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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2019**

**OR**

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

**For the transition period from __________ to __________**

**Commission File Number 001-33251**

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

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

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

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, $0.01 Par Value | UVE | New York Stock Exchange |

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 33,211,481 shares of common stock, par value $0.01 per share, outstanding on October 29, 2019.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and its wholly-owned subsidiaries (the "Company") as of September 30, 2019 and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2019 and 2018 and the related condensed consolidated statements of stockholders' equity and statement of cash flows for the nine-month periods ended September 30, 2019 and 2018. These interim financial statements are the responsibility of the Company's management.

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

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

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

/s/ Plante & Moran, PLLC

Chicago, Illinois
November 4, 2019

## PART I — FINANCIAL INFORMATION

### Item 1. Financial Statements

**UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**
**(in thousands, except per share data)**

| | As of | |
|---|---|---|
| | September 30, 2019 | December 31, 2018 |
| **ASSETS** | | |
| Available-for-sale debt securities, at fair value (amortized cost: $850,658 and $831,127) | $ 878,567 | $ 820,438 |
| Equity securities, at fair value (amortized cost: $43,772 and $86,271) | 43,141 | 63,277 |
| Investment real estate, net | 15,688 | 24,439 |
| Total invested assets | 937,396 | 908,154 |
| Cash and cash equivalents | 159,638 | 166,428 |
| Restricted cash and cash equivalents | 2,635 | 2,635 |
| Prepaid reinsurance premiums | 280,297 | 142,750 |
| Reinsurance recoverable | 217,301 | 418,603 |
| Premium receivable, net | 70,388 | 59,858 |
| Property and equipment, net | 41,016 | 34,991 |
| Deferred policy acquisition costs | 94,820 | 84,686 |
| Income taxes recoverable | 9,860 | 11,159 |
| Deferred income tax asset, net | — | 14,586 |
| Other assets | 15,927 | 14,540 |
| Total assets | $ 1,829,278 | $ 1,858,390 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| LIABILITIES: | | |
| Unpaid losses and loss adjustment expenses | $ 166,342 | $ 472,829 |
| Unearned premiums | 680,195 | 601,679 |
| Advance premium | 40,669 | 26,222 |
| Accounts payable | 3,396 | 3,059 |
| Book overdraft | 1,692 | 102,843 |
| Reinsurance payable, net | 300,094 | 93,306 |
| Deferred income tax liability, net | 2,571 | — |
| Other liabilities and accrued expenses | 55,044 | 45,422 |
| Long-term debt | 10,294 | 11,397 |
| Total liabilities | 1,260,297 | 1,356,757 |
| Commitments and Contingencies (Note 12) | | |
| STOCKHOLDERS' EQUITY: | | |
| Cumulative convertible preferred stock, $.01 par value | — | — |
| Authorized shares - 1,000 | | |
| Issued shares - 10 and 10 | | |
| Outstanding shares - 10 and 10 | | |
| Minimum liquidation preference, $9.99 and $9.99 per share | | |
| Common stock, $.01 par value | 467 | 465 |
| Authorized shares - 55,000 | | |
| Issued shares - 46,713 and 46,514 | | |
| Outstanding shares - 33,211 and 34,783 | | |
| Treasury shares, at cost - 13,502 and 11,731 | (180,331) | (130,399) |
| Additional paid-in capital | 93,546 | 86,353 |
| Accumulated other comprehensive income (loss), net of taxes | 21,089 | (8,010) |
| Retained earnings | 634,210 | 553,224 |
| Total stockholders' equity | 568,981 | 501,633 |
| Total liabilities and stockholders' equity | $ 1,829,278 | $ 1,858,390 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| PREMIUMS EARNED AND OTHER REVENUES | | | | |
| Direct premiums written | $ 342,872 | $ 309,176 | $ 990,066 | $ 921,941 |
| Change in unearned premium | (29,807) | (20,772) | (78,516) | (97,249) |
| Direct premium earned | 313,065 | 288,404 | 911,550 | 824,692 |
| Ceded premium earned | (106,466) | (99,466) | (284,867) | (260,905) |
| Premiums earned, net | 206,599 | 188,938 | 626,683 | 563,787 |
| Net investment income | 7,613 | 6,642 | 23,165 | 17,213 |
| Net realized gains (losses) on investments | (22) | 403 | (13,152) | (2,093) |
| Net change in unrealized gains (losses) of equity securities | 573 | (2,473) | 22,364 | (9,103) |
| Commission revenue | 7,380 | 5,658 | 18,933 | 16,638 |
| Policy fees | 5,569 | 5,204 | 16,587 | 15,743 |
| Other revenue | 1,929 | 1,783 | 5,369 | 5,258 |
| Total premiums earned and other revenues | 229,641 | 206,155 | 699,949 | 607,443 |
| OPERATING COSTS AND EXPENSES | | | | |
| Losses and loss adjustment expenses | 132,571 | 85,947 | 358,961 | 251,715 |
| General and administrative expenses | 69,174 | 69,041 | 208,418 | 191,614 |
| Total operating costs and expenses | 201,745 | 154,988 | 567,379 | 443,329 |
| INCOME BEFORE INCOME TAXES | 27,896 | 51,167 | 132,570 | 164,114 |
| Income tax expense | 7,750 | 13,787 | 34,983 | 40,595 |
| NET INCOME | $ 20,146 | $ 37,380 | $ 97,587 | $ 123,519 |
| Basic earnings per common share | $ 0.60 | $ 1.07 | $ 2.85 | $ 3.54 |
| Weighted average common shares outstanding - Basic | 33,649 | 34,861 | 34,230 | 34,870 |
| Diluted earnings per common share | $ 0.59 | $ 1.04 | $ 2.82 | $ 3.45 |
| Weighted average common shares outstanding - Diluted | 33,930 | 35,919 | 34,565 | 35,754 |
| Cash dividend declared per common share | $ 0.16 | $ 0.16 | $ 0.48 | $ 0.44 |

