by the Florida Legislature to be effective June 1, 2007 for new business and August 1, 2007 for renewal business have had a significant negative effect on the Insurance Entities premium. See Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the impact of wind mitigation discounts on our results of operations.

The Florida Insurance Guaranty Association (FIGA) is a nonprofit corporation created by the Florida Legislature. FIGA services pending claims of Florida policyholders against member insurance companies which become insolvent and are ordered liquidated. The operation is directed towards early recognition and payment of those covered claims to avoid hardship or financial difficulties to the insureds or claimants involved. Payments of claims are funded with the proceeds of the failed insurers liquidated assets. When these proceeds are inadequate to cover outstanding claims, assessments are made among members which are composed of all Florida licensed direct writers of property or casualty insurance. In 2012, the OIR approved a mandatory assessment by FIGA that was applicable to all member insurers of FIGA s All Other Account, which includes UPCIC and APPCIC. The assessment was 0.9 percent of each of the Insurance Entities net direct written premiums within Florida for the calendar year 2011 and totaled $6.3 million. The assessment had a negative effect on the consolidated operating results of the Company for the year ended December 31, 2012. The majority of the mandatory assessment on UPCIC of $6.3 million was recovered in 2013 through a surcharge on UPCIC s policies within Florida, pursuant to a filing made with the OIR in November 2012. The mandatory assessment on APPCIC was a nominal amount that the Company has elected not to recover. Since the prior assessment levied by FIGA in 2009 on its All Other Account, FIGA reports there have been 13 foreign and domestic insurance company insolvencies affecting its claims-paying accounts.

UPCIC has become and will become subject to other states laws and regulations as it has obtained and continues to seek authority to transact business in other states.

UPCIC received an order from the OIR dated May 30, 2013 related to the OIR s Target Market Conduct Final Examination Report of UPCIC for the period January 2009 through May 2013 (OIR Order). The OIR Order alleged certain violations and findings and sought to impose certain requirements and an administrative fine of $1.3 million upon UPCIC. On October 4, 2013, UPCIC and the OIR signed a Consent Order settling the OIR Order. The Consent Order clarified language contained in the OIR Order, imposed certain requirements on UPCIC and required UPCIC to pay the administrative fine of $1.3 million, which it paid on October 18, 2013.

Product Pricing

The rates charged by the Insurance Entities generally are subject to regulatory review and approval before they may be implemented. The Insurance Entities periodically submit their rate revisions to regulators as required by law or deemed by us to be necessary or appropriate for the Insurance Entities business. We prepare these filings for the Insurance Entities based on objective data relating to their respective business and on judgment exercised by management and retained professionals.

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The premiums charged by the Insurance Entities to policyholders are affected by legislative enactments and administrative rules, including a state-mandated program requiring residential property insurance companies like ours to provide premium discounts when policyholders verify that insured properties have certain construction features or other windstorm loss reduction features. The level of required premium discounts may exceed the expected reduction in losses associated with the construction features for which the discounts are provided. Although the Insurance Entities may submit rate filings to address any premium deficiencies, those rate filings are subject to regulatory oversight and may not be approved.

On February 7, 2013, we announced that UPCIC received approval from the OIR for premium rate increases for its homeowners and dwelling fire programs within Florida. The premium rate increases will average approximately 14.1% statewide for its homeowners program and 14.5% for its dwelling fire program. The effective dates for the homeowners program rate increase were January 18, 2013, for new business and March 9, 2013, for renewal business. The effective dates for the dwelling fire program rate increase were January 14, 2013, for new business and March 3, 2013, for renewal business. In late 2013, the Company secured approval for an overall rate decrease for homeowners in the amount of 2.4%, effective in early 2014. In addition, an increase in the average dwelling fire rates of 8.1% also became effective in early 2014.

Competition

The insurance industry is highly competitive and many companies currently write homeowners property and casualty insurance. Additionally, we must compete with companies that have greater capital resources and longer operating histories and newly formed and less capitalized companies that might have more aggressive underwriting or pricing strategies. Increased competition from other private insurance companies as well as Citizens could adversely affect our ability to conduct profitable business. In addition, our Financial Stability Rating® is an important factor in establishing our competitive position and may affect our sales. Although our pricing is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our best interest to compete solely on price, choosing instead to compete on the basis of underwriting criteria, our distribution network and high quality service to our agents and insureds.

Employees

As of February 6, 2014, we had 300 full-time employees. None of our employees are represented by a labor union.

Available Information

Our internet address is http://www.universalinsuranceholdings.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports are available, free of charge, through our website as soon as reasonably practicable after their filing with the Securities and Exchange Commission (SEC). The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

ITEM 1A. RISK FACTORS

We are subject to a variety of risks, the most significant of which are described below. Our business, results of operations and financial condition could be materially and adversely affected by any of these risks or additional risks.

Risks Relating to the Property-Casualty Business

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events

Because of the exposure of our property and casualty business to catastrophic events, our operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made disasters, including wildfires, tornadoes, hurricanes, tropical storms and certain types of terrorism. We may incur catastrophe losses in excess of: those experienced in prior years; those estimated by a catastrophe model we use; the average expected level used in pricing; and our current reinsurance coverage limits.

In addition, we are subject to claims arising from weather events such as rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of property claims when severe weather conditions occur. The nature and level of catastrophes in any period cannot be predicted and could be material to our operations. In addition, impacts of catastrophes and our catastrophe management strategy may adversely affect premium growth.

Although we use widely recognized and commercially available models to estimate hurricane loss exposure, other models exist that might produce higher or lower loss estimates. The loss estimates developed by the catastrophe model are dependent upon assumptions or scenarios incorporated into the model by a third-party developer and by us (or our representatives). However if these assumptions or scenarios do not reflect the characteristics of future catastrophic events that affect Florida or the resulting economic conditions, such may result in exposure for losses not covered by our reinsurance program.

Despite our catastrophe management programs, we retain significant exposure to catastrophic events. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses and have a negative impact on our business.

Unanticipated increases in the severity or frequency of claims may adversely affect our profitability and financial condition

Changes in the severity or frequency of claims may affect our profitability. Changes in homeowners claim severity are driven by inflation in the construction industry, in building materials and in home furnishings and by other economic and environmental factors, including increased demand for services and supplies in areas affected by catastrophes. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can arise from unexpected events that are inherently difficult to predict. Although we pursue various loss management initiatives in order to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity.

We may experience declines in claim frequency from time to time. The short-term level of claim frequency we experience may vary from period to period and may not be sustainable over the longer term. A significant long-term increase in claim frequency could have an adverse effect on our operating results and financial condition.

Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition

Recorded claim reserves in the property-casualty business are based on our best estimates of losses, both reported and incurred but not reported (IBNR), after considering known facts and interpretations of circumstances. Internal factors are considered including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims and contractual terms. External factors are also considered which include but are not limited to law changes, court decisions, changes to regulatory requirements and economic conditions. Because reserves are estimates of the unpaid portion of losses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded reserves and such variance may adversely affect our operating results and financial condition.

Predicting claim expense relating to environmental liabilities is inherently uncertain and may have a material adverse effect on our operating results and financial condition

The process of estimating environmental liabilities is complicated by complex legal issues concerning, among other things, the interpretation of various insurance policy provisions and whether those losses are, or were ever intended to be covered; and whether losses could be recoverable through reinsurance. Litigation is often a complex, lengthy process that involves substantial uncertainty for insurers. Actuarial techniques and databases used in estimating environmental net loss reserves may prove to be inadequate indicators of the extent of probable loss. Ultimate net losses from environmental liabilities could materially exceed established loss reserves and expected recoveries and have a material adverse effect on our operating results and financial condition.

The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations

We utilize a number of strategies to mitigate our risk exposure, such as:

- engaging in rigorous underwriting;
- carefully evaluating terms and conditions of our policies; and
- ceding risk to reinsurers.

However, there are inherent limitations in all of these tactics and no assurance can be given that an event or series of events will not result in loss levels in excess of our probable maximum loss models, which could have a material adverse effect on our financial condition or results of operations. It is also possible that losses could manifest themselves in ways that we do not anticipate and that our risk mitigation strategies are not designed to address. Such a manifestation of losses could have a material adverse effect on our financial condition or results of operations.

These risks may be heightened during difficult economic conditions such as those recently experienced in Florida and elsewhere.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business

Our reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes. Market conditions beyond our control determine the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as are currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk may be dependent upon our ability to adjust premium rates for our cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available next year. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our exposure risk, reduce our insurance writings, or develop or seek other alternatives.

Regulation limiting rate increases and requiring us to participate in loss sharing may decrease our profitability

From time to time, political dispositions affect the insurance market, including efforts to effectively maintain rates that may not allow us to reach targeted levels of profitability. Despite efforts to remove politics from insurance regulation, facts and history demonstrate that public policymakers, when faced with untoward events and adverse public sentiment, can act in ways that impede a satisfactory correlation between rates and risk. Such acts may affect our ability to obtain approval for rate changes that may be required to attain rate adequacy along with targeted levels of profitability and returns on equity. Our ability to afford reinsurance required to reduce our catastrophe risk may be dependent upon the ability to adjust rates for our cost.

Additionally, we are required to participate in guaranty funds for insolvent insurance companies. The guaranty funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

The potential benefits of implementing our profitability model may not be fully realized

We believe that our profitability model has allowed us to be more competitive and operate more profitably. However, because many of our competitors have adopted underwriting criteria and sophisticated models similar to those we use and because other competitors may follow suit, our competitive advantage could decline or be lost. Competitive pressures could also force us to modify our profitability model. Furthermore, we cannot be assured that the profitability model will accurately reflect the level of losses that we will ultimately incur from the business generated.

Our financial condition and operating results and the financial condition and operating results of our Insurance Entities may be adversely affected by the cyclical nature of the property and casualty business

The property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. A downturn in the profitability cycle of the property and casualty business could have a material adverse effect on our financial condition and results of operations.

Renewed weakness in the Florida real estate market could adversely affect our loss results

As of December 31, 2013, approximately 93% of our policies-in-force and 91% of total insured values were derived from customers located in Florida. In recent years, Florida experienced a significant economic downturn and among the highest real estate value diminution in the country. While the real estate market in Florida appears to be on the rebound, renewed weakness in that market could result in fewer home sales, which may adversely affect the number of policies we are able to sell and/or the rates we are able to charge to customers. Additionally, higher incidents of foreclosed or vacant homes may result in increased claims activity under residential insurance policies, which could negatively affect our operating results.

Changing climate conditions may adversely affect our financial condition, profitability or cash flows

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophic losses have had a significant impact on our historical results. Catastrophes can be caused by various events, including hurricanes, tsunamis, windstorms, earthquakes, hailstorms, explosions, flooding, severe winter weather and fires and may include man-made events, such as terrorist attacks. The incidence, frequency and severity of catastrophes are inherently unpredictable.

Longer-term weather trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures, including effects on global weather patterns, greenhouse gases, sea, land and air temperature, sea levels, rain and snow. The science regarding climate change is still emerging and developing. However, to the extent the frequency or severity of weather events is exacerbated due to climate change, we may experience increases in catastrophe losses in both coastal and non-coastal areas.

Risks Relating to Investments

We have periodically experienced, and may experience further reductions in returns or losses on our investments especially during periods of heightened volatility, which could have a material adverse effect on our results of operations or financial condition

Our investment strategy may subject our investment portfolio to significant volatility. The returns on our investment portfolio may be reduced or we may incur losses as a result of changes in general economic conditions, interest rates, real estate markets, fixed income markets, metals markets, energy markets, agriculture markets, equity markets, alternative investment markets, credit markets, exchange rates, global capital market conditions and numerous other factors that are beyond our control.

The worldwide financial markets experience high levels of volatility during certain periods, which could have an increasingly adverse impact on the U.S. and foreign economies. The financial market volatility and any resulting negative economic impact could continue and be prolonged, which could adversely affect our current investment portfolio, make it difficult to determine the value of certain assets in our portfolio and/or make it difficult for us to purchase suitable investments that meet our risk and return criteria. These factors could cause us to realize less than expected returns on invested assets, sell investments for a loss or write off or write down investments, any of which could have a material adverse effect on our results of operations or financial condition.

We are subject to market risk which may adversely impact investment income

Our primary market risk exposures are changes in equity and commodity prices and interest rates. A decline in market interest rates could have an adverse effect on our investment income as we invest cash in new investments that may yield less than our portfolio s average rate of return. A decline could also lead us to purchase longer-term or riskier assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. An increase in market interest rates could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the fixed maturity securities that comprise a large portion of our investment portfolio. A decline in the quality of our investment portfolio as a result of adverse economic conditions or otherwise could cause additional realized losses on securities.

Concentration of our investment portfolio in any particular segment of the economy may have adverse effects on our operating results and financial condition

The concentration of our investment portfolio in any particular industry, collateral types, group of related industries or geographic sector could have an adverse effect on our investment portfolio and consequently on our results of operations and financial condition. Events or developments that have a negative impact on any particular industry, group of related industries or geographic region may have a greater adverse effect on the investment portfolio to the extent that the portfolio are concentrated rather than diversified.

Our overall financial performance is dependent in part on the returns on our investment portfolio, which may have a material adverse effect on our financial condition or results of operations or cause such results to be volatile

The performance of our investment portfolio is independent of the revenue and income generated from our insurance operations, and there is no direct correlation between the financial results of these two activities. Thus, to the extent that our investment portfolio does not perform well due to the factors discussed above or otherwise, our results of operations may be materially adversely affected even if our insurance operations perform favorably. Further, because the returns on our investment portfolio may be volatile, our overall results of operations may likewise be volatile from period to period even if we do not experience significant financial variances in our insurance operations.

Risks Relating to the Insurance Industry

Our future results are dependent in part on our ability to successfully operate in an insurance industry that is highly competitive

The insurance industry is highly competitive. Many of our competitors have well-established national reputations and market similar products. Because of the competitive nature of the insurance industry, including competition for producers such as independent agents, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material adverse effect on our business, operating results or financial condition. Our ability to successfully operate may also be impaired if we are not effective in filling critical leadership positions, in developing the talent and skills of our human resources, in assimilating new executive talent into our organization, or in deploying human resource talent consistent with our business goals.

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Difficult conditions in the economy generally could adversely affect our business and operating results

The United States economy has experienced widespread job losses, higher unemployment, lower consumer spending, declines in home prices and substantial increases in delinquencies on consumer debt, including defaults on home mortgages. Moreover, past disruptions in the financial markets, particularly the reduced availability of credit and tightened lending requirements, have affected the ability of borrowers to refinance loans at more affordable rates. We cannot predict the likelihood of a future recession, but as with most businesses, we believe a longer or more severe recession than the one recently experienced could have an adverse effect on our business and results of operations.

A general economic slowdown could adversely affect us in the form of consumer behavior and pressure on our investment portfolio. Consumer behavior could include decreased demand for insurance. Beginning mostly in 2008 and 2009, weakness in the housing market and a highly competitive environment contributed to reduced growth in policies in force. Our investment portfolio could be adversely affected as a result of deteriorating financial and business conditions.

