UNITED INSURANCE HOLDINGS CORP.
Form 10-K
February 25, 2015

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
Commission File Number 001-35761
United Insurance Holdings Corp.

Delaware	75-3241967
(State of Incorporation)	(IRS Employer Identification Number)

360 Central Avenue, Suite 900
St. Petersburg, Florida 33701
727-895-7737

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

COMMON STOCK, $0.0001 PAR VALUE PER SHARE	NASDAQ Stock Market LLC

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

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

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

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

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

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

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

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

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

Non-affiliates held common stock issued by the registrant with an aggregate market value of $286,999,712 as of June 30, 2014, calculated using the closing sales price reported for such date on the NASDAQ Stock Market. For purposes

of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.
As of February 25, 2015, 21,473,534 shares of common stock, par value $0.0001 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from the Proxy Statement for the 2015 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2014.

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

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-K for the year ended December 31, 2014 or in documents incorporated by reference that are not historical fact are “forward-looking statements” within the meaning of the Private Securities Reform Litigation Act of 1995. These forward-looking statements include statements about anticipated growth in revenues, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management’s beliefs and assumptions. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue” or the negative variatio comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the regulatory, economic and weather conditions present in the states in which we operate;
- the impact of new federal or state regulations that affect the property and casualty insurance market;
- the cost of reinsurance;
- assessments charged by various governmental agencies;
- pricing competition and other initiatives by competitors;
- our ability to attract and retain the services of senior management;
- the outcome of litigation pending against us, including the terms of any settlements;
- dependence on investment income and the composition of our investment portfolio and related market risks;
- our exposure to catastrophic events and severe weather conditions;
- downgrades in our financial strength ratings; and
- other risks and uncertainties described under "Risk Factors" below.

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

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

PART I

Item 1. Business

INTRODUCTION

Company Overview

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

* FSH, FSIC and FSU were not part of our corporate structure as of December 31, 2014.

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

We conduct our operations under one business segment.

To achieve our goals in 2015, UPC Insurance seeks to:

- Grow premium base in existing states;
- Begin writing policies in several new states in support of our growth and diversification strategy;
- Expand our product offerings in states outside Florida;
- Grow commercial residential property writings in Florida;
- Utilize and add strategic partnerships to expand distribution and service capabilities in all states;
- Improve the efficiency of our catastrophe reinsurance program; and
- Leverage investments in technology and analytics to drive profitability.

Corporate Information

In 1999, we formed our original holding company, United Insurance Holdings, L.C., a Florida limited liability company, our original insurance affiliate - United Property & Casualty Insurance Company, and our original management affiliate - United Insurance Management, and conducted operations under that structure until 2004. In 2004, we added our claims adjusting affiliate - Skyway Claims Services, and continued operations under the new structure until we completed a merger with Fund Management Group (FMG) Acquisition Corp.

In May 2007, FMG Acquisition Corp, a blank-check company, was incorporated under the laws of Delaware. In September 2008, in a cash and stock transaction, we completed a reverse merger whereby United Subsidiary Corp., a wholly-owned subsidiary of FMG Acquisition Corp., merged with and into United Insurance Holdings, L.C., a Florida limited liability company, with United Insurance Holdings, L.C. remaining as the surviving entity. In connection with that merger, FMG Acquisition Corp. changed its name to United Insurance Holdings Corp. and became a public operating company trading in the over-the-counter market under the ticker symbol "UIHC". In April 2011, we founded our reinsurance affiliate - UPC Re. In December 2012, in connection with an underwritten public offering of 5,000,000 shares of our common stock, we applied to list our common stock on The Nasdaq Capital Market (NASDAQ). Our application was approved, and our common stock began trading on NASDAQ on December 11, 2012.

Our principal executive offices are located at 360 Central Avenue, Suite 900, St. Petersburg, FL 33701 and our telephone number at that location is (727) 895-7737.

Recent Events

On February 5, 2015, our Board of Directors declared a $0.05 per share quarterly cash dividend payable on March 6, 2015, to stockholders of record on February 27, 2015.

On February 3, 2015, we acquired Family Security Holdings, LLC (FSH), and its two wholly-owned subsidiaries via merger. In connection with the closing of the merger, the holders of FSH membership interests were issued 503,883 shares of our common stock. In addition to the foregoing, FSH members will receive three percent (3%) of all gross premiums written during the twelve-month period following the closing on the renewal of FSIC policies in-force as of the closing date. Such contingent consideration, if any, will be paid to FSH members approximately 30 days following the anniversary of the closing date in the form of additional shares of our common stock. The number of shares to be issued will be based on the average closing price of our common stock over the 180-day period preceding the payment date.