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net income | $ 20,146 | $ 37,380 | $ 97,587 | $ 123,519 |
| Other comprehensive income (loss), net of taxes | 5,160 | (737) | 29,099 | (6,636) |
| Comprehensive income | $ 25,306 | $ 36,643 | $ 126,686 | $ 116,883 |

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

## UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018 (unaudited)
## (in thousands, except per share data)

| | Treasury Shares | Common Shares Issued | Preferred Shares Issued | Common Stock Amount | Preferred Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Shares, at Cost | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2018** | (11,731) | 46,514 | 10 | $ 465 | $ — | $ 86,353 | $ 553,224 | $ (8,010) | $ (130,399) | $ 501,633 |
| Vesting of performance share units | (56) [1] | 148 | — | 2 | — | (2) | — | — | (2,069) | (2,069) |
| Grants and vesting of restricted stock | (5) [1] | 25 | — | — | — | — | — | — | (166) | (166) |
| Stock option exercises | (36) [1] | 84 | — | 1 | — | 1,438 | — | — | (1,367) | 72 |
| Retirement of treasury shares | 97 | (97) | — | (1) | — | (3,601) | — | — | 3,602 | — |
| Purchases of treasury stock | (321) | — | — | — | — | — | — | — | (10,117) | (10,117) |
| Share-based compensation | — | — | — | — | — | 3,140 | — | — | — | 3,140 |
| Net income | — | — | — | — | — | — | 40,148 | — | — | 40,148 |
| Change in net unrealized gains (losses), net of taxes | — | — | — | — | — | — | — | 11,984 | — | 11,984 |
| Declaration of dividends ($0.16 per common share and $0.25 per preferred share) | — | — | — | — | — | — | (5,575) | — | — | (5,575) |
| **Balance, March 31, 2019** | (12,052) | 46,674 | 10 | 467 | — | 87,328 | 587,797 | 3,974 | (140,516) | 539,050 |
| Grants and vesting of restricted stock | (14) [1] | 25 | — | — | — | — | — | — | (402) | (402) |
| Stock option exercises | (14) [1] | 27 | — | — | — | 403 | — | — | (414) | (11) |
| Retirement of treasury shares | 28 | (28) | — | — | — | (816) | — | — | 816 | — |
| Purchases of treasury stock | (486) | — | — | — | — | — | — | — | (14,107) | (14,107) |
| Share-based compensation | — | — | — | — | — | 3,311 | — | — | — | 3,311 |
| Net income | — | — | — | — | — | — | 37,293 | — | — | 37,293 |
| Change in net unrealized gains (losses), net of taxes | — | — | — | — | — | — | — | 11,955 | — | 11,955 |
| Declaration of dividends for second quarter ($0.16 per common share and $0.25 per preferred share) | — | — | — | — | — | — | (5,547) | — | — | (5,547) |
| Declaration of dividends for third quarter ($0.16 per common share) | — | — | — | — | — | — | (5,476) | — | — | (5,476) |
| **Balance, June 30, 2019** | (12,538) | 46,698 | 10 | 467 | — | 90,226 | 614,067 | 15,929 | (154,623) | 566,066 |
| Vesting of restricted stock units | (10) [1] | 25 | — | — | — | — | — | — | (259) | (259) |
| Stock option exercises | (2) [1] | 2 | — | — | — | 54 | — | — | (59) | (5) |
| Retirement of treasury shares | 12 | (12) | — | — | — | (318) | — | — | 318 | — |
| Purchases of treasury stock | (964) | — | — | — | — | — | — | — | (25,708) | (25,708) |
| Share-based compensation | — | — | — | — | — | 3,584 | — | — | — | 3,584 |
| Net income | — | — | — | — | — | — | 20,146 | — | — | 20,146 |
| Change in net unrealized gains (losses), net of taxes | — | — | — | — | — | — | — | 5,160 | — | 5,160 |
| Declaration of dividends ($0.25 per preferred share) | — | — | — | — | — | — | (3) | — | — | (3) |
| **Balance, September 30, 2019** | (13,502) | 46,713 | 10 | $ 467 | $ — | $ 93,546 | $ 634,210 | $ 21,089 | $ (180,331) | $ 568,981 |