There can be no assurance that actions of the U.S. federal government, Federal Reserve and other governmental and regulatory bodies intended to stabilize the financial markets and stimulating the economy will achieve the intended effect

In response to the financial crises affecting the banking system, the financial markets and the broader economy, the U.S. government, the Federal Reserve and other governmental and regulatory bodies have taken or are considering taking action to address such conditions including, among other things, purchasing mortgage-backed and other securities from financial institutions, investing directly in banks, thrifts and financial institution holding companies and increasing federal spending to stimulate the economy. There can be no assurance as to what impact such actions will have on the financial markets or on economic conditions. Such continued volatility and economic deterioration could materially and adversely affect our business, financial condition and results of operations.

We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth

As insurance companies, we are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Moreover, they are administered and enforced by a number of different governmental authorities, including state insurance regulators, state securities administrators, the SEC, the U.S. Department of Justice, and state attorneys general, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator s or enforcement authority s interpretation of a legal issue may not result in compliance with another s interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator s or enforcement authority s interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator s or enforcement authority s interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business. Furthermore, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations are generally intended to protect or benefit purchasers or users of insurance products, not holders of securities issued by us. In many respects, these laws and regulations limit our ability to grow and improve the profitability of our business.

In recent years, the state insurance regulatory framework has come under public scrutiny and members of Congress have discussed proposals to provide for federal chartering of insurance companies. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance regulation.

Our insurance subsidiaries are subject to examination and actions by state insurance departments

The Insurance Entities are subject to extensive regulation in the states in which they do business. State insurance regulatory agencies conduct periodic examinations of the Insurance Entities on a wide variety of matters, including policy forms, premium rates, licensing, trade and claims practices, investment standards and practices, statutory capital and surplus requirements, reserve and loss ratio requirements and transactions among affiliates. Further, the Insurance Entities are required to file annual and other reports with state insurance regulatory agencies relating to financial condition, holding company issues and other matters. If an insurance company fails to obtain required licenses or approvals, or if the Insurance Entities fail to comply with other regulatory requirements, the regulatory agencies can suspend or delay their operations or licenses, require corrective action and impose operating limitations, penalties or other remedies available under applicable laws and regulations.

Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded risks, which could have a material adverse effect on our operating results and financial condition

Reinsurance does not legally discharge us from our primary liability for the full amount of the risk we insure, although it does make the reinsurer liable to us in the event of a claim. As such, we are subject to credit risk with respect to our reinsurers. The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Our inability to collect a material recovery from a reinsurer could have a material adverse effect on our operating results and financial condition.

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The continued threat of terrorism and ongoing military actions may adversely affect the level of claim losses we incur and the value of our investment portfolio

The continued threat of terrorism, both within the United States and abroad, and ongoing military and other actions and heightened security measures in response to these types of threats, may cause significant volatility and losses from declines in the equity markets and from interest rate changes in the United States, Europe and elsewhere, and result in loss of life, property damage, disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by reduced economic activity caused by the continued threat of terrorism. Additionally, in the event that terrorist acts occur, we could be adversely affected, depending on the nature of the event.

A downgrade in our Financial Stability Rating® may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition

Financial Stability Ratings® are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company s business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer s ratings due to, for example, a change in an insurer s statutory capital; a change in a rating agency s determination of the amount of risk-adjusted capital required to maintain a particular rating; a change in the perceived adequacy of an insurer s reinsurance program; an increase in the perceived risk of an insurer s investment portfolio; a reduced confidence in management or a host of other considerations that may or may not be within an insurer s control. Demotech, Inc., has assigned a Financial Stability Rating® of A for UPCIC and APPCIC. Because these ratings are subject to continuous review, the retention of these ratings cannot be assured. A downgrade in or withdrawal of these ratings, or a decision by Demotech to require the Insurance Entities parent company to make a capital infusion into the Insurance Entities to maintain their ratings, may adversely affect our liquidity, operating results and financial condition.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms

The capital and credit markets have been experiencing extreme volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity. In the event that we need access to additional capital to pay our operating expenses, make payments on our indebtedness, pay for capital expenditures or fund acquisitions, our ability to obtain such capital may be limited and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, and credit capacity, as well as lenders perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain financing on favorable terms.

Loss of key executives could affect our operations

On February 22, 2013, our former Chairman, President and Chief Executive Officer Bradley I. Meier resigned from his positions with the Company to pursue opportunities outside the residential homeowners insurance industry. Our future operations will depend in large part on the efforts of our new Chairman, President and Chief Executive Officer, Sean P. Downes, and on the efforts of our new Chief Operating Officer, Jon W. Springer, both of whom have served in executive roles at the Company or its affiliates for many years. The loss of the services provided by Mr. Meier, along with any future loss of the services provided by Mr. Downes or Mr. Springer, could have a material adverse effect on the Company and on our financial condition and results of operations.

Data security breaches or denial of service on our website could have an adverse impact on our business and reputation

Unauthorized access to and unintentional dissemination of our confidential customer, employee or Company data or other breaches of data security in our facilities, networks or databases, or those of our agents or third-party vendors, could result in loss or theft of assets or sensitive information, data corruption or operational disruption that may expose the Company to liability and/or regulatory action and may have an adverse impact on the Company s customers, employees, reputation and business. In addition, any compromise of the security of our data or prolonged denial of service on our websites could harm the Company s business and reputation. We have designed, implemented and routinely test procedures for protection of confidential information and sensitive corporate data, including rapid response procedures to help contain or prevent data loss if a breach were to occur. We have also implemented multiple technical security protections and contractual obligations regarding security breaches for our agents and third-party vendors. Even with these efforts, there can be no assurance that security breaches or service disruptions will be prevented.

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Risks Relating to Debt Obligations

Our revolving line of credit and term loan have restrictive terms and our failure to comply with any of these terms could have an adverse effect on our business and prospects.

We have entered into a revolving line of credit and term loan, each of which contains a number of affirmative and negative covenants so long as any amounts are outstanding thereunder. The negative covenants in these instruments limit our ability and the ability of our subsidiaries to, among other things:

- incur additional indebtedness;
- merge, consolidate or dispose of our assets or the capital stock or assets of any subsidiary;
- pay dividends, make distributions or redeem capital stock;
- enter into certain transactions with our affiliates;
- make material changes or modifications to our organizational structure; and
- grant liens on our assets or the assets of our subsidiaries.

Our revolving line of credit also includes certain affirmative covenants, including financial covenants requiring us to maintain minimum unencumbered liquid assets of $5 million, minimum shareholders equity of $120 million and a maximum leverage percentage of 30%, in each case, as such terms are defined and calculated under the revolving line of credit. A breach of any of these covenants would result in a default under our revolving line of credit, which could have a material adverse effect on our business and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On July 31, 2004, we purchased a building located in Fort Lauderdale, Florida that is now our headquarters. We occupy 100% of this building.

During the first half of 2012 we completed construction of a building containing approximately 11,000 square feet located in Fort Lauderdale, Florida, near our existing headquarters. We occupy 100% of the building and use it as additional office space.

There are no mortgages or lease arrangements for these buildings, and both buildings are adequately covered by insurance.

On July 12, 2013, UPCIC entered into a lease agreement for an office building containing 29,018 square feet adjacent to our headquarters in Fort Lauderdale, Florida. We expect to use this property for additional office and storage space. UPCIC took possession of the office building and began making monthly rental payments in October 2013. Also on July 12, 2013, UPCIC entered into a purchase agreement to acquire this property. The closing for the sale of the property is subject to certain closing conditions and will take place no later than February 5, 2015. UPCIC will receive a credit toward the purchase price of the property for a portion of the rent it pays under the lease agreement.

ITEM 3. LEGAL PROCEEDINGS

We are subject to litigation in the normal course of our business. As of December 31, 2013, we were not a party to any non-routine litigation which is expected by management to have a material effect on our results of operations, financial condition or liquidity.

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

Our common stock, par value $0.01 per share (Common Stock), is quoted and traded on the New York Stock Exchange LLC (NYSE) under the symbol UVE. Our common shares were quoted and traded on the NYSE MKT LLC (NYSE MKT) from April 30, 2007 through December 2, 2013.

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The following table sets forth prices of the Common Stock, as reported by the NYSE and NYSE MKT:

For year ended December 31, 2013	High	Low	Dividends Declared
First Quarter	$ 4.85	$ 4.32	$ 0.08
Second Quarter	$ 7.92	$ 4.88	$ 0.08
Third Quarter	$ 8.55	$ 7.05	$ 0.10
Fourth Quarter	$ 14.63	$ 6.58	$ 0.23

For year ended December 31, 2012	High	Low	Dividends Declared
First Quarter	$ 4.02	$ 3.90	$ 0.10
Second Quarter	$ 3.81	$ 3.70	$ 0.08
Third Quarter	$ 3.53	$ 3.43	$ 0.08
Fourth Quarter	$ 4.16	$ 4.04	$ 0.20

As of February 18, 2014, there were approximately 47 shareholders of record of our Common Stock.

As of December 31, 2013, there were 2 and 1 shareholders of our Series A and Series M Cumulative Convertible Preferred Stock (Preferred Stock), respectively. There were no conversions of Series A Preferred Stock during the years ended December 31, 2013 and 2012. In both 2013 and 2012, we declared and paid aggregate dividends of $20 thousand to holders of record of the Company s Series A Preferred Stock.

During the year ended December 31, 2013, shareholders converted 77,740 shares of Series M Preferred Stock into 388,700 shares of Common Stock. There were no conversions of Series M Preferred Stock in 2012. We declared and paid aggregate dividends to holders of record of the Company s Series M Preferred Stock of $9 thousand and $267 thousand for the years ended December 31, 2013 and 2012, respectively.

Applicable provisions of the Delaware General Corporation Law may affect our ability to declare and pay dividends on our Common Stock. In particular, pursuant to the Delaware General Corporation Law, a company may pay dividends out of its surplus, as defined, or out of its net profits, for the fiscal year in which the dividend is declared and/or the preceding year. Surplus is defined in the Delaware General Corporation Law to be the excess of net assets of the company over capital. Capital is defined to be the aggregate par value of shares issued. Moreover, our ability to pay dividends, if and when declared by our Board of Directors, may be restricted by regulatory limits on the amount of dividends, which the Insurance Entities are permitted to pay UIH. Section 628.371 of the Florida Statutes sets forth limitations, based on net income and statutory capital, on the amount of dividends that the Insurance Entities may pay to UIH without approval from the OIR. In addition, under the Company s revolving loan agreement and related revolving note (DB Loan) with Deutsche Bank Trust Company Americas, and the Company s unsecured term loan agreement and related term note (Term Loan) with RenaissanceRe Ventures Ltd., so long as any amounts or obligations are outstanding thereunder, UIH will be restricted from paying dividends to its shareholders if an event of default (or an event, the giving of notice of which or with the lapse of time or both, would become an event of default) is continuing at the time of and immediately after paying such dividend.

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Stock Performance Graph

The following graph compares the cumulative total stockholder return of UIH s Common Stock from December 31, 2008 through December 31, 2013 with the cumulative total return of the SNL Insurance P&C and the NYSE MKT Composite Index.

	Period Ending					
Index	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**
Universal Insurance Holdings, Inc.	100.00	271.41	240.43	190.73	261.59	918.51
SNL Insurance P&C	100.00	108.11	128.91	130.33	153.85	203.82
NYSE MKT Composite Index	100.00	135.58	170.28	180.99	192.95	205.80

SNL Insurance P&C includes all publicly traded insurance underwriters in the property and casualty sector in the United States and was prepared by SNL Financial, Charlottesville, Virginia. The graph assumes the investment of $100 in UIH s Common Stock and in each of the two indices on December 31, 2008 with all dividends being reinvested on the ex-dividend date. The closing price of UIH s Common Stock on December 31, 2013 (the last trading day of the year) was $14.48 per share. The stock price performance on the graph is not necessarily indicative of future price performance.

The stock prices used to calculate total shareholder return for UIH are based upon the prices of our common shares quoted and traded on NYSE and NYSE MKT.

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Future Dividend Policy

Future cash dividend payments are subject to business conditions, our financial position, and requirements for working capital and other corporate purposes.

Stock Repurchases

The following table provides information related to repurchases of our Common Stock during the quarter ended December 31, 2013:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
10/1/13 - 10/31/13				
11/1/13 - 11/30/13(1)	591,333	7.24		
12/1/13 - 12/31/13				
Total	591,333	$ 7.24		

(1) Includes 300,000 shares repurchased from Bradley I. Meier, the Company s Former Chairman, President and Chief Executive Officer, in a privately negotiated transaction. Also includes 291,333 shares repurchased from Norman M. Meier, the Company s former Director and Secretary. See Item 8 Note 8 (Stockholders Equity) for additional information regarding the repurchases.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in the Annual Report on Form 10-K.

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The following tables provide selected financial information as of and for the periods presented (in thousands, except per share data):

	Years Ended December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Income statement data:					
Direct premiums written	$ 783,894	$ 780,128	$ 721,462	$ 666,309	$ 562,672
Ceded premiums written	(522,116)	(517,604)	(512,979)	(466,694)	(428,384)
Net premiums written	261,778	262,524	208,483	199,615	134,288
Change in net unearned premium	5,877	(31,404)	(9,498)	(29,172)	7,366
Premiums earned, net	$ 267,655	$ 231,120	$ 198,985	$ 170,443	$ 141,654
Total revenue	$ 301,159	$ 269,939	$ 225,861	$ 239,923	$ 210,642
Total expenses	200,603	217,380	192,143	177,645	164,479
Income before income taxes	100,556	52,559	33,718	62,278	46,163
Income taxes, net	41,579	22,247	13,609	25,294	17,376
Net income and comprehensive income	$ 58,977	$ 30,312	$ 20,109	$ 36,984	$ 28,787
Earnings per share data:					
Basic earnings per common share	$ 1.64	$ 0.76	$ 0.51	$ 0.95	$ 0.76
Diluted earnings per common share	1.56	0.75	0.50	0.91	0.71
Dividends declared per common share	$ 0.49	$ 0.46	$ 0.32	$ 0.32	$ 0.54

	As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Balance sheet data:					
Total assets (1)	$ 920,090	$ 925,735	$ 894,026	$ 803,837	$ 710,679
Total liabilities (1)	744,481	762,221	744,021	664,047	597,405
Unpaid losses and loss adjustment expenses	159,222	193,241	187,215	158,929	127,198
Unearned premiums	383,488	388,071	359,842	328,334	278,371
Long-term debt	37,240	20,221	21,691	23,162	24,632
Total stockholders equity	$ 175,609	$ 163,514	$ 150,005	$ 139,790	$ 113,274

(1) Total assets and total liabilities for years 2009 and 2010 have been adjusted for a reclassification of reinsurance receivable. This adjustment had no impact on earnings or stockholders equity. The adjustments were $37.6 million and $32.4 million for 2010 and 2009, respectively.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the results of operations and financial condition of UIH. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and accompanying notes in Part II, Item 8 below.