On January 9, 2015, we assumed more than 30 commercial residential policies from Citizens Property Insurance Corporation (Citizens), representing approximately $1,200,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

On January 9, 2015, we filed a shelf registration statement on Form S-3 (Reg. No. 333-201425), which enables us to offer, issue and sell up to an aggregate of $75,000,000 of our common stock, preferred stock, debt securities, warrants, stock purchase contracts and/or units.

On December 9, 2014, we assumed more than 50 commercial residential policies from Citizens, representing approximately $1,350,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

On November 18, 2014, we assumed more than 25,000 homeowners and fire policies from Citizens, representing approximately $45,851,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

On November 5, 2014, we assumed more than 50 commercial residential policies from Citizens, representing approximately $2,375,000 of annualized premiums. The total amount of assumed premium may be reduced by additional opt outs and cancellations by policyholders.

PRODUCTS AND DISTRIBUTION

Homeowners policies and related coverage account for the vast majority of the business that we write. In 2014, homeowners policies (by which we mean both standard homeowners and dwelling fire policies) produced written premium of $418,071,000 and accounted for 96% of our total written premium. In addition to homeowners policies, we write flood policies, which accounted for 3%, and commercial residential policies, which accounted for the remaining 1% of our 2014 written premium. In 2013, homeowners policies accounted for 96% of our total written premium, while flood policies accounted for the majority of the remaining 4%. In 2012, homeowners policies accounted for 95% and flood accounted for 5% of our total written premium. On our flood policies, we earn a commission while retaining no risk of loss, since all such risk is ceded to the federal government via the National Flood Insurance Program. Policies we issue under our homeowners programs in the various states where we do business provide structure, content and liability coverage. We offer standardized policies for a broad range of exposures, and our policies include coverage options for standard single-family homeowners, tenants (renters), and condominium unit owners.

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

We currently market and distribute our policies to consumers through over 4,000 independent agencies. United Property & Casualty Insurance Company has been focused on the independent agency distribution channel since its inception, and we believe we have built significant credibility and loyalty with the independent agent community in the states in which we operate. In 2011, we became a Trusted Choice partner company. Trusted Choice is a group of unaffiliated independent agents around the country that seek to maintain the highest levels of service quality and product offerings to consumers. United Property & Casualty Insurance Company is one of 70 insurance companies nationwide that have qualified to be Trusted Choice partner companies. We recruit, train and appoint the full-service insurance agencies that distribute our products. Typically, a full service agency is small to medium in size and represents several insurance companies for both personal and commercial product lines. We depend heavily upon our independent agents to produce new business for us. We compensate our independent agents primarily with fixed-rate commissions that are consistent with market practices. In addition to our relationships with individual agencies, we have important relationships with aggregators of underlying agency demand. The two most significant of these relationships are with Allstate in Florida, which, through its Ivantage program, refers homeowners to United Property & Casualty Insurance Company and other partner companies, and with the Florida Association of Insurance Agents (FAIA), which serves as a conduit between United Property & Casualty Insurance Company and many smaller agencies in Florida with whom we do not have direct appointments.

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

COMPETITION

The market for personal and commercial residential property insurance is highly competitive. In our primary market, Florida, there are over 165 licensed insurance companies that write homeowners' policies. The table below shows year-to-date in-force premium volume and market share for the top 20 companies in Florida as of September 30, 2014, which is the most recent date that the information is publicly available. We compete to varying degrees with all of these companies and others, including large national carriers, Citizens Property Insurance Corporation, the Florida state-sponsored homeowners insurance entity, and single state or regional carriers. Similar competitive groups exist in our other geographic markets.