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

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

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

| | Treasury Shares | Common Shares Issued | Preferred Shares Issued | Common Stock Amount | Preferred Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Shares, at Cost | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2017** | (11,043) | 45,778 | 10 | $ 458 | $ — | $ 86,186 | $ 464,748 | $ (6,281) | $ (105,123) | $ 439,988 |
| Cumulative effect of change in accounting principle (ASU 2016-01) | — | — | — | — | — | — | (3,601) | 3,601 | — | — |
| **Balance January 1, 2018** | (11,043) | 45,778 | 10 | 458 | — | 86,186 | 461,147 | (2,680) | (105,123) | 439,988 |
| Vesting of performance share units | (43) [1] | 127 | — | 1 | — | (1) | — | — | (1,273) | (1,273) |
| Grants and vesting of restricted stock | — | 50 | — | — | — | — | — | — | — | — |
| Stock option exercises | (568) [1] | 804 | — | 8 | — | 15,195 | — | — | (18,723) | (3,520) |
| Retirement of treasury shares | 611 | (611) | — | (6) | — | (19,990) | — | — | 19,996 | — |
| Purchases of treasury stock | (93) | — | — | — | — | — | — | — | (2,746) | (2,746) |
| Share-based compensation | — | — | — | — | — | 2,904 | — | — | — | 2,904 |
| Net income | — | — | — | — | — | — | 40,055 | — | — | 40,055 |
| Change in net unrealized gains (losses), net of taxes | — | — | — | — | — | — | — | (4,050) | — | (4,050) |
| Reclassification of income taxes upon adoption of ASU 2018-02 | — | — | — | — | — | — | 582 | (582) | — | — |
| Declaration of dividends ($0.14 per common share and $0.25 per preferred share) | — | — | — | — | — | — | (4,906) | — | — | (4,906) |
| **Balance, March 31, 2018** | (11,136) | 46,148 | 10 | 461 | — | 84,294 | 496,878 | (7,312) | (107,869) | 466,452 |
| Stock option exercises | (244) [1] | 353 | — | 4 | — | 6,295 | — | — | (8,015) | (1,716) |
| Retirement of treasury shares | 244 | (244) | — | (2) | — | (8,013) | — | — | 8,015 | — |
| Purchases of treasury stock | (249) | — | — | — | — | — | — | — | (8,370) | (8,370) |
| Share-based compensation | — | — | — | — | — | 3,349 | — | — | — | 3,349 |
| Net income | — | — | — | — | — | — | 46,084 | — | — | 46,084 |
| Change in net unrealized gains (losses), net of taxes | — | — | — | — | — | — | — | (1,849) | — | (1,849) |
| Declaration of dividends for second quarter ($0.14 per common share and $0.25 per preferred share) | — | — | — | — | — | — | (4,923) | — | — | (4,923) |
| Declaration of dividends for third quarter ($0.16 per common share) | — | — | — | — | — | — | (5,596) | — | — | (5,596) |
| **Balance, June 30, 2018** | (11,385) | 46,257 | 10 | 463 | — | 85,925 | 532,443 | (9,161) | (116,239) | 493,431 |
| Stock option exercises | (108) [1] | 169 | — | 1 | — | 3,804 | — | — | (4,744) | (939) |
| Retirement of treasury shares | 108 | (108) | — | (1) | — | (4,743) | — | — | 4,744 | — |
| Share-based compensation | — | — | — | — | — | 3,245 | — | — | — | 3,245 |
| Net income | — | — | — | — | — | — | 37,380 | — | — | 37,380 |
| Change in net unrealized gains (losses), net of taxes | — | — | — | — | — | — | — | (737) | — | (737) |
| Declaration of dividends ($0.25 per preferred share) | | | | | | | (3) | | | (3) |
| Other | — | — | — | — | — | — | 5 | — | — | 5 |
| **Balance, September 30, 2018** | (11,385) | 46,318 | 10 | $ 463 | $ — | $ 88,231 | $ 569,825 | $ (9,898) | $ (116,239) | $ 532,382 |