OVERVIEW

UIH is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through our wholly-owned subsidiaries, including the Insurance Entities, we are principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Our criteria for accepting insurance risk includes, but is not limited to, common industry underwriting standards such as, defined coverage limitations on buildings and contents, and risk condition. Also, to manage exposure and risk, we utilize standard industry modeling techniques for hurricane and windstorm exposure. Our primary product is homeowners insurance, which we currently offer in seven states including Florida, which represented 93% of the 536 thousand policies-in-force as of December 31, 2013, and 96% of the 567 thousand policies-in-force as of December 31, 2012. Approximately 98% of our policies in force as of December 31, 2013 and 2012 included wind coverage.

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

	December 31, 2013	December 31, 2012
Percentage of Policies-In-Force:		
In Florida	93%	96%
With wind coverage	98%	98%
With wind coverage in South Florida (1)	27%	28%

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

We generate revenues primarily from the collection of premiums and the investment of those premiums. Other significant sources of revenue include commissions collected from reinsurers and policy fees.

Investment Portfolio

We seek to generate income through the investment activities conducted by each of the Insurance Entities and UIH. Our investment strategy is intended to support our overall business strategy and supplement income derived from our insurance underwriting activities. Thus, our operating results are dependent in part upon the results of our investment portfolio.

For the year ended December 31, 2013, we recorded $8.2 million of net losses on our trading portfolio, compared to $2.5 million and $14.5 million of net losses for the years ended December 31, 2012 and 2011, respectively. The net losses of $8.2 million recorded during 2013, were generated upon the liquidation of the trading portfolio in the first quarter of that year. As discussed under Item 1. Business Investments, during 2013, our investment committee authorized management to engage Deutsche Bank, a leading global third-party investment adviser specializing in the insurance industry, to manage our investment portfolio. Working with the investment adviser, we transitioned the composition of our portfolio to a more traditional insurance company investment portfolio which we expect will provide a more stable stream of investment income and reduce the effects of market volatility. We currently hold these investments in a portfolio available for sale with changes in fair value reflected in stockholders equity with the exception of any other than temporary impairments which are reflected in earnings.

RECENT DEVELOPMENTS

On January 2, 2014, we repurchased an additional 675,000 shares of the Company s Common Stock from Bradley I. Meier, the Company s former Chief Executive Officer, at approximately $11.11 per share, in a privately negotiated transaction. The repurchase price represents a discount from the then-current market price of UIH s common stock. The Company has a right of first refusal to purchase shares of the Company s Common Stock offered for sale by Mr. Meier through December 31, 2014.

On January 27, 2014, we announced that UPCIC has submitted applications to the respective regulatory entities in Indiana, Minnesota and Delaware in order to expand in those states.

On January 30, 2014, we declared a dividend of $0.10 per share on our outstanding common stock to be paid on March 3, 2014, to shareholders of record on February 19, 2014.

On February 24, 2014, the S&P Dow Jones Indices announced that the Company will join S&P SmallCap 600 Index after the close of trading on February 28, 2014.

Impact of new accounting pronouncement

We prospectively adopted new accounting guidance in the first quarter of 2012 related to accounting for costs associated with acquiring or renewing insurance contracts. Under the new guidance, 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 an acceleration of deferred charges in the period of adoption, which would have ultimately been recognized within a twelve-month period.

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2013-2014 Reinsurance Program

Effective June 1, 2013, we entered into multiple reinsurance agreements comprising our 2013-2014 reinsurance program.

REINSURANCE GENERALLY

In the normal course of business, we limit the maximum net loss that can arise from large risks, risks in concentrated areas of exposure and from catastrophes, such as hurricanes or other similar loss occurrences, by purchasing certain reinsurance from other insurers or reinsurers to mitigate these potential losses. Our intention is to limit our exposure and the exposure of the Insurance Entities, thereby protecting stockholders equity and the Insurance Entities capital and surplus, even in the event of catastrophic occurrences, through reinsurance agreements. Without these reinsurance agreements, the Insurance Entities would be more substantially exposed to catastrophic losses with a greater likelihood that those losses could exceed their statutory capital and surplus. Any such catastrophic event, or multiple catastrophes, could have a material adverse effect on the Insurance Entities solvency and our results of operations, financial condition and liquidity.

Below is a description of our 2013-2014 reinsurance program. Although the terms of the individual contracts vary, we believe that the overall terms of the 2013-2014 reinsurance program are more favorable than the 2012-2013 reinsurance program.

The Insurance Entities are responsible for insured losses related to catastrophic events in excess of coverage provided by their reinsurance programs. The Insurance Entities also remain responsible for insured losses notwithstanding the failure of any reinsurer to make payments otherwise due to the Insurance Entities. The Insurance Entities inability to satisfy valid insurance claims resulting from catastrophic events could have a material adverse effect on our results of operations, financial condition and liquidity.

UPCIC REINSURANCE PROGRAM

Effective June 1, 2013, UPCIC entered into two quota share reinsurance contracts, both of which provide coverage through May 31, 2014 and one of which extends and provides coverage through May 31, 2015. Under the quota share contracts, through May 31, 2014, UPCIC cedes 45% of its gross written premiums, losses and loss adjustment expenses for policies with coverage for wind risk with a ceding commission equal to 26.7% of ceded gross written premiums. In addition, the quota share contract has a limitation for any one occurrence not to exceed $125 million from losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services (PCS) office (of which UPCIC s net liability on the first $125 million of losses in a first, second and third event scenario is $27.5 million for events affecting Florida; $16.5 million in a first and second event scenario for events affecting Georgia, Maryland, Massachusetts, North Carolina and South Carolina; and $5.5 million in a first and second event scenario for events affecting Hawaii), and an aggregate limitation from losses arising out of events that are assigned a catastrophe serial number by the PCS office not to exceed $280 million. The contracts limit the amount of premium which can be deducted for inuring reinsurance.

Effective June 1, 2013 through May 31, 2014, under various excess catastrophe contracts, UPCIC obtained catastrophe coverage of 45% of $698.5 million in excess of the quota share occurrence cap of $125 million, covering certain loss occurrences including hurricanes. The catastrophe coverage has a second full limit available with additional premium calculated pro rata as to amount and 100% as to time, as applicable. Effective June 1, 2013 through May 31, 2014, under various excess catastrophe contracts, UPCIC also obtained catastrophe coverage of 55% of $773.5 million in excess of $50 million, covering certain loss occurrences including hurricanes. Of this capacity, 7.6% has two free reinstatements, 29.3% has one free reinstatement, and 63.1% has a second full limit available with additional premium calculated pro rata as to amount and 100% as to time, as applicable. For capacity with reinstatement premium, UPCIC purchased reinstatement premium protection which reimburses UPCIC for its cost to reinstate the catastrophe coverage up to the top of the estimated FHCF. The total cost of UPCIC s private catastrophe reinsurance program, effective June 1, 2013 through May 31, 2014, is $104.889 million to UPCIC and $60.781 million to the quota share reinsurers. In addition, UPCIC purchased reinstatement premium protection as described above, the cost of which is $11.511 million.

Effective June 1, 2013 through May 31, 2014, UPCIC purchased subsequent catastrophe event excess of loss reinsurance to cover certain levels of loss through three catastrophe events including hurricanes. Specifically, UPCIC obtained catastrophe coverage in two separate contracts for a third event. The first contract covers 45% of $95 million in excess of $30 million in excess of $190 million otherwise recoverable. The total cost of the first third event catastrophe excess of loss reinsurance contract is $5.567 million, of which UPCIC s cost is $0, and the quota share reinsurer s cost is the entire amount. The second contract covers 15% of $25 million in excess of $100 million in excess of $50 million otherwise recoverable. The total cost of the second third event catastrophe excess of loss reinsurance contract is $187.5 thousand, of which UPCIC is responsible for the entire amount.

Effective June 1, 2013 through May 31, 2014, UPCIC entered into a multiple line excess per risk contract with various reinsurers. Under the multiple line excess per risk contract, UPCIC obtained coverage of $1.4 million in excess of $600 thousand ultimate net loss for each risk and each property loss, and $1 million in excess of $300 thousand for each casualty loss. The contract has a limitation for any one occurrence not to exceed $1.4 million and a $7 million aggregate limit that applies to the term of the contract.

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Effective June 1, 2013 through May 31, 2014, UPCIC entered into a property per risk excess contract covering its policies that do not provide wind coverage. Under the property per risk excess contract, UPCIC obtained coverage of $350 thousand in excess of $250 thousand for each property loss. The contract has a limitation for any one occurrence not to exceed $1.050 million and a $1.750 million aggregate limit that applies to the term of the contract. The total cost of UPCIC s multiple line excess and property per risk reinsurance program, effective June 1, 2013 through May 31, 2014, is $4.450 million, of which UPCIC s cost is $2.673 million, and the quota share reinsurers cost is the remaining $1.778 million.

Effective June 1, 2013 through June 1, 2014, under an excess catastrophe contract specifically covering risks located in Georgia, Maryland, Massachusetts, North Carolina and South Carolina, UPCIC obtained catastrophe coverage consisting of three layers of 55% of $20 million in excess of $30 million, 55% of $25 million in excess of $50 million and 55% of $50 million in excess of $75 million covering certain loss occurrences including hurricanes. All three layers of coverage have a second full limit available to UPCIC with additional premium calculated pro rata as to amount and 100% as to time, as applicable. The cost of UPCIC s excess catastrophe contracts specifically covering risks in Georgia, Maryland, Massachusetts, North Carolina and South Carolina is $3.412 million.

Effective June 1, 2013 through June 1, 2014, under an excess catastrophe contract specifically covering risks located in Hawaii, UPCIC obtained catastrophe coverage of 55% of $20 million in excess of $10 million covering certain loss occurrences including hurricanes. The layer of coverage has a second full limit available to UPCIC with additional premium calculated pro rata as to amount and 100% as to time, as applicable. The cost of UPCIC s excess catastrophe contract specifically covering risks in Hawaii is $330 thousand.

UPCIC also obtained coverage from the FHCF. The approximate coverage is estimated to be 90% of $1.158 billion in excess of $423.1 million. The estimated premium that UPCIC plans to cede to the FHCF for the 2013 hurricane season is $77.993 million of which UPCIC s cost is 55%, or $42.896 million, and the quota share reinsurers cost is the remaining 45%.

The largest private participants in UPCIC s reinsurance program include leading reinsurance companies such as Odyssey Re, Everest Re, Renaissance Re and Lloyd s of London syndicates.

With the implementation of the Company s 2013-2014 reinsurance program at June 1, 2013, the Company retains a maximum pre-tax net liability of $27.5 million for the first catastrophic event up to $1.868 billion of losses relating to the UPCIC Florida program, a maximum pre-tax net liability of $16.5 million for the first catastrophic event up to $125 million of losses relating to the UPCIC Georgia, Maryland, Massachusetts, North Carolina and South Carolina program, and a maximum pre-tax net liability of $5.5 million for the first catastrophic event up to $30 million of losses relating to the UPCIC Hawaii program.

APPCIC REINSURANCE PROGRAM

Effective June 1, 2013 through May 31, 2014, under three layers in an excess catastrophe contract, APPCIC obtained catastrophe coverage of $20.250 million in excess of $2.5 million covering certain loss occurrences including hurricanes. The coverage of $20.250 million in excess of $2.5 million has a second full limit available to APPCIC; additional premium is calculated pro rata as to amount and 100% as to time, as applicable. The total cost of APPCIC s private catastrophe reinsurance program effective June 1, 2013 through May 31, 2014 is $2.763 million.

Effective June 1, 2013 through May 31, 2014, APPCIC purchased reinstatement premium protection which reimburses APPCIC for its cost to reinstate the entire $20.250 million of catastrophe coverage in one contract. The cost of APPCIC s purchased reinstatement premium protection is $388 thousand.

APPCIC also obtained coverage from the FHCF. The approximate coverage is estimated to be 90% of $39.084 million in excess of $14.276 million. The estimated premium that APPCIC plans to cede to the FHCF for the 2013 hurricane season is $2.632 million.

Effective June 1, 2013 through May 31, 2014, APPCIC entered into a multiple line excess per risk contract with various reinsurers. Under the current multiple line excess per risk contract, APPCIC has coverage of $8.7 million in excess of $300 thousand ultimate net loss for each risk and each property loss, and $1 million in excess of $300 thousand for each casualty loss. A $21.5 million aggregate limit applies to the term of the contract for property related losses and a $2 million aggregate limit applies to the term of the contract for casualty related losses.

The total cost of the APPCIC multiple line excess reinsurance program effective June 1, 2013 through May 31, 2014 is $3.3 million.

The largest private participants in APPCIC s reinsurance program include leading reinsurance companies such as ACE Tempest Re, Everest Re, Hiscox, Odyssey Re, Hannover Ruck, Amlin Bermuda and Lloyd s of London syndicates.

With the implementation of the Company s 2013-2014 reinsurance program at June 1, 2013, the Company retains a maximum pre-tax net liability of $2.5 million for the first catastrophic event up to $59.36 million of losses relating to the APPCIC program.

UIH PROGRAM

Separately from the Insurance Entities reinsurance programs, UIH protected its own assets against diminution in value due to catastrophe events by purchasing $75 million in coverage through a catastrophe risk-linked transaction contract, effective June 1, 2013 through December 31, 2013. The contract provides for recovery by UIH in the event of exhaustion of UPCIC s catastrophe coverage for the state of Florida. The total cost to UIH of the risk-linked transaction contract is $6.0 million. UIH also purchased additional coverage equivalent to $100 million in the form of insurance proceeds and forgiveness of debt through a catastrophe risk-linked transaction contract, effective June 1, 2013 through May 31, 2016. This contract also provides for recovery by UIH in the event of exhaustion of UPCIC s catastrophe coverage for the state of Florida. The total cost to UIH of this risk-linked transaction contract is $9.0 million per year for each of the three years.

Segregated Account T25

UIH owned and maintained a segregated account, Segregated Account T25 Universal Insurance Holdings of White Rock Insurance (SAC) Ltd. (T25), established in accordance with Bermuda law. As part of our overall reinsurance program, T25 at times entered into underlying excess catastrophe contracts with the Insurance Entities for the purpose of assuming certain risk for specified loss occurrences, including hurricanes. The agreements between T25 and the Insurance Entities were a cost-effective alternative to reinsurance during certain years that the Insurance Entities would otherwise purchase from third-party reinsurers. While we retained the risk that otherwise would have been transferred to third-party reinsurers, these agreements provided benefits to the Insurance Entities in no-loss years that could not have been replicated in the open reinsurance market. These benefits include the return to the Insurance Entities of a substantial portion of the earned reinsurance premiums under the contract. All the related intercompany transactions with respect to these agreements were eliminated in consolidation.