Florida Property Insurance Market - Personal and Commercial Residential - Ranked by DWP*

Company Name	Policies in-Force	Exposure	Direct Written Premium in-Force	Percentage Distribution	
Citizens Property Insurance Corporation	910,154	$269,927,439	$2,046,715	19.1	%
Universal Property & Casualty Insurance Company	500,503	109,414,644	747,956	7.0	%
Homeowners Choice Property & Casualty Insurance Company, Inc.	147,737	39,960,506	349,465	3.3	%
Florida Peninsula Insurance Company	134,584	47,385,408	316,874	3.0	%
American Coastal Insurance Company	4,294	45,922,226	311,891	2.9	%
Federated National Insurance Company	167,597	69,950,824	311,667	2.9	%
Heritage Property & Casualty Insurance Company	173,512	51,067,683	302,065	2.8	%
United Property & Casualty Insurance Company	156,696	62,622,700	301,014	2.8	%
United Services Automobile Association	124,834	50,696,614	296,723	2.8	%
St. Johns Insurance Company, Inc.	173,166	64,898,779	284,299	2.7	%
People's Trust Insurance Company	132,790	37,356,380	266,234	2.5	%
American Integrity Insurance Company of Florida	192,131	58,339,677	236,957	2.2	%
Security First Insurance Company	192,058	51,891,500	236,901	2.2	%
Tower Hill Prime Insurance Company	139,242	53,691,890	228,924	2.1	%
First Community Insurance Company	33,800	6,958,296	212,328	2.0	%
Federal Insurance Company	31,977	48,968,272	176,966	1.6	%
Tower Hill Signature Insurance Company	98,566	30,301,767	168,709	1.6	%
USAA Casualty Insurance Company	53,942	19,188,617	147,942	1.4	%
Tower Hill Preferred Insurance Company	67,530	26,514,589	139,070	1.3	%
AIG Property Casualty Company	13,764	40,097,514	139,027	1.3	%
Total - Top 20 Insurers	3,448,877	1,185,155,325	7,221,727	67.5	%
Total - All Insurers	5,797,120	$1,892,065,499	$10,714,561	100.0	%

*The information displayed in the table above is compiled and published by the Florida Office of Insurance Regulation as of September 30, 2014 based on information filings submitted quarterly by all Florida licensed insurance companies. The information above is presented for each individual company and is not consolidated or aggregated.

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

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

We use the output from third-party modeling software to analyze our risk exposures, including wind exposures, by zip code or street address as part of the optimization process.

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

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

GEOGRAPHIC MARKETS

United Property & Casualty Insurance Company began operations in Florida in 1999, and has operated continuously there since that time. In 2010, we began to expand to other states, beginning with South Carolina in 2010, Massachusetts in 2011 and Rhode Island in 2012. In 2013, we began writing business in North Carolina, New Jersey and Texas, and in 2014 we wrote our first policies in Louisiana. Our insurance affiliates are also licensed to write, but have not commenced writing business in Alabama, Connecticut, Delaware, Georgia, Hawaii, Maryland, Mississippi, New Hampshire, New York and Virginia. It is a fundamental part of our strategy to diversify our operations outside of Florida and to write in multiple states where the perceived threat of natural catastrophes has caused large national insurance companies to reduce their concentration.

The table below shows the geographic distribution of our 252,104 policies in-force as of December 31, 2014, and 202,454 policies in-force as of December 31, 2013.

Policies In-Force By State	2014 Policies	%		2013 Policies	%	
Florida	173,630	69.0	%	163,314	80.6	%
Massachusetts	20,463	8.1	%	10,900	5.4	%
South Carolina	19,492	7.7	%	15,186	7.5	%
Rhode Island	14,387	5.7	%	9,990	4.9	%
North Carolina	11,314	4.5	%	2,533	1.3	%
Texas	8,927	3.5	%	102	0.1	%
New Jersey	3,881	1.5	%	429	0.2	%
Louisiana	10	—	%	—	—	%
Total	252,104	100.0	%	202,454	100.0	%

As of December 31, 2014, our total insured value of all polices in-force was approximately $115,244,742,000, an increase of $24,382,381,000, or 26.8%, from the same date in 2013. We have approximately 60.9% of our total insured value in Florida compared to roughly 74.3% as of December 31, 2013. The following table provides evidence of our improving geographic diversification by illustrating the breakdown of total insured value:

Total Insured Value By State	2014 TIV	%		2013 TIV	%	
Florida	70,200,560	60.9	%	67,499,187	74.3	%
Massachusetts	14,830,428	12.9		7,604,145	8.4	
South Carolina	10,096,269	8.8		8,018,613	8.8	
Rhode Island	8,920,721	7.7		6,300,783	6.9	
North Carolina	4,952,372	4.3		1,138,785	1.3	
Texas	4,085,220	3.5		42,243	—	
New Jersey	2,154,756	1.9		258,605	0.3	
Louisiana	4,416	—		—	—	
Total	115,244,742	100.0	%	90,862,361	100.0	%