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

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

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

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net cash provided by (used in) operating activities | $ 56,589 | $ 224,454 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property and equipment | 27 | 30 |
| Purchases of property and equipment | (9,723) | (6,141) |
| Purchases of equity securities | (1,091) | (23,568) |
| Purchases of available-for-sale debt securities | (194,228) | (349,617) |
| Purchases of investment real estate, net | (883) | (5,553) |
| Proceeds from sales of equity securities | 29,137 | 8,285 |
| Proceeds from sales of available-for-sale debt securities | 73,041 | 132,801 |
| Proceeds from sales of investment real estate | 10,537 | — |
| Maturities of available-for-sale debt securities | 100,304 | 83,188 |
| Maturities of available-for-sale short-term investments | — | 10,000 |
| Net cash provided by (used in) investing activities | 7,121 | (150,575) |
| Cash flows from financing activities: | | |
| Preferred stock dividend | (8) | (8) |
| Common stock dividend | (16,618) | (15,400) |
| Issuance of common stock for stock option exercises | 239 | 102 |
| Purchase of treasury stock | (49,932) | (11,116) |
| Payments related to tax withholding for share-based compensation | (3,078) | (7,551) |
| Repayment of debt | (1,103) | (1,103) |
| Net cash provided by (used in) financing activities | (70,500) | (35,076) |
| Cash and cash equivalents, and restricted cash and cash equivalents: | | |
| Net increase (decrease) during the period | (6,790) | 38,803 |
| Balance, beginning of period | 169,063 | 216,121 |
| Balance, end of period | $ 162,273 | $ 254,924 |

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

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 159,638 | $ 166,428 |
| Restricted cash and cash equivalents (1) | 2,635 | 2,635 |
| Total cash and cash equivalents and restricted cash and cash equivalents | $ 162,273 | $ 169,063 |

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

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

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

## 1. Nature of Operations and Basis of Presentation

### Nature of Operations

Universal Insurance Holdings, Inc. (together with its wholly-owned subsidiaries, "the Company") is a Delaware corporation incorporated in 1990. The Company is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned insurance company subsidiaries, Universal Property & Casualty Insurance Company ("UPCIC") and American Platinum Property and Casualty Insurance Company ("APPCIC", and together with UPCIC, the "Insurance Entities"), the Company is principally engaged in the property and casualty insurance business offered primarily through its network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company's primary product is residential homeowners' insurance currently offered in 18 states as of September 30, 2019, including Florida, which comprises the majority of the Company's policies in force. See "—Note 5 (Insurance Operations)" for more information regarding the Company's insurance operations.

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

### Basis of Presentation

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

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

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

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

**2. Significant Accounting Policies**

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

**3. Investments**

*Securities Available for Sale*

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

| | September 30, 2019 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Debt Securities: | | | | |
| U.S. government obligations and agencies | $ 71,696 | $ 1,096 | $ (206) | $ 72,586 |
| Corporate bonds | 450,868 | 18,628 | (198) | 469,298 |
| Mortgage-backed and asset-backed securities | 313,001 | 8,642 | (509) | 321,134 |
| Municipal bonds | 3,399 | 148 | (5) | 3,542 |
| Redeemable preferred stock | 11,694 | 395 | (82) | 12,007 |
| Total | $ 850,658 | $ 28,909 | $ (1,000) | $ 878,567 |