The T25 agreement effective June 1, 2012 through May 31, 2013 was terminated effective December 31, 2012, pursuant to the terms of the agreement. In connection with the termination of the agreement, the affiliates agreed to release funds held in trust due to the beneficiary (i.e., UPCIC) and the balance to the grantor (i.e., UIH) in December 2012.

We continually evaluate strategies to more effectively manage our exposure to catastrophe losses, including the maintenance of catastrophic reinsurance coverage. Effective January 1, 2013, the T25 contract was subsequently replaced, at identical limits and retentions as the prior agreement, with unaffiliated third-party reinsurers as an open market purchase. Effective January 1, 2013 through May 31, 2013, under an excess catastrophe contract, UPCIC obtained catastrophe coverage of 45% of $75 million in excess of $75 million and 55% of $105 million in excess of $45 million covering certain loss occurrences including hurricanes. The total cost of this reinsurance coverage is $2.7 million. For further discussion of risks associated with our reinsurance programs, see Item 1A. RISK FACTORS Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business.

Wind Mitigation Discounts

The insurance premiums charged by the Insurance Entities are subject to various statutory and regulatory requirements. Among these, the Insurance Entities must offer wind mitigation discounts in accordance with a program mandated by the Florida Legislature and implemented by the OIR. The level of wind mitigation discounts mandated by the Florida Legislature to be effective June 1, 2007 for new business and August 1, 2007 for renewal business have had a significant negative effect on the Insurance Entities premium.

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The following table reflects the effect of wind mitigation credits received by UPCIC s policy holders, respectively (in thousands):

Date	Reduction of in-force premium (only policies including wind coverage)			
	Percentage of UPCIC s policy holders receiving credits	Total credits	In-force premium	Percentage reduction of in-force premium
6/1/2007	1.9%	$ 6,285	$ 487,866	1.3%
12/31/2007	11.8%	$ 31,952	$ 500,136	6.0%
3/31/2008	16.9%	$ 52,398	$ 501,523	9.5%
6/30/2008	21.3%	$ 74,186	$ 508,412	12.7%
9/30/2008	27.3%	$ 97,802	$ 515,560	16.0%
12/31/2008	31.1%	$ 123,525	$ 514,011	19.4%
3/31/2009	36.3%	$ 158,230	$ 530,030	23.0%
6/30/2009	40.4%	$ 188,053	$ 544,646	25.7%
9/30/2009	43.0%	$ 210,292	$ 554,379	27.5%
12/31/2009	45.2%	$ 219,974	$ 556,557	28.3%
3/31/2010	47.8%	$ 235,718	$ 569,870	29.3%
6/30/2010	50.9%	$ 281,386	$ 620,277	31.2%
9/30/2010	52.4%	$ 291,306	$ 634,285	31.5%
12/31/2010	54.2%	$ 309,858	$ 648,408	32.3%
3/31/2011	55.8%	$ 325,511	$ 660,303	33.0%
6/30/2011	56.4%	$ 322,640	$ 673,951	32.4%
9/30/2011	57.1%	$ 324,313	$ 691,031	31.9%
12/31/2011	57.7%	$ 324,679	$ 702,905	31.6%
3/31/2012	57.9%	$ 321,016	$ 716,117	31.0%
6/30/2012	58.0%	$ 319,639	$ 722,917	30.7%
9/30/2012	58.2%	$ 329,871	$ 740,265	30.8%
12/31/2012	58.6%	$ 334,028	$ 744,435	31.0%
3/31/2013	58.6%	$ 340,778	$ 751,546	31.2%
6/30/2013	58.8%	$ 352,244	$ 747,603	32.0%
9/30/2013	59.4%	$ 362,737	$ 741,067	32.9%
12/31/2013	60.0%	$ 371,792	$ 729,675	33.8%

The following table reflects the effect of wind mitigation credits received by APPCIC s policy holders, respectively (in thousands):

Date	Reduction of in-force premium (only policies including wind coverage)			
	Percentage of	Total credits	In-force premium	Percentage reduction of in-force

	APPCIC s policy holders receiving credits			premium
12/31/2011	96.0%	$ 636	$ 554	53.4%
3/31/2012	89.4%	$ 2,270	$ 2,047	52.6%
6/30/2012	90.5%	$ 6,167	$ 5,139	54.5%
9/30/2012	94.0%	$ 12,419	$ 8,827	58.5%
12/31/2012	97.0%	$ 16,059	$ 9,874	61.9%
3/31/2013	97.3%	$ 20,156	$ 12,091	62.5%
6/30/2013	97.9%	$ 22,471	$ 13,245	62.9%
9/30/2013	98.1%	$ 20,526	$ 11,946	63.2%
12/31/2013	97.6%	$ 19,839	$ 11,484	63.3%

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Insurers like the Insurance Entities fully experience the impact of rate or discount changes more than 12 months after they are implemented because their policies renew throughout the year. Although insurers may seek to rectify any problems through subsequent rate increase filings with the OIR, there is no assurance that the OIR and the insurers will agree on the amount of rate change that is needed. In addition, any adjustments to the insurers rates similarly take more than 12 months to be fully integrated into the insurers business.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Our primary areas of estimate are described below.

Recognition of Premium Revenues. Property and liability premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. Management believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, *Revenue Recognition in Financial Statements*.

Liability for Unpaid Losses and LAE. A liability is established to provide for the estimated costs of paying losses and LAE under insurance policies the Insurance Entities have issued. Underwriting results are significantly influenced by an estimate of a liability for unpaid losses and LAE. The liability is an estimate of amounts necessary to settle all outstanding claims, including claims that have been incurred but not reported (IBNR), as of the financial statement date.

Characteristics of Reserves. Reserves are established based on estimates of the ultimate cost to settle claims, less losses that have been paid. Claims are typically reported promptly with relatively little reporting lag between the date of occurrence and the date the loss is reported. UPCIC s claim settlement data suggests that homeowners property losses have an average settlement time of less than one year, while homeowners liability losses generally take longer.

Reserves are the difference between the estimated ultimate cost of losses and LAE incurred and the amount of paid losses as of the reporting date. Reserves are estimated for both reported and unreported claims, and include estimates of all expenses associated with processing and settling all incurred claims. We update reserve estimates periodically as new information becomes available or as events emerge that may affect the resolution of unsettled claims. Changes in prior year reserve estimates (reserve re-estimates), which may be material, are determined by comparing updated estimates of ultimate losses to prior estimates, and the differences are recorded as losses and LAE in the Consolidated Statements of Income in the period such changes are determined. Estimating the ultimate cost of losses and LAE is an inherently uncertain and complex process involving a high degree of judgment and is subject to the evaluation of numerous variables.

The Actuarial Methods used to Develop Reserve Estimates. Reserves for losses and LAE are determined in four primary segments. These segments are the estimation of reserves for Florida non-catastrophe losses, hurricane losses, sinkhole losses, and non-Florida non-catastrophe losses. Evaluations are performed for loss and LAE separately, and on a net and direct basis for each segment. The analyses for non-catastrophe losses are further separated into data groupings of like exposure. These groups are property damage on homeowner policy forms HO-3 and HO-8 combined, property damage on homeowner policy forms HO-4 and HO-6 combined, dwelling fire property damage, all homeowner liability exposure, and other liability (the optional liability coverage offered to dwelling fire policyholders).

Reserve estimates for both losses and LAE are derived using several different actuarial estimation methods that are variations on one primary actuarial technique. That actuarial technique is known as a chain ladder estimation process in which historical payment and reserving patterns are applied to actual paid and reported amounts (paid losses or LAE plus individual case reserves established by claim adjusters) for an accident period to create an estimate of how losses are likely to develop over time. This technique forms the basis of the seven actuarial methods described below. An accident period refers to classifying claims based on the date in which the claims occurred, regardless of the date it was reported to the Insurance Entities. This analysis is used to prepare estimates of required reserves for payments to be made in the future. Transactions are organized into half-year accident periods for purposes of the reserve estimates. The key data elements used to determine our reserve estimates include claim counts, loss and LAE payments, case reserves, and the related development factors applicable to this data.

The first method for estimating unpaid amounts for each segment is the reported development method. This method is based upon the assumption that the relative change in a given accident period s reported loss estimates from one evaluation point to the next is similar to the relative change in prior periods reported loss estimates at similar evaluation points. In utilizing this method, actual 6-month historical loss activity is evaluated. Successive periods can be arranged to form a triangle of data. Report-to-report (RTR) development factors are calculated to measure the change in cumulative reported losses from one evaluation point to the next. These historical RTR factors form the basis for selecting the RTR factors used in projecting the current valuation of losses to an ultimate basis. In addition, a tail factor is selected to account for loss development beyond the observed experience. The tail factor is based on trends shown in the data and consideration of industry loss development benchmarks. 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 or settled.

The second method is the paid development method. This method is similar to the reported development method; however, case reserves are excluded from the analysis. While this 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. This method s implicit assumption is that the rate of payment of claims has been relatively consistent over time.

The third method is the paid development method, but performed using only the payment history of closed claims. This method is similar to the paid development method; however, payments that are made during the claims settlement process are not considered. While this method has the disadvantage of not recognizing the information provided by current case reserves or partial payments, it has the advantage of avoiding potential distortions in the data due to changes in settlement practices during the life of an active claim. This method s implicit assumption is that the rate of claims closures has been relatively consistent over time.

The fourth, fifth and sixth methods are Bornhuetter-Ferguson (B-F) methods relating to reported, paid and closed development methods discussed above. B-F methods are essentially a blend of two other methods. The first method is an expected loss method, whereby the IBNR estimate equals the difference between predetermined estimates of expected losses and actual reported losses. The second method in each case is the development method (each described above), whereby actual losses are multiplied by an expected development factor. The B-F methods combine these two methods by setting ultimate losses equal to actual reported (or paid) losses plus expected unreported (or unpaid) losses. As an experience year matures and expected unreported (or unpaid) losses become smaller, the initial expected loss assumption becomes gradually less important. This has the advantage of stability, but it does not respond to actual results as they emerge.

Two parameters are needed in each application of the B-F method: the initial expected loss ratio and the expected reporting or payment pattern. The initial expected loss ratio for each accident period other than the current year is set equal to the estimated ultimate loss ratio from the prior analysis. Initial expected loss ratios for the current year s accident periods are determined based on trends in historical ratios, rate changes, and underlying loss trends. The expected reporting pattern is based on the reported, paid, or closed claim loss development method described above. This method is often used for long-tail lines and in situations where the reported loss experience is relatively immature or lacks sufficient credibility for the application of other methods.

A seventh method, called the Reported Counts and Averages method, is utilized for the estimate of Loss Adjustment Expenses for each segment, and also for the estimation of loss and LAE reserves for sinkhole losses. In this method, an estimate of unpaid losses or expenses is determined by separately projecting ultimate reported claim counts and ultimate reported claim severities (cost per reported claim) for each accident period. Typically, loss development methods are used to project ultimate claim counts and claim severities based on historical data using the same methodology described in the reported development method above. Estimated ultimate losses are then calculated as the product of the two items. This method is intended to avoid data distortions that may exist with the other methods for the most recent years as a result of changes in case reserve levels, settlement rates and claims handling fees. In addition, it may provide insight into the drivers of loss experience. This method is only utilized for sinkhole losses due to unique settlement patterns that have emerged since the passage of legislation that codified claim settlement practices with respect to sinkhole related claims and subsequent policy form changes implemented by the Company. Claims for sinkholes are expected to be reported and settled at different rates and ultimate values than historically observed, requiring a departure from traditional development methodologies.

In selecting RTR development factors used in each method above, due consideration is given to how the RTR development factors change from one year to the next over the course of several consecutive years of recent history. In addition to paid and reported loss development triangles, various diagnostic triangles, such as triangles showing historical patterns in the ratio of paid to reported losses and closed to reported claim counts are typically prepared as a means of determining the stability of various determinants of loss development, such as consistency in claims settlement and case reserving.

The implicit assumption of these techniques is that the selected RTR factors combine to form loss development patterns that are predictive of future loss development. The effects of inflation are implicitly considered in the reserving process, the implicit assumption being that the selected development factors includes an adequate provision. Occasionally, unusual aberrations in loss patterns are caused by external and internal factors such as changes in claim reporting, settlement patterns, unusually large losses, an unusually large amount of catastrophe losses, process changes, legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors, and actuarial judgment is applied to make appropriate development factor assumptions needed to develop a best estimate of ultimate losses. Claims reported in 2013, for example, have or will benefit from several initiatives designed to expedite claim closure rates and reduce settlement costs introduced in our claims department during the last 12 months. These changes influenced development pattern selections applied to 2013 accident year claims in the reserving estimates for each of the seven methods described above.

Estimates of unpaid losses for hurricane experience are not developed using company specific development patterns, due to the relatively infrequent nature of storms and the high severity typically associated with them. Both the reported development method and the paid development method were used to estimate ultimate losses. However, the development patterns were based on industry data determined by our consulting actuary. There is an inherent assumption that relying on industry development patterns as opposed to company specific patterns produces more credible results for projecting hurricane losses.

The seven methods described above all produce an estimate of ultimate losses and LAE. Based on the results of these methods, a single estimate (commonly referred to as an actuarial point/central estimate) of the ultimate loss or LAE is selected accordingly for each accident-year claim grouping. Estimated IBNR reserves are determined by subtracting the reported loss from the selected ultimate loss, or the paid LAE from the ultimate LAE. The estimated loss IBNR reserves are added to case reserves to determine the total estimated unpaid losses. No case reserves are carried for LAE, therefore the estimated LAE IBNR reserves equal the total estimated unpaid LAE. For each segment, the reserving methods are carried out on both a net and direct basis in order to estimate liabilities accordingly. When selecting a single actuarial point/central estimate on a net basis, careful consideration is given for the reinsurance arrangements that were in place during each accident year exposure period and segment being reviewed.

How Reserve Estimates are Established and Updated. Reserve estimates are developed for both open claims and unreported claims. The actuarial methods described above are used to derive claim settlement patterns by determining development factors to be applied to specific data elements. Development factors are calculated for data elements such as claim counts reported and settled, paid losses and paid losses combined with case reserves. Historical development patterns for these data elements are used as the assumptions to calculate reserve estimates.

Often, different estimates are prepared for each detailed component, incorporating alternative analyses of changing claim settlement patterns and other influences on losses, from which a best estimate is selected for each component, occasionally incorporating additional analyses and actuarial judgment as described above. These estimates are not based on a single set of assumptions. Based on a review of these estimates, the best estimate of required reserves is recorded for each accident year and the required reserves are summed to create the reserve balance carried on the Consolidated Balance Sheets.