RESERVE FOR UNPAID LOSSES

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

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

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

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

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

	2014	2013	2012
Balance at January 1	$47,451	$35,692	$33,600
Less: reinsurance recoverable on unpaid losses	1,957	1,935	3,318
Net balance at January 1	$45,494	$33,757	$30,282
Incurred related to:			
Current year	122,114	94,752	57,739
Prior years	(4,037)	4,078	670
Total incurred	$118,077	$98,830	$58,409
Paid related to:			
Current year	83,967	62,494	37,906
Prior years	26,420	24,599	17,028
Total paid	$110,387	$87,093	$54,934
Net balance at December 31	$53,184	$45,494	$33,757
Plus: reinsurance recoverable on unpaid losses	1,252	1,957	1,935
Balance at December 31	$54,436	$47,451	$35,692
Composition of reserve for unpaid losses and LAE:			
Case reserves	29,726	28,054	20,438
IBNR reserves	24,710	19,397	15,254
Balance at December 31	$54,436	$47,451	$35,692

LOSS RESERVE DEVELOPMENT

The table on the next page displays UPC Insurance's loss reserve development, on a GAAP basis, for business written in each year from 2004 through 2014; it does not distinguish between catastrophe and attritional losses. The following explanations of the main sections of the table should provide a better understanding of the information displayed:

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

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

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

Cumulative redundancy (deficiency) at December 31, 2014. The cumulative redundancy or deficiency results from the comparison of the net liability re-estimated as of the current balance sheet date to the original net liability, and it indicates an overestimation of the original net liability (a redundancy) or an underestimation of the original net liability (a deficiency).

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

	2014	2013	2012	2011	2010	2009	2008	2007		2006	2
Original net liability	$53,184	$45,494	$33,757	$30,282	$23,600	$20,665	$19,192	$21,559		$23,735	$
Net cumulative paid as of:											
One year later		26,240	24,599	17,028	3,322	12,533	8,984	9,707		9,047	1
Two years later			32,622	26,889	10,562	7,409	13,148	12,127		13,083	1
Three years later				30,929	16,776	12,444	6,030	14,310		14,115	1
Four years later					18,382	16,369	10,145	6,113		15,395	1
Five years later						17,556	13,441	9,552		7,032	1
Six years later							14,403	11,649		10,264	8
Seven years later								12,543		12,219	1
Eight years later										13,067	1
Nine years later											1
Ten years later											
Net liability re-estimated as of:											
End of year	$53,184	$45,494	$33,757	$30,282	$23,600	$20,665	$19,192	$21,559		$23,735	$
One year later		41,464	37,835	30,949	19,444	21,674	16,556	16,864		17,652	1
Two years later			39,328	33,960	18,382	18,184	17,472	15,759		16,707	1
Three years later				34,469	20,395	17,123	14,400	16,505		16,337	1
Four years later					20,385	18,395	13,590	13,688	16,781	16,781	1
Five years later						18,520	14,838	12,568		14,140	1
Six years later							15,111	12,854		12,943	1
Seven years later								13,060		13,171	1
Eight years later										13,387	1
Nine years later											1
Ten years later											
Cumulative redundancy (deficiency) at December 31,		4,030	(5,571)	(4,187)	3,215	2,145	4,081	8,499		10,348	5

2014 Cumulative redundancy (deficiency) as a % of reserves originally established		8.9 %	(16.5)%	(13.8)%	13.6 %	10.4 %	21.3 %	39.4 %	43.6 %	2
Net reserves	$53,184	$45,494	$33,757	$30,282	$23,600	$20,665	$19,192	$21,559	$23,735	$
Ceded reserves	1,252	1,957	1,935	3,318	23,814	23,447	20,907	14,445	33,440	1
Gross reserves	$54,436	$47,451	$35,692	$33,600	$47,414	$44,112	$40,099	$36,004	$57,175	$
Net re-estimated		$41,464	$39,328	$34,469	$20,385	$18,520	$15,111	$13,060	$13,387	$
Ceded re-estimated		1,784	2,254	3,777	20,570	21,012	16,461	8,750	18,861	1
Gross re-estimated		$43,248	$41,582	$38,246	$40,955	$39,532	$31,572	$21,810	$32,248	$

Note: The cash we received in relation to the commutation of our 2005 contract with the Florida Hurricane Catastrophe Fund caused the decrease in the net cumulative paid amounts beginning in the 2005 column in the table above.

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

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

	CALENDAR YEAR												
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	1 YR Development	2 YR Development
2004 AY*	$39,636	$43,633	$										