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

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

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| Equivalent S&P Credit Ratings | Fair Value | % of Total Fair Value | Fair Value | % of Total Fair Value |
| AAA | $ 406,441 | 46.3% | $ 388,672 | 47.4% |
| AA | 93,687 | 10.7% | 100,791 | 12.3% |
| A | 232,352 | 26.4% | 214,503 | 26.1% |
| BBB | 141,837 | 16.1% | 112,613 | 13.7% |
| BB and Below | — | — | 494 | 0.1% |
| No Rating Available | 4,250 | 0.5% | 3,365 | 0.4% |
| Total | $ 878,567 | 100.0% | $ 820,438 | 100.0% |

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

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

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Mortgage-backed Securities: | | | | |
| Agency | $ 147,245 | $ 148,465 | $ 139,418 | $ 136,291 |
| Non-agency | 73,119 | 78,794 | 61,689 | 61,933 |
| Asset-backed Securities: | | | | |
| Auto loan receivables | 43,681 | 44,103 | 53,449 | 53,341 |
| Credit card receivables | 21,147 | 21,538 | 29,594 | 29,366 |
| Other receivables | 27,809 | 28,234 | 28,690 | 28,666 |
| Total | $ 313,001 | $ 321,134 | $ 312,840 | $ 309,597 |

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

| | September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | | 12 Months or Longer | | |
| | Number of Issues | Fair Value | Unrealized Losses | Number of Issues | Fair Value | Unrealized Losses |
| Debt Securities: | | | | | | |
| U.S. government obligations and agencies | 2 | $ 3,907 | $ (38) | 6 | $ 41,419 | $ (168) |
| Corporate bonds | 24 | 24,357 | (115) | 22 | 19,923 | (83) |
| Mortgage-backed and asset-backed securities | 26 | 30,609 | (139) | 38 | 53,895 | (370) |
| Municipal bonds | — | — | — | 1 | 275 | (5) |
| Redeemable preferred stock | 8 | 1,116 | (12) | 8 | 2,094 | (70) |
| Total | 60 | $ 59,989 | $ (304) | 75 | $ 117,606 | $ (696) |

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

*Evaluating Investments for Other Than Temporary Impairment*

As of September 30, 2019, the Company held available-for-sale debt securities that were in an unrealized loss position as presented in the table above. For available-for-sale debt securities with significant declines in value, the Company performs a quarterly fundamental credit analysis on a security-by-security basis, which includes consideration of credit quality and credit ratings, review of relevant industry analyst reports and other available market data. For available-for-sale debt securities, the Company considers whether it has the intent and ability to hold the available-for-sale debt securities for a period of time sufficient to recover its cost basis. Where the Company lacks the intent and ability to hold to recovery, or believes the recovery period is extended, the security's decline in fair value is considered other than temporary and is recorded in earnings. Based on our analysis, our fixed income portfolio is of high quality and we believe that we will recover the amortized cost basis of our available-for-sale debt securities. We continually monitor the credit quality of our investments in available-for-sale debt securities to assess if it is probable that we will receive our contractual or estimated cash flows in the form of principal and interest. Additionally, the Company considers management's intent and ability to hold the available-for-sale debt securities until recovery and its credit analysis of the individual issuers of the securities. Based on this process and analysis, management has no reason to believe the unrealized losses of the available-for-sale debt securities as of September 30, 2019 are other than temporary.

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

| | September 30, 2019 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due in one year or less | $ 122,700 | $ 122,907 |
| Due after one year through five years | 427,470 | 436,026 |
| Due after five years through ten years | 288,021 | 306,986 |
| Due after ten years | 12,040 | 12,173 |
| Perpetual maturity securities | 427 | 475 |
| Total | $ 850,658 | $ 878,567 |

All securities, except those with perpetual maturities, were categorized in the table above utilizing years to effective maturity. Effective maturity takes into consideration all forms of potential prepayment, such as call features or prepayment schedules, that shorten the lifespan of contractual maturity dates.