Reserves are re-estimated periodically by combining historical payment and reserving patterns with current actual results. When actual development of claims reported, paid losses or case reserve changes are different than the historical development pattern used in a prior period reserve estimate, and as actuarial studies validate new trends based on indications of updated development factor calculations, new ultimate loss and LAE predictions are determined. This process incorporates the historic and latest trends, and other underlying changes in the data elements used to calculate reserve estimates. The difference between indicated reserves based on new reserve estimates and the previously recorded estimate of reserves is the amount of reserve re-estimates. The resulting increase or decrease in the reserve re-estimates is recorded and included in Losses and loss adjustment expenses in the Consolidated Statements of Income. Total reserve re-estimates in 2013, 2012 and 2011, expressed as a percent of the net losses and LAE liability balance as of the beginning of each year, were (2.6%), 6.8%, and 14.4%, respectively. There are inherent uncertainties associated with this estimation process, especially for a company with limited development history. However, with the passing of each year, the Company s own historical trends have become more reliable for use in predicting future results.

Factors Affecting Reserve Estimates. Reserve estimates are developed based on the processes and historical development trends as previously described. These estimates are considered in conjunction with known facts and interpretations of circumstances and factors including our experience with similar cases, actual claims paid, differing payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. When these types of changes are experienced, actuarial judgment is applied in the determination and selection of development factors in order to better reflect new trends or expectations. For example, if a law change is expected to have a significant impact on the development of claim severity, actuarial judgment is applied to determine appropriate development factors that will most accurately reflect the expected impact on that specific estimate. This example appropriately describes the reserving methodology selection for use in estimating sinkhole liabilities after the passing of legislation, as noted above. Another example would be when a change in economic conditions is expected to affect the cost of repairs to property; actuarial judgment is applied to determine appropriate development factors to use in the reserve estimate that will most accurately reflect the expected impacts on severity development.

As claims are reported, for certain liability claims of sufficient size and complexity, the field adjusting staff establishes case reserve estimates of ultimate cost, based on their assessment of facts and circumstances related to each individual claim. For other claims which occur in large volumes and settle in a relatively short time frame, it is not practical or efficient to set case reserves for each claim, and an initial case reserve of $2,500 is set for these claims. In the normal course of business, we may also supplement our claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims.

Changes in homeowners current year claim severity are generally influenced by inflation in the cost of building materials, the cost of construction and property repair services, the cost of replacing home furnishings and other contents, the types of claims that qualify for coverage, deductibles and other economic and environmental factors. We employ various loss management programs to mitigate the effect of these factors.

Key assumptions that materially affect the estimate of the reserve for loss and LAE relate to the effects of emerging claim and coverage issues. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. Key assumptions that are premised on future emergence that are inconsistent with historical loss reserve development patterns include but are not limited to:

- adverse changes in loss cost trends, including inflationary pressures in home repair costs;
- judicial expansion of policy coverage and the impact of new theories of liability; and
- plaintiffs targeting property and casualty insurers, in purported class action litigation related to claims-handling and other practices.

As loss experience for the current year develops for each type of loss, it is monitored relative to initial assumptions until it is judged to have sufficient statistical credibility. From that point in time and forward, reserves are re-estimated using statistical actuarial processes to reflect the impact loss trends have on development factors incorporated into the actuarial estimation processes. Statistical credibility is usually achieved by the end of the first calendar year; however, when trends for the current accident year exceed initial assumptions sooner, they are usually given credibility, and reserves are adjusted accordingly.

Causes of Reserve Estimate Uncertainty. Since reserves are estimates of the unpaid portions of claims and claims expenses that have occurred, the establishment of appropriate reserves, including reserves for catastrophes, requires regular reevaluation and refinement of estimates to determine ultimate loss and LAE estimates.

At each reporting date, the highest degree of uncertainty in reserve estimates arises from claims remaining to be settled for the current accident year and the most recent preceding accident year, and claims that have occurred but have not been reported. The estimate for the current accident year contains the greatest degree of uncertainty because it contains the greatest proportion of losses that have not been reported or settled but must be estimated as of the current reporting date. During the first year after the end of an accident year, a large portion of the total losses for that accident year are settled. When accident year losses paid through the end of the first year following the initial accident year are incorporated into updated actuarial estimates, the trends inherent in the settlement of claims emerge more clearly. Consequently, this is the point in time at which the largest re-estimates of losses for an accident year can occur. After the second year, the losses paid for the accident year typically relate to claims that are more difficult to settle, such as those involving litigation.

Reserves for Catastrophe Losses. Loss and LAE reserves also include reserves for catastrophe losses. Catastrophe losses are an inherent risk of the property-casualty insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in results of operations and financial position. A catastrophe is an event that produces significant pre-tax losses before reinsurance and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, tornadoes, wildfires, tropical storms and hurricanes. The nature and level of catastrophes in any period cannot be predicted.

The estimation of claims and claims expense reserves for catastrophes also comprises estimates of losses from reported and unreported claims, primarily for damage to property. In general, estimates for catastrophe reserves are based on claim adjuster inspections and the application of historical loss development factors as described previously. However, depending on the nature of the catastrophe, as noted above, the estimation process can be further complicated. For example, for hurricanes, complications could include the inability of insureds to be able to promptly report losses, limitations placed on claims adjusting staff affecting their ability to inspect losses, determining whether losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain), or specifically excluded coverage caused by flood, estimating additional living expenses, and assessing the impact of demand surge and exposure to mold damage. The effects of numerous other considerations, include the timing of a catastrophe in relation to other events, such as at or near the end of a financial reporting period, which can affect the availability of information needed to estimate reserves for that reporting period. In these situations, practices are adapted to accommodate these circumstances in order to determine a best estimate of losses from a catastrophe.

Key Actuarial Assumptions That Affect the Loss and LAE Estimate. The aggregation of estimates for reported losses and IBNR forms the reserve liability recorded in the Consolidated Balance Sheets.

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To develop a statistical indication of potential reserve variability within reasonably likely possible outcomes, actuarial techniques are applied to the data elements for paid losses and reported losses separately for homeowners losses excluding catastrophe losses and catastrophe losses to estimate the potential variability of our reserves, within a reasonable probability of outcomes.

At any given point in time, the recorded loss reserve represents the Company s best estimate of the ultimate settlement and administration cost of 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, ultimate liability may exceed or be less than these estimates. Reserves for losses and LAE are revised as additional information becomes available, and adjustments, if any, are reflected in earnings in the periods in which they are determined.

In selecting the RTR development factors described above in the section titled *The Actuarial Methods Used to Develop Reserve Estimates*, due consideration is given to how the RTR development factors change from one year to the next over the course of several consecutive years of recent history. In addition to the loss development triangles cited above, various diagnostic triangles, such as triangles showing historical patterns in the ratio of paid to reported losses and paid to reported claim counts, are typically prepared as a means of determining the stability of various determinants of loss development, such as consistency in claims settlement and case reserving.

On an annual basis, the Company s appointed independent actuary provides a Statement of Actuarial Opinion (SAO) that certifies the carried reserves make a reasonable provision for all of the Insurance Entities unpaid loss and LAE obligations under the terms of contracts and agreements with our policyholders. The SAO is reviewed and projected ultimate losses and LAE amounts per the SAO are compared to the Company s own projection of ultimate losses and LAE to ensure that loss and LAE reserves recorded at each annual balance sheet date are based upon an analysis of all internal and external factors related to known and unknown claims against the Insurance Entities. Recorded reserves are compared to the indicated range provided in the report accompanying the SAO. At December 31, 2013, the recorded amount for net loss and LAE falls within the range determined by the appointed independent actuaries and approximates their best estimate.

Potential Reserve Estimate Variability. The methods employed by actuaries include a range of estimated unpaid losses reflecting a level of uncertainty. Projections of loss and LAE liabilities are subject to potentially large errors of estimation since the ultimate disposition of claims incurred prior to the financial statement date, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, public attitudes, and social/economic conditions such as inflation. Any estimate of future costs is subject to the inherent limitation on one s ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and LAE will vary, perhaps materially, from any estimate.

In selecting the range of reasonable estimates, the range of indications produced by the various methods is inspected, the relative strengths and weaknesses of each method are considered, and from those inputs a range of estimates can be selected. For reasons cited above, this range of estimated ultimate losses is typically smaller for older, more mature accident periods and greater for more recent, less mature accident periods. The greatest level of uncertainty is associated with the most recent accident years, and particularly years in during which catastrophe events occurred.

The inherent uncertainty associated with the Insurance Entities loss and LAE liability is magnified due to their concentration of property business in catastrophe-exposed coastal states, primarily Florida. The 2004 and 2005 hurricanes created great uncertainty in determining ultimate losses for these natural catastrophes due to issues related to applicability of deductibles, availability and cost of repair services and materials, and other factors. UPCIC experienced unanticipated unfavorable loss development on catastrophe losses from claims related to 2004 and 2005 being reopened and new claims being opened due to public adjusters encouraging policyholders to file new claims, and from homeowners association assessments related to condominium policies. Due to the inherent uncertainty, the parameters of the loss estimation methodologies are updated on an annual basis as new information emerges.

Adequacy of Reserve Estimates. We believe our net loss and LAE reserves are appropriately established based on available methodology, facts, technology, laws and regulations. We calculate and record a single best reserve estimate, in conformance with generally accepted actuarial standards, for reported losses and IBNR losses and as a result we believe no other estimate is better than our recorded amount.

We have created a proprietary claims analysis tool (P2P) to analyze and calculate reserves to supplement analysis performed by our independent actuaries. P2P is a custom built application that aggregates, analyzes and forecasts reserves based on historical data that spans more than a decade. It identifies historical claims data using same like kind and quality variables that exist in present claims and sets forth appropriate, more accurate reserves on current claims. P2P is utilized by management in reviewing the topography of existing and incoming claims. P2P is analyzed at each quarters end and adjustments to reserves are made at an aggregate level when appropriate.

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Due to the uncertainties involved, the scenarios described and quantified above are reasonably likely, but the ultimate cost of losses may vary materially from recorded amounts, which are based on our best estimates. The liability for unpaid losses and LAE at December 31, 2013 is $159.2 million.

Deferred Policy Acquisition Costs/Deferred Ceding Commissions. We incur costs in connection with the production of new and renewal insurance policies that are referred to as policy acquisition costs. Commissions and state premium taxes are costs of acquiring insurance policies that vary with, and are directly related to, the successful production of new and renewal business. These costs are deferred and amortized over the period during which the premiums are earned on the underlying policies. We collect ceding commissions from certain reinsurers in connection with our quota share reinsurance contracts. We estimate the amount of ceding commissions to be deferred on a basis consistent with the deferral of acquisition costs incurred with the production of the original policies issued and the terms of the applicable reinsurance contracts. The deferred ceding commissions are offset against the deferred policy acquisition costs with the net result presented as deferred policy acquisition costs, net on our consolidated balance sheets. As of December 31, 2013, deferred policy acquisition costs were $54.1 million and deferred ceding commissions were $38.2 million. Deferred policy acquisition costs were reduced by deferred ceding commissions and shown net on the Consolidated Balance Sheet in the amount of $15.9 million.

Provision for Premium Deficiency. Our policy is to evaluate and recognize losses on insurance contracts when estimated future claims and maintenance costs under a group of existing policy contracts will exceed anticipated future premiums and investment income. The determination of the provision for premium deficiency requires estimation of the costs of losses, catastrophic reinsurance and policy maintenance to be incurred and investment income to be earned over the remaining policy period. Management has determined that a provision for premium deficiency was not warranted as of December 31, 2013.

Reinsurance. In the normal course of business, we seek to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. While ceding premiums to reinsurers reduces our risk of exposure in the event of catastrophic losses, it also reduces our potential for greater profits in the event that such catastrophic events do not occur. We believe that the extent of our reinsurance is typical of a company of our size in the homeowners insurance industry. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreement and consistent with the establishment of our liability. The Insurance Entities reinsurance policies do not relieve them from their obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses; consequently, allowances are established for amounts deemed uncollectible. No such allowance was deemed necessary as of December 31, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements during 2013.

RELATED PARTIES

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performed certain claims adjusting work for the Insurance Entities. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, our President and Chief Executive Officer. During 2013, 2012 and 2011, we paid claims adjusting fees of $477 thousand, $623 thousand, $753 thousand, respectively, to Downes and Associates. Our agreement with Downes and Associates was terminated effective November 30, 2013 and on December 1, 2013 Dennis Downes became an employee 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, an entity affiliated with Mr. Callahan. The Company entered into the consulting agreement with SPC Global RE Advisors LLC effective June 6, 2013. During 2013, we paid consulting fees of $68 thousand to SPC Global RE Advisors LLC.

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RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2013 COMPARED TO YEAR ENDED DECEMBER 31, 2012

Net income increased by $28.7 million, or 94.6%, for the year ended December 31, 2013 reflecting an improvement in underwriting results. The improvement in underwriting results was moderately offset by a greater amount of trading portfolio losses generated as the Company liquidated its trading portfolio during the first quarter of 2013. Diluted earnings per share increased by $0.81 for the year ended December 31, 2013 compared to 2012, $0.17 of which was attributable to a reduction in shares of Common Stock outstanding as a result of UIH s repurchase of shares from Bradley Meier and Norman Meier. See Item 8 Note 8 (Stockholders Equity) and Note 13 (Earnings Per Share).

The following table summarizes the changes in each line item of our Statement of Income for the year ended December 31, 2013 compared to the year ended December 31, 2012 (in thousands):

	Year Ended December 31,		Change	
	2013	2012	$	%
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$ 783,894	$ 780,128	$ 3,766	0.5%
Ceded premiums written	(522,116)	(517,604)	(4,512)	0.9%
Net premiums written	261,778	262,524	(746)	-0.3%
Change in net unearned premium	5,877	(31,404)	37,281	NM
Premiums earned, net	267,655	231,120	36,535	15.8%
Net investment income (expense)	1,928	441	1,487	337.2%
Net realized gains (losses) on investments	(14,740)	(11,943)	(2,797)	23.4%
Net change in unrealized gains (losses) on investments	7,850	9,443	(1,593)	-16.9%
Net foreign currency gains (losses) on investments		22	(22)	-100.0%
Commission revenue	18,615	20,383	(1,768)	-8.7%
Policy fees	13,661	14,475	(814)	-5.6%
Other revenue	6,190	5,998	192	3.2%
Total premiums earned and other revenues	301,159	269,939	31,220	11.6%
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	108,615	126,187	(17,572)	-13.9%
General and administrative expenses	91,988	91,193	795	0.9%
Total operating costs and expenses	200,603	217,380	(16,777)	-7.7%
INCOME BEFORE INCOME TAXES	100,556	52,559	47,997	91.3%
Income taxes, current	34,216	18,434	15,782	85.6%
Income taxes, deferred	7,363	3,813	3,550	93.1%

Income taxes, net	41,579	22,247	19,332	86.9%
NET INCOME	$ 58,977	$ 30,312	$ 28,665	94.6%
Change in net unrealized gains (losses) on investments available for sale, net of tax	(376)			100.0%
COMPREHENSIVE INCOME	$ 58,601	$ 30,312	$ 28,665	94.6%

NM - Not meaningful.

The following discussion provides comparative information for significant changes to the components of net income and comprehensive income for 2013 compared to 2012.

Net earned premiums were $267.7 million for the year ended December 31, 2013, compared to $231.1 million for 2012. The increase in net earned premiums of $36.5 million, or 15.8% compared to the prior year, was driven primarily by an increase in direct earned premiums. The increase in direct earned premiums is due primarily to rate increases over the past 24 months. These rate increases, along with strategic initiatives we have undertaken to manage our exposure such as the decision not to renew certain policies we believe had inadequate premiums relative to projected risks and expenses, have resulted in a reduction in the number of policies in force in Florida. The benefit from the rate increases continued to be partially offset by wind mitigation credits within the state of

Florida. Ceded earned premiums remained relatively unchanged for each of the years ended December 31, 2013 and 2012 reflecting a reduction in the quota-share cession rate from 50% for the 2011-2012 reinsurance program to 45% currently in effect beginning with the 2012-2013 reinsurance program, offset by the cost of reinsurance in 2013 that replaced coverage under the T25 arrangement utilized by the Company during 2012. See the discussion above on Segregated Account T25.

Net investment income for the year ended December 31, 2013 was $1.9 million, compared to $441 thousand for the same period in the prior year. The increase in net investment income of $1.5 million reflects an increase in the amount of interest earning and dividend paying securities held in the investment portfolio partially offset by an increase in investment expenses associated with asset management fees charged by our investment advisers to manage certain segments of the available for sale portfolio. When the portfolio was classified as trading, all fees were paid in the form of commission on investment trades and reflected in net realized gains and losses on investments and changes in unrealized gains and losses on investments.

Net realized losses on investments of $14.7 million were recorded during the year ended December 31, 2013, compared to $11.9 million of net realized losses recorded in 2012. The net realized losses of $14.7 million for the year ended December 31, 2013 includes realized losses of $16.0 million recorded upon the liquidation of our trading portfolio during the first quarter of 2013 and realized gains of $1.3 million generated from the sale of securities available for sale. The realized losses for both the years ended December 31, 2013 and 2012 reflect a reduction in value of securities that were sold from our trading portfolio. We used proceeds from the liquidation of our trading portfolio, plus cash on hand, to fund a portfolio of investments available for sale.

Net changes in unrealized gains on investments of $7.9 million were recorded during the year ended December 31, 2013 compared to $9.4 million recorded during 2012. The change in unrealized gains for both periods resulted primarily from the reversal of unrealized losses on investments held at December 31, 2012 and 2011 that were subsequently sold.

Commission revenue for the year ended December 31, 2013 was $18.6 million, compared to $20.4 million for 2012. The decrease in commission revenue of $1.8 million, or 8.7%, was the result of a decrease in the cost of certain reinsurance contracts upon which brokerage commissions are earned as well as overall changes in the structure of the reinsurance programs in effect during the year ended December 31, 2013 compared to 2012.

Policy fees were $13.7 million for the year ended December 31, 2013, compared to $14.5 million for 2012. The decrease of $0.8 million, or 5.6%, reflects a reduction in the number of policies written and renewed, which we believe is primarily due to the rate increases that have taken effect, as well as the aforementioned strategic initiatives, which we believe have caused some attrition.

The net losses and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 40.6% and 54.6% during years ended December 31, 2013, and 2012, respectively, and were comprised of the following components (in thousands):

	Year ended December 31, 2013		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$ 216,852	108,237	$ 108,615
Premiums earned	$ 788,477	520,822	$ 267,655
Loss & LAE ratios	27.5%	20.8%	40.6%

	Year ended December 31, 2012		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$ 249,064	$ 122,877	$ 126,187
Premiums earned	$ 751,899	$ 520,779	$ 231,120
Loss & LAE ratios	33.1%	23.6%	54.6%

The reduction in the net losses and LAE ratio reflects an increase in net premiums earned and a decrease in losses and LAE. The increase in net earned premium is attributable to an increase in direct earned premium as described above. The decrease in losses and LAE expenses is primarily attributable to a reduction in losses and LAE for the current accident year combined with favorable development during 2013 related to prior accident years, compared to unfavorable development recorded during 2012.

General and administrative expenses were $92.0 million for the year ended December 31, 2013, compared to $91.2 million for 2012. The increase in general and administrative expenses of $0.8 million, or 0.9% was due to several offsetting factors including an increase of $3.5 million in performance bonuses, an increase of $3.9 million in amortization of deferred policy acquisition costs, an increase in stock-based compensation of $2.6 million, an increase in insurance department fines of $1.3 million and an increase of

$1.1 million in other general and administrative expenses. These increases were offset by a reduction in general and administrative expenses of $11.6 related to mandatory assessments by the FIGA. FIGA assessments are initially charged to insurance companies and ultimately recovered from policyholders. The charges of $6.3 million recorded during the year ended December 31, 2012 reflect an assessment received in the fourth quarter of 2012 followed by recoveries of $5.4 million recorded during the year ended December 31, 2013.

Income tax expense was $41.5 million for the year ended December 31, 2013, compared to $22.2 million for the same period in 2012. The increase of $19.3 million was due to an increase in taxable income. Our effective tax rate decreased slightly to 41.3% for the year ended December 31, 2013 compared to 42.3% for the same period during 2012.

Comprehensive income includes net income and other comprehensive income (loss). The other comprehensive loss of $376 thousand for the year ended December 31, 2013, reflects after-tax changes in fair value of securities held in our investment portfolio of securities available for sale net of reclassifications out of cumulative other comprehensive income (loss) for securities sold during the period. See Item 8 Note 14 (Other Comprehensive Income (Loss)). There was no other comprehensive income (loss) for the year ended December 31, 2012.

YEAR ENDED DECEMBER 31, 2012 COMPARED TO YEAR ENDED DECEMBER 31, 2011

Net income increased by $10.2 million, or 50.7%, primarily attributable to an increase in net premiums earned and improved performance in the investment portfolio, partially offset by an increase in general and administrative expenses. The increase in net premiums earned in 2012 outpaced the increase in total operating costs and expenses. The rate increases which have taken effect over the past 24 months are providing positive results that somewhat offset the negative effect of wind mitigation credits.

The following table summarizes the changes in each line item of our Statement of Income for the year ended December 31, 2012 compared to the year ended December 31, 2011 (in thousands):

	Year Ended December 31,		Change	
	2012	2011	$	%
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$ 780,128	$ 721,462	$ 58,666	8.1%
Ceded premiums written	(517,604)	(512,979)	(4,625)	0.9%
Net premiums written	262,524	208,483	54,041	25.9%
Increase in net unearned premium	(31,404)	(9,498)	(21,906)	230.6%
Premiums earned, net	231,120	198,985	32,135	16.1%
Net investment income	441	788	(347)	-44.0%
Net realized gains (losses) on investments	(11,943)	2,350	(14,293)	NM
Net change in unrealized gains (losses) on investments	9,443	(18,410)	27,853	NM
Net foreign currency gains (losses) on investments	22	1,532	(1,510)	-98.6%
Commission revenue	20,383	19,507	876	4.5%
Policy fees	14,475	15,298	(823)	-5.4%
Other revenue	5,998	5,811	187	3.2%

Total premiums earned and other revenues	269,939	225,861	44,078	19.5%
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	126,187	124,309	1,878	1.5%
General and administrative expenses	91,193	67,834	23,359	34.4%
Total operating costs and expenses	217,380	192,143	25,237	13.1%
INCOME BEFORE INCOME TAXES	52,559	33,718	18,841	55.9%
Income taxes, current	18,434	23,152	(4,718)	-20.4%
Income taxes, deferred	3,813	(9,543)	13,356	-140.0%
Income taxes, net	22,247	13,609	8,638	63.5%
NET INCOME AND COMPREHENSIVE INCOME	$ 30,312	$ 20,109	$ 10,203	50.7%

NM - Not meaningful.

The following discussion provides comparative information for significant changes to the components of net income and comprehensive income for 2012 compared to 2011.

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The increase in net earned premiums of $32.1 million, or 16.1% compared to the prior year, reflects an increase in direct earned premiums of $61.9 million partially offset by an increase in ceded earned premiums of $29.8 million. The increase in direct earned premiums is due primarily to rate increases over the past 24 months. These rate increases, along with strategic initiatives we have undertaken to manage our exposure such as the decision not to renew certain policies we believe have inadequate premiums relative to projected risks and expenses, have resulted in a moderate reduction in the number of policies in force even as the amount of direct written premiums have increased. The benefit from the rate increases continued to be partially offset by wind mitigation credits within the state of Florida. The increase in ceded earned premiums of $29.8 million is attributable to an increase in quota-share ceded premiums in proportion to the growth in direct written premiums, a $5.4 million increase related to the settlement of a dispute with our predecessor quota-share reinsurer and $4.4 million in 2012 relating to an underlying property catastrophe excess of loss reinsurance contract with an unaffiliated third-party reinsurer that did not exist during 2011. The after-tax effect of the settlement with our predecessor quota share reinsurer was $0.08 per diluted share. These increases were partially offset by a reduction in the quota-share cession rate from 50% for the 2011-2012 reinsurance program to 45% for the 2012-2013 reinsurance program.

The reduction in net investment income reflects a reduction in the amount of interest earning securities held in the investment portfolio and non-recurring charges for investment accounting services as we converted to a new investment accounting service provider.

Net realized losses on investments of $11.9 million recorded during the year ended December 31, 2012 reflect loss in value of investments sold during the period. The majority of realized losses recorded during the year ended December 31, 2012 were in the metals and mining sector.

We hold debt and equity securities, derivatives and other investments in our trading portfolio. All unrealized gains and losses on investments in our trading portfolio are reflected in earnings. Unrealized gains and losses reflect the change in value during the period for investments held in our trading portfolio, including the reversal of unrealized gains and losses recorded when investments are sold. We recorded net unrealized gains of $9.4 million during the year ended December 31, 2012, the majority of which represent the reversal of unrealized losses for investments sold during 2012.

Commission revenue is comprised principally of brokerage commission we earn from reinsurers. The increase in commission revenue of $876 thousand is due to an increase in ceded earned premium for the reinsurance contract periods that were in effect during the year ended December 31, 2012 as compared to the same period in 2011.

Policy fees are comprised primarily of the managing general agent s policy fee income from insurance policies. The decrease of $823 thousand reflects a reduction in the number of policies written and renewed primarily due to the rate increases that have taken effect, which has caused some attrition.

The increase in net losses and loss adjustment expenses of $1.9 million reflects an increase in the amount of charges incurred for the current accident year of $6.6 million, offset by a reduction in the amount of prior year development (also known as reserve re-estimates) recorded in the current year of $4.7 million. The increase in current year charges was heavily influenced by losses and loss adjustment expenses related to Tropical Storm/Hurricane Isaac and Tropical Storm Debby.

The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 54.6% and 62.5% during years ended December 31, 2012, and 2011, respectively, and were comprised of the following components (in thousands):

	Year ended December 31, 2012		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$ 249,064	$ 122,877	$ 126,187
Premiums earned	$ 751,899	$ 520,779	$ 231,120
Loss & LAE ratios	33.1%	23.6%	54.6%

	Year ended December 31, 2011		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$ 245,335	$ 121,026	$ 124,309
Premiums earned	$ 689,955	$ 490,970	$ 198,985
Loss & LAE ratios	35.6%	24.7%	62.5%

The reduction in the net loss and LAE ratio is mostly the result of a decrease in the relative and absolute amounts of prior years development recorded in the current year. The ratio also decreased as a result of an increase in net premiums earned relating to an increase in direct premiums earned as well as proportionately less ceded premiums earned due to the lower cession rate under the 2012-2013 quota share reinsurance contract compared to the cession rate under the 2011-2012 quota share contract.

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The increase in general and administrative expenses of $23.4 million was due to several factors including $10.8 million of charges related to net deferred policy acquisition costs. The reduction in the amount of ceding commissions received from the quota share reinsurer under the 2012-2013 reinsurance program, effectively increased the amount of net deferred policy acquisition costs and related amortization. In addition, we are charging certain costs directly to earnings that were previously capitalized under the superseded FASB guidance which governed how we accounted for deferred policy acquisition costs until January 1, 2012. Charges of $6.3 million were recorded in the latter part of 2012 as a result of a mandatory assessment by the Florida Insurance Guaranty Association (FIGA). FIGA assessments are ultimately passed down to policyholders. We will recover these charges over a twelve-month period beginning February 1, 2013. There were also increases in salaries, bonuses, stock-based compensation and insurance, of $1.6 million, $1.6 million, $1.0 million and $2.5 million, respectively offset partially by a decrease in insurance department fees of $1.0 million.

Income tax expense increased in tandem with the increase in taxable income. Our effective tax rate increased to 42.3% for the year ended December 31, 2012 compared to 40.4% for the same period during 2011 primarily as a result of a change in the mix of true-ups recorded upon the completion of prior years tax returns and estimated penalties and interest for current year underpayment of estimated taxes. There was also an increase in the amount of non-deductible compensation which increased the effective tax rate.

ANALYSIS OF FINANCIAL CONDITION CHANGES

We believe that cash flows generated from operations will be sufficient to meet our working capital requirements for at least the next twelve months. Our policy is to invest amounts considered to be in excess of current working capital requirements.

The following table summarizes, by type, the carrying values of investments as of the periods presented (in thousands):

	As of December 31,	
Type of Investment	2013	2012
Cash and cash equivalents	$ 117,275	$ 347,392
Restricted cash and cash equivalents	2,600	33,009
Fixed maturities	289,418	4,009
Equity securities	65,022	85,041
Non-hedging derivative asset (liability), net		(21)
Other investments		317
Total	$ 474,315	$ 469,747

During the first quarter of 2013, we liquidated our trading portfolio and reinvested proceeds and excess cash in a portfolio of securities available for sale.

Reinsurance recoverable represents ceded losses and LAE. The increase of $18.7 million reflects the timing of settlement payments with reinsurers.

Reinsurance receivable, net, represents inuring premiums receivable, net of ceded premiums payable with our quota share reinsurer. The decrease of $24.1 million during 2013 was due to the timing of settlements of offsetting balances with our quota-share reinsurers.

Premiums receivable represent amounts due from policyholders. The decrease of $3.7 million during 2013, to $46.5 million, reflects a greater volume of collections in December of 2013 compared to December of 2012.

See Item 8 Note 5 (Insurance Operations), for a roll-forward in the balance of our deferred policy acquisition costs.

Our income taxes recoverable as of December 31, 2013 were $8.2 million compared to $2.6 million as of December 31, 2012. The majority of the increase reflects a recoverable recorded for realized losses generated upon the liquidation of our trading portfolio during the first quarter of 2013, which will be carried back and applied to realized gains generated in previous tax years for federal income taxes.

See Item 8 Note 12 (Income Taxes) for a schedule of deferred income taxes as of December 31, 2013 and 2012, which shows the components of deferred tax assets and liabilities as of both balance sheet dates.

See below for a discussion of the changes in the balance of our unpaid losses and LAE.