The following table provides certain information related to available-for-sale debt securities, equity securities and investment real estate during the periods presented (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Proceeds from sales and maturities (fair value): | | | | |
| Available-for-sale debt securities | $ 61,615 | $ 32,287 | $ 173,345 | $ 225,989 |
| Equity securities | $ — | $ 4,158 | $ 29,137 | $ 8,285 |
| Gross realized gains on sale of securities: | | | | |
| Available-for-sale debt securities | $ 65 | $ 1 | $ 364 | $ 318 |
| Equity securities | $ — | $ 413 | $ 335 | $ 714 |
| Gross realized losses on sale of securities: | | | | |
| Available-for-sale debt securities | $ (87) | $ (11) | $ (277) | $ (3,125) |
| Equity securities | $ — | $ — | $ (14,787) | $ — |
| Realized gains on sales of investment real estate | $ — | $ — | $ 1,213 | $ — |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Available-for-sale debt securities | $ 6,316 | $ 4,595 | $ 18,508 | $ 12,390 |
| Equity securities | 487 | 722 | 2,091 | 2,016 |
| Available-for-sale short-term investments | — | — | — | 145 |
| Cash and cash equivalents (1) | 1,374 | 1,854 | 4,066 | 4,100 |
| Other (2) | 243 | 252 | 754 | 665 |
| Total investment income | 8,420 | 7,423 | 25,419 | 19,316 |
| Less: Investment expenses (3) | (807) | (781) | (2,254) | (2,103) |
| Net investment income | $ 7,613 | $ 6,642 | $ 23,165 | $ 17,213 |

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

(2) Includes investment income earned on real estate investments.

(3) Includes custodial fees, investment accounting and advisory fees, and expenses associated with real estate investments.

*Equity Securities*

The following table provides the unrealized gains and losses recorded during the periods presented on equity securities still held at the end of the reporting period (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting period | $ 573 | $ (2,473) | $ 3,339 | $ (9,103) |

*Investment Real Estate*

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

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Income Producing: | | |
| Investment real estate | $ 14,679 | $ 14,619 |
| Less: Accumulated depreciation | (1,181) | (870) |
| | 13,498 | 13,749 |
| Non-Income Producing: | | |
| Investment real estate | 2,190 | 10,690 |
| Investment real estate, net | $ 15,688 | $ 24,439 |

During the nine months ended September 30, 2019, the Company completed the sale of investment real estate. The Company received net cash proceeds of approximately $10.5 million and recognized a pre-tax gain of approximately $1.2 million that is included in net realized gains (losses) on investments on the Condensed Consolidated Statements of Income for the nine months ended September 30, 2019.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Depreciation expense on investment real estate | $ 104 | $ 103 | $ 311 | $ 307 |

### 4. Reinsurance

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

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

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

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

| | Ratings as of September 30, 2019 | | | Due from as of | |
|---|---|---|---|---|---|
| Reinsurer | AM Best Company | Standard and Poor's Rating Services, Inc. | Moody's Investors Service, Inc. | September 30, 2019 | December 31, 2018 |
| Florida Hurricane Catastrophe Fund (1) | n/a | n/a | n/a | $ 123,037 | $ 165,022 |
| Allianz Risk Transfer | A+ | AA | Aa3 | 28,088 | 139,565 |
| Renaissance Reinsurance Ltd | n/a | n/a | n/a | — | 39,459 |
| Chubb Tempest Reinsurance Ltd | n/a | n/a | n/a | — | 16,208 |
| Total (2) | | | | $ 151,125 | $ 360,254 |

(1) No rating is available, because the fund is not rated.
(2) Amounts represent prepaid reinsurance premiums, reinsurance receivables and net recoverables for paid and unpaid losses, including incurred but not reported reserves, and loss adjustment expenses.

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

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Premiums Written | Premiums Earned | Losses and Loss Adjustment Expenses | Premiums Written | Premiums Earned | Losses and Loss Adjustment Expenses |
| Direct | $ 342,872 | $ 313,065 | $ 334,440 | $ 309,176 | $ 288,404 | $ 270,158 |
| Ceded | (4,781) | (106,466) | (201,869) | (17,256) | (99,466) | (184,211) |
| Net | $ 338,091 | $ 206,599 | $ 132,571 | $ 291,920 | $ 188,938 | $ 85,947 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Premiums Written | Premiums Earned | Losses and Loss Adjustment Expenses | Premiums Written | Premiums Earned | Losses and Loss Adjustment Expenses |
| Direct | $ 990,066 | $ 911,550 | $ 663,768 | $ 921,941 | $ 824,692 | $ 593,419 |
| Ceded | (422,414) | (284,867) | (304,807) | (356,507) | (260,905) | (341,704) |
| Net | $ 567,652 | $ 626,683 | $ 358,961 | $ 565,434 | $ 563,787 | $ 251,715 |

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

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Prepaid reinsurance premiums | $ 280,297 | $ 142,750 |
| Reinsurance recoverable on paid losses and LAE | $ 106,988 | $ 25,238 |
| Reinsurance recoverable on unpaid losses and LAE | 110,313 | 393,365 |
| Reinsurance recoverable | $ 217,301 | $ 418,603 |