Advance premium represents premium payments made by policyholders ahead of the effective date of the policies. The increase of $7.9 million to $22.9 million reflects an increase in renewals taking place subsequent to year end for 2013 compared to 2012 combined with rate increases that went into effect during 2013.

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Income taxes payable represents amounts payable for state income taxes which increased by $1.8 million to $2.5 million. This reflects an increase in taxable income for state income tax purposes.

Long-term debt consists of a surplus note, a term loan and any amounts drawn upon an unsecured line of credit. The increase of $17.0 million to $37.2 million as of December 31, 2013 was associated with the Company entering into a $20 million unsecured term loan agreement and related term note. See Item 8 Note 7 (Long-Term Debt). There were no amounts drawn under the unsecured line of credit as of December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity is a measure of a company s ability to generate sufficient cash flows to meet its short and long-term obligations. Funds generated from operations have generally been sufficient to meet liquidity requirements and we expect that in the future funds from operations will continue to meet such requirements.

The balance of cash and cash equivalents as of December 31, 2013 was $117.3 million. Most of this amount is available to pay claims in the event of a catastrophic event pending reimbursement amounts recoverable under reinsurance agreements.

The balance of restricted cash and cash equivalents as of December 31, 2013 was $2.6 million. Restricted cash as of December 31, 2013 represents cash equivalents on deposit with regulatory agencies in the various states in which our Insurance Entities do business.

As discussed in Item 8 Note 7 (Long-Term Debt) , UIH entered into a revolving loan agreement and related revolving note (DB Loan) with Deutsche Bank in March 2013. The DB Loan makes available to UIH an unsecured line of credit in an aggregate amount not to exceed $10 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 certain covenants and restrictions applicable while amounts or obligations are outstanding thereunder, including limitations with respect to our indebtedness, liens, distributions, mergers or dispositions of assets, organizational structure, transactions with affiliates and business activities. We have not drawn any amounts under the unsecured line of credit.

In May 2013, UIH also entered into a $20 million unsecured term loan agreement and related term note (Term Loan) with RenaissanceRe Ventures Ltd. (RenRe Ventures) also discussed in Item 8 Note 7 (Long-Term Debt) . 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. The Term loan contains certain covenants and restrictions applicable while amounts or obligations are outstanding thereunder, including limitations with respect to our indebtedness, liens, distributions, mergers or dispositions of assets, organizational structure, transactions with affiliates and business activities. The Company used the net proceeds of the Term Loan to repurchase 4,666,000 shares of common stock owned by Mr. Bradley Meier.

UIH s liquidity requirements primarily include the payment of dividends to shareholders, federal and state income taxes and interest and principal on debt obligations. The declaration and payment of future dividends to shareholders are at the discretion of our Board of Directors and will depend upon many factors, including our operating results, financial condition, capital requirements and any regulatory constraints.

The maximum amount of dividends which can be paid by Florida insurance companies without prior approval of the Commissioner of the OIR is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by the Insurance Entities to UIH without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or statutory unassigned surplus as of the preceding year end. During the years ended December 31, 2013 and 2012, the Insurance Entities did not pay dividends to UIH.

Our insurance operations provide liquidity in that premiums are generally received months or even years before losses are paid under the policies sold by the Insurance Entities. Historically, cash receipts from operations, consisting of insurance premiums, ceded and brokerage commissions, policy fees and investment income, have provided more than sufficient funds to pay loss claims and operating expenses. We maintain substantial investments in highly liquid, marketable securities. Liquidity can also be generated by funds received upon the sale of marketable securities in our investment portfolio.

The Insurance Entities are responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by our reinsurance programs and for losses that otherwise are not covered by the reinsurance programs, which could have a material adverse effect on the Insurance Entities and our business, financial condition, results of operations and liquidity. See ***Item 7. Management s Discussion of Financial Condition and Results of Operations 2013-2014 Reinsurance Program*** for a discussion of our reinsurance programs.

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Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks and facilitate continued business growth. At December 31, 2013, we had total capital of $212.8 million comprised of shareholders equity of $175.6 million and total debt of $37.2 million. Our debt to total capital ratio and debt to equity ratio were 17.5% and 21.2%, respectively at December 31, 2013. At December 31, 2012, we had total capital of $183.7 million comprised of shareholders equity of $163.5 million and total debt of $20.2 million. Our debt to total capital ratio and debt to equity ratio were 11.0% and 12.4%, respectively at December 31, 2012.

The Insurance Entities are required annually to comply with the NAIC Risk-Based Capital (RBC) requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC s RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2013, based on calculations using the appropriate NAIC RBC formula, the Insurance Entities reported total adjusted capital was in excess of the requirements. Failure by the Insurance Entities to maintain the required level of statutory capital and surplus could result in the suspension of their authority to write new or renewal business, other regulatory actions, or ultimately, in the revocation of their certificate of authority by the OIR.

On November 9, 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration (SBA) under Florida s Insurance Capital Build-Up Incentive Program (ICBUI). The surplus note has a twenty-year term and accrues interest, adjusted quarterly based on the 10-year Constant Maturity Treasury Index. For the first three years of the term of the surplus note, UPCIC was required to pay interest only.

In May 2008, the Florida Legislature passed a law providing participants in the ICBUI an opportunity to amend the terms of their surplus notes based on law changes. The new law contains methods for calculating compliance with the writing ratio requirements that are more favorable to UPCIC than prior law and the prior terms of the surplus note. On November 6, 2008, UPCIC and the SBA executed an addendum to the surplus note that reflects these law changes. The terms of the addendum were effective July 1, 2008. In addition to other less significant changes, the addendum modifies the definitions of Minimum Required Surplus, Minimum Writing Ratio, Surplus, and Gross Written Premium, as defined in the original surplus note.

Prior to the execution of the addendum, UPCIC was in compliance with each of the loan s covenants as implemented by rules promulgated by the SBA. UPCIC currently remains in compliance with each of the loan s covenants as implemented by rules promulgated by the SBA. An event of default will occur under the surplus note, as amended, if UPCIC: (i) defaults in the payment of the surplus note; (ii) fails to submit quarterly filings to the OIR; (iii) fails to maintain at least $50 million of surplus during the term of the surplus note, except for certain situations; (iv) misuses proceeds of the surplus note; (v) makes any misrepresentations in the application for the program; (vi) pays any dividend when principal or interest payments are past due under the surplus note; or (vii) fails to maintain a level of surplus and reinsurance sufficient to cover in excess of UPCIC s 1-in-100 year probable maximum loss as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology as certified by the OIR annually. Further, UPCIC will be subject to increases in interest rates if it drops below a net written premium to surplus of 1:1 below a gross written premium to surplus ratio of 3:1 for three consecutive quarters beginning January 1, 2010. As of December 31, 2013, UPCIC s net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC is not subject to increases in interest rates.

On December 14, 2012, we filed a shelf registration statement on Form S-3 with the SEC, registering (i) for issuance up to $100 million of Common Stock, preferred stock, debt securities, warrants, rights or depositary shares, or units consisting of any combination thereof and (ii) for resale up to 7 million shares of Common Stock owned by our former Chairman, President and Chief Executive Officer, Bradley I. Meier. The shelf registration statement is intended to give UIH additional flexibility to finance future business opportunities and support our insurance subsidiaries by accessing the capital markets in an efficient and cost effective manner. However, we have no present intention of offering any securities pursuant to this registration statement. We will not receive any proceeds from the sale of shares of Common Stock by Mr. Meier.

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Liability for Unpaid Losses and LAE

We are required to periodically estimate and reflect on our balance sheet the amount needed to pay losses and related loss adjustment expenses on reported and unreported claims. See Item 1, Business Liability for Unpaid Losses and LAE for a description of this process. The following table sets forth a reconciliation of beginning and ending liability for unpaid losses and LAE as shown in our consolidated financial statements for the periods indicated (in thousands):

	Year Ended December 31,	
	2013	2012
Balance at beginning of year	$ 193,241	$ 187,215
Less reinsurance recoverable	(81,415)	(88,002)
Net balance at beginning of year	111,826	99,213
Incurred related to:		
Current year	111,560	119,458
Prior years	(2,945)	6,729
Total incurred	108,615	126,187
Paid related to:		
Current year	62,529	54,141
Prior years	67,274	59,433
Total paid	129,803	113,574
Net balance at end of year	90,638	111,826
Plus reinsurance recoverable	68,584	81,415
Balance at end of year	$ 159,222	$ 193,241

Based upon consultations with our independent actuarial consultants and their statement of opinion on losses and LAE, we believe that the liability for unpaid losses and LAE is currently adequate to cover all claims and related expenses which may arise from incidents reported and IBNR. Favorable development for 2013 was primarily the result of loss settlements lower than anticipated on 2004 and 2005 catastrophe claims which were recognized during the calendar year, and favorable development of accident year 2011 and 2012 non-catastrophe loss estimates which were recognized at year end 2013 after a detailed actuarial analysis. Favorable reserve development in 2013 was somewhat offset by increases in loss adjustment expense estimates on non-catastrophe claims for 2010 through 2012 accident years that were recognized at year end.

The following table provides total unpaid loss and LAE, net of related reinsurance recoverables (in thousands):

	Years Ended December 31,	
	2013	2012
Unpaid Loss and LAE, net	$ 28,230	$ 33,661
IBNR loss and LAE, net	62,408	78,165

Total unpaid loss and LAE, net	$ 90,638	$ 111,826
Reinsurance recoverable on unpaid loss and LAE	$ 24,421	$ 29,013
Reinsurance recoverable on IBNR loss and LAE	44,163	52,402
Total reinsurance recoverable on unpaid loss and LAE	$ 68,584	$ 81,415

The table below illustrates the change over time of the direct reserves established for unpaid losses and LAE for the Insurance Entities (Liability for Unpaid Losses and LAE re-estimates) at the end of the last ten calendar years through December 31, 2012 (in thousands):

The first section shows the liability for unpaid losses and LAE as originally reported at the end of the stated year.

The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability.

The third section, reading down, shows retroactive re-estimates of the original recorded reserve as of the end of each successive year which is the result of our expanded awareness of additional facts and circumstances that pertain to the unsettled claims.

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The last section compares the latest re-estimated reserve to the reserve originally established, and indicates whether the original reserve was adequate to cover the estimated costs of unsettled claims.

The Liability for Unpaid Losses and LAE re-estimates tables are cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Unfavorable reserve re-estimates are shown in parentheses.

	Years Ended December 31,										
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
alance heet iability	159,222	193,241	187,215	158,929	127,195	87,933	68,766	49,454	66,855	57,561	7,136
umulative aid as of:											
ne year ter		127,664	125,735	107,091	88,363	70,058	52,638	42,533	79,226	66,020	3,660
wo years ter			175,256	149,494	122,459	91,255	71,171	54,774	103,201	80,684	4,742
hree ears later				176,730	142,049	106,011	78,284	64,732	111,610	92,262	5,198
our years ter					154,448	114,609	86,197	69,212	118,312	94,705	5,994
ve years ter						120,312	89,460	73,878	122,377	97,367	6,259
x years ter							91,879	76,172	126,831	98,828	6,431
even ears later								77,303	128,809	101,029	6,458
ight years ter									129,299	101,907	6,473
ine years ter										101,483	6,478
en years ter											6,478
alance heet iability	159,222	193,241	187,215	158,929	127,195	87,933	68,766	49,454	66,855	57,561	7,136
ne year ter		198,771	206,655	181,207	143,037	107,670	80,081	68,107	118,686	74,207	6,375
wo years ter			221,097	194,786	157,604	115,541	87,261	69,647	125,067	95,373	5,871
hree ears later				204,998	166,189	122,050	90,881	73,650	124,039	101,312	6,398
our years ter					170,224	126,905	94,275	77,846	125,210	100,945	6,933
ve years ter						127,690	95,545	78,891	129,916	101,571	7,170

x years ter						94,732	79,214	130,865	101,419	7,320
even ears later							78,378	130,894	102,434	7,267
ight years ter								129,891	102,723	7,280
ine years ter									102,310	6,627
en years ter										6,752
ross cumulative dundancy leficiency)	(5,530)	(33,882)	(46,069)	(43,029)	(39,757)	(25,966)	(28,924)	(63,036)	(44,749)	384

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The following Liability for Unpaid Losses and LAE re-estimates table illustrates the change over time of the reserves, net of reinsurance with separate disclosure of the related re-estimated reinsurance recoverable, established for unpaid losses and LAE for the Insurance Entities at the end of the last eleven calendar years through December 31, 2013 (in thousands):

	Years Ended December 31,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
for Unpaid AE	159,222	193,241	187,215	158,929	127,195	87,933	68,766	49,454	66,855	57,561
	68,584	81,415	88,002	79,115	62,899	43,375	37,557	32,314	60,785	56,110
for Unpaid AE	90,638	111,826	99,213	79,814	64,296	44,558	31,209	17,140	6,070	1,451
aid as of:										
r		67,222	59,228	54,056	43,859	34,168	23,698	20,026	12,813	1,117
er			83,538	71,079	60,917	44,011	31,737	23,354	23,725	11,331
ater				84,237	66,619	51,090	34,457	26,945	25,388	21,569
er					72,404	51,690	38,160	28,573	27,909	22,944
er						54,104	36,837	30,659	29,365	25,269
r							37,694	28,866	31,356	26,543
ater								29,126	29,445	28,502
ter									29,421	28,752
er										28,646
r										
for Unpaid AE	90,638	111,826	99,213	79,814	64,296	44,558	31,209	17,140	6,070	1,451
r		108,826	105,942	91,280	70,482	53,233	37,576	29,196	25,261	4,191
er			109,514	95,265	78,102	55,027	39,958	30,528	30,932	22,727
ter				98,765	79,641	58,488	39,468	31,319	31,165	28,226
er					80,519	58,548	41,376	31,355	31,476	28,579
er						58,025	40,414	32,232	31,657	28,656
r							39,250	30,891	32,473	28,648
ater								29,775	31,082	29,449
ter									29,842	29,501
er										28,963
r										
ve redundancy		3,000	(10,301)	(18,951)	(16,223)	(13,467)	(8,041)	(12,635)	(23,772)	(27,512
		2.7%	-10.4%	-23.7%	-25.2%	-30.2%	-25.8%	-73.7%	-391.6%	-1896.1
mated st		198,771	221,097	204,998	170,224	127,690	94,732	78,378	129,891	102,310
Recovery-Latest		89,945	111,583	106,233	89,705	69,665	55,482	48,603	100,049	73,347
ated Liability-Latest		108,826	109,514	98,765	80,519	58,025	39,250	29,775	29,842	28,963
tive redundancy		(5,530)	(33,882)	(46,069)	(43,029)	(39,757)	(25,966)	(28,924)	(63,036)	(44,749

The cumulative redundancy or deficiency represents the aggregate change in the estimates over all prior years. A deficiency indicates that the latest estimate of the liability for losses and LAE is higher than the liability that was originally estimated and a redundancy indicates that such estimate is lower. It should be emphasized 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.