## 5. Insurance Operations

*Deferred Policy Acquisition Costs*

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| DPAC, beginning of period | $ 90,530 | $ 88,756 | $ 84,686 | $ 73,059 |
| Capitalized Costs | 48,783 | 44,389 | 140,998 | 136,758 |
| Amortization of DPAC | (44,493) | (42,502) | (130,864) | (119,174) |
| DPAC, end of period | $ 94,820 | $ 90,643 | $ 94,820 | $ 90,643 |

*Regulatory Requirements and Restrictions*

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

In accordance with Florida Insurance Code, and based on the calculations performed by the Company as of December 31, 2018, UPCIC has the capacity to pay ordinary dividends of $14.0 million during 2019. APPCIC did not meet the earnings or surplus regulatory requirements as of December 31, 2018 to pay ordinary dividends during 2019. For the nine months ended September 30, 2019, no dividends were paid from UPCIC or APPCIC to PSI.

The Florida Insurance Code requires insurance companies to maintain capitalization equivalent to the greater of ten percent of the insurer's total liabilities or $10.0 million. The following table presents the amount of capital and surplus calculated in accordance with statutory accounting principles, which differ from U.S. GAAP, and an amount representing ten percent of total liabilities for both UPCIC and APPCIC as of the dates presented (in thousands):

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Ten percent of total liabilities | | |
| UPCIC | $ 105,485 | $ 90,610 |
| APPCIC | $ 594 | $ 489 |
| Statutory capital and surplus | | |
| UPCIC | $ 343,803 | $ 291,438 |
| APPCIC | $ 16,055 | $ 15,973 |

As of the dates in the table above, both UPCIC and APPCIC exceeded the minimum statutory capitalization requirement. UPCIC also met the capitalization requirements of the other states in which it is licensed as of September 30, 2019. UPCIC and APPCIC are also required to adhere to prescribed premium-to-capital surplus ratios and have met those requirements at such dates.

The following table summarizes combined net income (loss) for UPCIC and APPCIC determined in accordance with statutory accounting practices for the periods presented (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Combined net income (loss) | $ (5,486) | $ 5,468 | $ 28,854 | $ 49,190 |

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

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Restricted cash and cash equivalents | $ 2,635 | $ 2,635 |
| Investments | $ 3,434 | $ 3,876 |

**6. Liability for Unpaid Losses and Loss Adjustment Expenses**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance at beginning of period | $ 288,296 | $ 151,916 | $ 472,829 | $ 248,425 |
| Less: Reinsurance recoverable | (197,117) | (96,733) | (393,365) | (182,405) |
| Net balance at beginning of period | 91,179 | 55,183 | 79,464 | 66,020 |
| Incurred (recovered) related to: | | | | |
| Current year | 129,353 | 85,986 | 355,258 | 249,488 |
| Prior years | 3,218 | (39) | 3,703 | 2,227 |
| Total incurred | 132,571 | 85,947 | 358,961 | 251,715 |
| Paid related to: | | | | |
| Current year | 137,313 | 72,034 | 260,955 | 140,013 |
| Prior years | 30,408 | 38,372 | 121,441 | 146,998 |
| Total paid | 167,721 | 110,406 | 382,396 | 287,011 |
| Net balance at end of period | 56,029 | 30,724 | 56,029 | 30,724 |
| Plus: Reinsurance recoverable | 110,313 | 127,943 | 110,313 | 127,943 |
| Balance at end of period | $ 166,342 | $ 158,667 | $ 166,342 | $ 158,667 |

During the nine months ended September 30, 2019, there was adverse prior year reserve development of $305.3 million gross, less $301.6 million ceded, resulting in $3.7 million net. Gross prior year reserve development was principally the result of an increase in estimated losses and LAE for Hurricane Irma claims, which were fully ceded. Net prior year adverse reserve development of $3.7 million principally resulted from a change in the allocation of estimated Hurricane Michael losses and LAE recoveries from the Non-Florida reinsurance coverage to the All States reinsurance coverage. The Non-Florida reinsurance coverage has a lower retention and the change in the allocation of reinsurance recoveries to the All States reinsurance coverage resulted in higher retained losses. There was no change to gross Hurricane Michael losses. For the nine months ended September 30, 2018, there was $311.7 million gross, less $309.5 million ceded, resulting in $2.2 million net of prior year reserve development principally reflecting an increase in estimated Hurricane Irma claims.