Underwriting results of insurance companies are frequently measured by their combined ratios, which is the sum of the loss and expense ratios described in the following paragraph. However, investment income, federal income taxes and other non-underwriting income or expense are not reflected in the combined ratio. The profitability of property and casualty insurance companies depends on income from underwriting, investment and service operations. Underwriting results are considered profitable when the combined ratio is under 100% and unprofitable when the combined ratio is over 100%.

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The following table provides the statutory loss ratios, expense ratios and combined ratios for the periods indicated for the Insurance Entities:

	Years Ended December 31, 2013	2012
Loss Ratio (1)		
UPCIC	46%	65%
APPCIC	46%	23%
Expense Ratio (1)		
UPCIC	39%	39%
APPCIC	159%	32%
Combined Ratio (1)		
UPCIC	85%	104%
APPCIC	205%	55%

(1) The ratios are net of reinsurance, including catastrophe reinsurance premiums which comprise a significant cost, and inclusive of LAE. The expense ratios include management fees and commission paid to an affiliate of the Insurance Entities in the amount of $66.3 million and $63.8 million for UPCIC for the years ended December 31, 2013 and 2012, respectively and $1.1 million and $473 thousand for the years ended December 31, 2013 and 2012, respectively for APPCIC. The fees and commission paid to the affiliate are eliminated in consolidation.

In the case of APPCIC, the expense ratio has increased as a result of a decrease in net written premium. The policies-in-force were less than 1% of the Company s total policies-in-force at that time.

In order to reduce losses and thereby reduce the loss ratio and the combined ratio, we have taken several steps. These steps include closely monitoring rate levels for new and renewal business, restructuring the homeowners insurance coverage offered, reducing the cost of catastrophic reinsurance coverage, and working to reduce general and administrative expenses.

Ratings

The Insurance Entities financial strength is rated by a rating agency to measure the Insurance Entities ability to meet its financial obligations to its policyholders. The agency maintains a letter scale Financial Stability Rating® system ranging from A (A double prime) to L (licensed by state regulatory authorities).

On November 26, 2013, Demotech, Inc. affirmed the Financial Stability Rating® of A for the Insurance Entities. A Financial Stability Rating® of A is the third highest of six possible rating levels. According to Demotech, Inc., the affirmation represents a company s continued positive surplus related to policyholders, liquidity of invested assets, an acceptable level of financial leverage, reasonable loss and loss adjustment expense reserves, and realistic pricing. The ratings of the Insurance Entities are subject to at least annual review by Demotech, Inc., and may be revised upward or downward or revoked at the sole discretion of Demotech, Inc. Ratings are an important factor in establishing our competitive position in the insurance markets. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed. A downgrade in our financial strength ratings could adversely affect the competitive position of our insurance operations, including a possible reduction in demand for our products in certain markets. In addition, the rating agency may at any time require a capital infusion into the Insurance Entities by its parent company in order to maintain its rating, which may adversely affect our liquidity, operating results and financial condition. See Item 1A-A downgrade in our Financial Stability Rating® may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition.

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Contractual Obligations

The following table represents our contractual obligations for which cash flows are fixed or determinable (in thousands):

	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Unpaid losses and LAE, direct	$ 159,222	$ 80,725	$ 51,269	$ 18,311	$ 8,917
Long-term debt	42,173	7,567	17,910	3,650	13,046
Operating leases	1,002	882	120		
Employment Agreements (1)	19,688	12,721	6,967		
Total contractual obligations	$ 222,085	$ 101,895	$ 76,266	$ 21,961	$ 21,963

(1) These amounts represent minimum salaries, which may be subject to annual percentage increases, non-equity incentive compensation based on pre-tax or net income levels, and fringe benefits based on the remaining term of employment agreements we have with our executives. These amounts do not reflect equity awards of approximately 1.5 million shares of restricted common stock to be granted to executives in 2014 and 2015 under their employment agreements.

Table above does not reflect awards to be granted to executives in 2014 and 2015 under their employment agreements which are approximately 1.5 million restricted shares.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. Our primary assets are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of the general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the cost of paying losses and LAE.

Insurance premiums are established before we know the amount of loss and LAE and the extent to which inflation may affect such expenses. Consequently, we attempt to anticipate the future impact of inflation when establishing rate levels. While we attempt to charge adequate rates, we may be limited in raising its premium levels for competitive and regulatory reasons. Inflation also affects the market value of our investment portfolio and the investment rate of return. Any future economic changes which result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred loss and LAE and thereby materially adversely affect future liability requirements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential for economic losses due to adverse changes in fair value of financial instruments. We carry all of our investments at market value in our statement of financial condition. Our investment portfolio as of December 31, 2013, is comprised of fixed maturities and equity securities exposing us to changes in interest rates and equity prices. See Item 8 Note 3 (Investments) for a schedule of investment holdings as of December 31, 2013 and December 31, 2012. To a lesser extent, we also have exposure on our adjustable rate debt obligations which are in the form of a surplus note, and on any amounts we draw under our unsecured line of credit with Deutsche Bank. The surplus note accrues interest at an adjustable rate based on the 10-year Constant Maturity Treasury rate. Draws under our unsecured line of credit with Deutsche Bank accrue interest at a rate based on LIBOR or Deutsche Bank s prime rate plus an applicable margin.

Our investments have been, and may in the future be, subject to significant volatility. We have taken steps which we expect will reduce the effects of market volatility by liquidating the investments held in our trading portfolio. We now maintain an investment portfolio of securities available for sale which we expect will provide a stable stream of investment income and reduce the effects of market volatility. Our investment objectives with respect to fixed maturities are to maximize after-tax investment income without exposing the surplus of our Insurance Entities to excessive volatility. Our investment objectives with respect to equity securities are to enhance our long term surplus levels through capital appreciation and earn a competitive rate of total return against appropriate market benchmarks.

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Interest Rate Risk

Interest rate risk includes the sensitivity of a fixed-rate instrument to changes in interest rates. When interest rates rise, the fair value of our fixed-rate investment securities declines.

The following table provides information about our fixed maturity investments, which are sensitive to changes in interest rates. The following table provides cash flows of principal amounts and related weighted average interest rates by expected maturity dates for investments held as of the periods presented (in thousands):

	As of December 31, 2013								
	Amortized Cost								Fair Value
	2014	2015	2016	2017	2018	Thereafter	Other (1)	Total	Total
Fixed maturities	$ 3,827	$ 47,366	$ 62,287	$ 27,668	$ 54,201	$ 4,588	$ 91,502	$ 291,439	$ 289,418
Average interest rate	7.43%	1.16%	1.29%	3.88%	1.79%	1.97%	1.73%	1.84%	1.83%

(1) Comprised of mortgage-backed and asset-backed securities which have multiple maturity dates and are presented separately for the purposes of this table.

	As of December 31, 2012							
	Amortized Cost							Fair Value
	2013	2014	2015	2016	2017	Thereafter	Total	Total
Fixed maturities		$ 35	$ 143			$ 3,014	$ 3,192	$ 4,009
Average interest rate		0.25%	1.25%			1.85%	1.81%	1.82%

The tables represent average contract rates which differ from the book yield of the fixed maturities. The fixed maturity investments in our available for sale portfolio are comprised of United States government and agency securities, corporate bonds and mortgage-backed and asset-backed securities. United States government and agency securities are rated Aaa by Moody s Investors Service, Inc., and AA+ by Standard and Poor s Rating Services. The corporate bonds and mortgage-backed and asset-backed securities are investment-grade and have various ratings. In order for positions to be deemed investment-grade, they must carry a rating of Baa3 or higher by Moody s Investors Service, Inc. and BBB or higher by Standard and Poor s Rating Services.

Equity and Commodity Price Risk

Equity and commodity price risk is the potential for loss in fair value of investments in common stock, exchange traded funds (ETF), and mutual funds from adverse changes in the prices of those instruments.

The following table provides information about the investments in our trading portfolio subject to price risk as of the periods presented (in thousands).

	As of December 31, 2013		As of December 31, 2012	
	Fair Value	Percent	Fair Value	Percent
Common stock	$ 4,754	7.3%	$ 45,214	53.0%
Exchange-traded and mutual funds	60,268	92.7%	39,827	46.7%
Non-hedging derivative asset (liability), net			(21)	0.0%
Other investments (1)			317	0.4%
Total equities securities	$ 65,022	100.0%	$ 85,337	100.0%

(1) Other investments represent physical metals that we held in our trading portfolio.

A hypothetical decrease of 20% in the market prices of each of the equity and commodity securities held at December 31, 2013 and 2012 would have resulted in a decrease of $13.0 million and $17.1 million, respectively, in the fair value of the equity securities portfolio.

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Item 8. Financial Statements and supplementary data

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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 audited the accompanying consolidated balance sheets of **Universal Insurance Holdings, Inc. and Subsidiaries** (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows for the years then ended. We also have audited the Company s internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 *Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. The Company s management is responsible for these consolidated financial statements, 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 these consolidated financial statements and an opinion on the Company s internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Universal Insurance Holdings, Inc. and Subsidiaries** as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in the 1992 *Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

/s/ Plante & Moran, PLLC

Chicago, Illinois

March 3, 2014

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Report of Independent Registered Public Accounting Firm

Board of Directors

Universal Insurance Holdings, Inc.

Fort Lauderdale, Florida

We have audited the accompanying consolidated statements of income, stockholders equity and cash flows of **Universal Insurance Holdings, Inc. and Subsidiaries** (the Company) for the year ended December 31, 2011. The Company s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements 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 the financial statements are free of material misstatement. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of **Universal Insurance Holdings, Inc. and Subsidiaries** for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ Blackman Kallick, LLP

Chicago, Illinois

March 23, 2012

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	December 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 117,275	$ 347,392
Restricted cash and cash equivalents	2,600	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	289,418	
Equity securities (available for sale), at fair value	65,022	
Prepaid reinsurance premiums	241,214	239,921
Reinsurance recoverable	107,847	89,191
Reinsurance receivable, net	203	24,334
Premiums receivable, net	46,461	50,125
Receivable from securities sold		1,096
Other receivables	2,587	2,017
Property and equipment, net	9,289	8,968
Deferred policy acquisition costs, net	15,899	17,282
Income taxes recoverable	8,152	2,594
Deferred income tax asset, net	12,051	19,178
Other assets	2,072	1,578
Total assets	$ 920,090	$ 925,735
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 159,222	$ 193,241
Unearned premiums	383,488	388,071
Advance premium	22,959	15,022
Accounts payable	3,441	4,368
Book overdraft	14,947	25,994
Payable for securities purchased		1,275
Reinsurance payable, net	86,232	85,259
Income taxes payable	2,566	699
Other liabilities and accrued expenses	34,386	28,071
Long-term debt	37,240	20,221
Total liabilities	744,481	762,221
Commitments and Contingencies (Note 15)		

STOCKHOLDERS EQUITY:		
Cumulative convertible preferred stock, $.01 par value		1
Authorized shares 1,000		
Issued shares 30 and 108		
Outstanding shares 30 and 108		
Minimum liquidation preference $6.98 and $2.66 per share		
Common stock, $.01 par value	436	419
Authorized shares 55,000		
Issued shares 43,641 and 41,889		
Outstanding shares 35,366 and 40,871		
Treasury shares, at cost 8,275 and 1,018	(35,467)	(3,101)
Additional paid-in capital	42,282	38,684
Accumulated other comprehensive income (loss), net of taxes	(376)	
Retained earnings	168,734	127,511
Total stockholders equity	175,609	163,514
Total liabilities and stockholders equity	$ 920,090	$ 925,735

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	For the Years Ended December 31, 2013	2012	2011
PREMIUMS EARNED AND OTHER REVENUES			
Direct premiums written	$ 783,894	$ 780,128	$ 721,462
Ceded premiums written	(522,116)	(517,604)	(512,979)
Net premiums written	261,778	262,524	208,483
Change in net unearned premium	5,877	(31,404)	(9,498)
Premiums earned, net	267,655	231,120	198,985
Net investment income (expense)	1,928	441	788
Net realized gains (losses) on investments	(14,740)	(11,943)	2,350
Net change in unrealized gains (losses) on investments	7,850	9,443	(18,410)
Net foreign currency gains (losses) on investments		22	1,532
Commission revenue	18,615	20,383	19,507
Policy fees	13,661	14,475	15,298
Other revenue	6,190	5,998	5,811
Total premiums earned and other revenues	301,159	269,939	225,861
OPERATING COSTS AND EXPENSES			
Losses and loss adjustment expenses	108,615	126,187	124,309
General and administrative expenses	91,988	91,193	67,834
Total operating costs and expenses	200,603	217,380	192,143
INCOME BEFORE INCOME TAXES	100,556	52,559	33,718
Income taxes, current	34,216	18,434	23,152
Income taxes, deferred	7,363	3,813	(9,543)
Income taxes, net	41,579	22,247	13,609
NET INCOME	$ 58,977	$ 30,312	$ 20,109
Basic earnings per common share	$ 1.64	$ 0.76	$ 0.51
Weighted average common shares outstanding Basic	35,866	39,614	39,184

Fully diluted earnings per common share	$ 1.56	$ 0.75	$ 0.50
Weighted average common shares outstanding Diluted	37,776	40,616	40,442
Cash dividend declared per common share	$ 0.49	$ 0.46	$ 0.32

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2013	2012	2011
Net income	$ 58,977	$ 30,312	$ 20,109
Other comprehensive income (loss)	(376)		
Comprehensive income (loss)	$ 58,601	$ 30,312	$ 20,109

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 and 2011

(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, 2010	40,407	108	$ 404	$ 1	$ 33,675	$ 108,819	$	$ (3,109)	$ 139,790
Stock option exercises	160		2		(169)			(263)	(430)
Restricted stock awards	600		6		(6)				
Other	3								
Retirement of treasury shares	(70)		(1)		(8)			271	262
Stock-based compensation					2,849				2,849
Net income						20,109			20,109
Excess tax benefit (shortfall), net (1)					195				195
Declaration of dividends						(12,770)			(12,770)
Balance, December 31, 2011	41,100	108	411	1	36,536	116,158		(3,101)	150,005
Stock option exercises	285		3		667			(583)	87
Restricted stock awards	650		7		(7)				
Retirement of treasury shares	(146)		(2)		(581)			583	
Stock-based compensation					3,829				3,829
Net income						30,312			30,312
Other						(3)			(3)
Excess tax benefit (shortfall), net (1)					(1,760)				(1,760)
Declaration of dividends						(18,956)			(18,956)

Balance, December 31, 2012	41,889	108	419	1	38,684	127,511		(3,101)	163,514
Stock option exercises	2,330		23		9,446			(11,609)	(2,140)
Restricted stock awards	1,000		10		(10)			(1,021)	(1,021)
Conversion of preferred stock	389	(78)	4	(1)	(3)				
Purchases of treasury stock								(32,366)	(32,366)