**7. Long-Term Debt**

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

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Surplus note | $ 10,294 | $ 11,397 |

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

UPCIC was in compliance with the terms of the surplus note as of September 30, 2019.

**8. Stockholders' Equity**

From time to time, the Company's Board of Directors authorizes share repurchase programs under which the Company may repurchase shares of the Company's common stock in the open market. The following table presents repurchases of the Company's common stock for the periods presented (in thousands, except total number of shares repurchased and per share data):

| | | | Total Number of Shares Repurchased During the Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|---|---|
| Date Authorized | Expiration Date | Dollar Amount Authorized | 2019 | 2018 | Aggregate Purchase Price | Average Price Per Share Repurchased | Plan Completed |
| May 6, 2019 | December 31, 2020 | $ 40,000 | 1,302,401 | — | $ 35,419 | $ 27.20 | |
| December 12, 2018 | May 31, 2020 | $ 20,000 | 468,108 | — | $ 14,513 | $ 31.00 | May 2019 |
| September 5, 2017 | December 31, 2018 | $ 20,000 | — | 342,749 | $ 11,116 | $ 32.43 | December 2018 |

See the "Condensed Consolidated Statements of Stockholders' Equity" for a roll-forward of treasury shares.

**9. Income Taxes**

During the three months ended September 30, 2019 and 2018, the Company recorded approximately $7.8 million and $13.8 million of income tax expense, respectively. The effective tax rate ("ETR") for the three months ended September 30, 2019 was 27.8% compared to a 26.9% ETR for the same period in 2018.

During the nine months ended September 30, 2019 and 2018, the Company recorded approximately $35.0 million and $40.6 million of income tax expense, respectively. The ETR for the nine months ended September 30, 2019 was 26.4% compared to a 24.7% ETR for the same period in 2018.

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

The Company's income tax provision reflects an estimated annual ETR of 27.1% for 2019, calculated before the impact of discrete items. The statutory tax rate consists of a federal income tax rate of 21% and a state income tax rate, net of federal benefit, of 3.6%.

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities at the enacted tax rates. We review our deferred tax assets regularly for recoverability. As of September 30, 2019, we determined that we did not need a valuation allowance on our gross deferred tax assets. Although realization of the deferred tax assets is not assured, management believes that it is more likely than not the deferred tax assets will be realized based on our expectation that we will be able to fully utilize the deductions that are ultimately recognized for tax purposes.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. As of September 30, 2019, the Company's 2016 through 2018 tax years are still subject to examination by the Internal Revenue Service and various tax years remain open to examination in certain state jurisdictions.

**10. Earnings Per Share**

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Numerator for EPS:** | | | | |
| Net income | $ 20,146 | $ 37,380 | $ 97,587 | $ 123,519 |
| Less: Preferred stock dividends | (3) | (3) | (8) | (8) |
| Income available to common stockholders | $ 20,143 | $ 37,377 | $ 97,579 | $ 123,511 |
| **Denominator for EPS:** | | | | |
| Weighted average common shares outstanding | 33,649 | 34,861 | 34,230 | 34,870 |
| Plus: Assumed conversion of share-based compensation (1) | 256 | 1,033 | 310 | 859 |
| Assumed conversion of preferred stock | 25 | 25 | 25 | 25 |
| Weighted average diluted common shares outstanding | 33,930 | 35,919 | 34,565 | 35,754 |
| Basic earnings per common share | $ 0.60 | $ 1.07 | $ 2.85 | $ 3.54 |
| Diluted earnings per common share | $ 0.59 | $ 1.04 | $ 2.82 | $ 3.45 |

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

**11. Other Comprehensive Income (Loss)**

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

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Pre-tax | Tax | After-tax | Pre-tax | Tax | After-tax |
| Net changes related to available-for-sale securities: | | | | | | |
| Unrealized holding gains (losses) arising during the period | $ 6,815 | $ 1,671 | $ 5,144 | $ (989) | $ (244) | $ (745) |
| Less: Reclassification adjustments for (gains) losses realized in net income | 22 | 6 | 16 | 10 | 2 | 8 |
| Other comprehensive income (loss) | $ 6,837 | $ 1,677 | $ 5,160 | $ (979) | $ (242) | $ (737) |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | Pre-tax | Tax | After-tax | Pre-tax | Tax | After-tax |
| Net changes related to available-for-sale securities: | | | | | | |
| Unrealized holding gains (losses) arising during the period | $ 38,685 | $ 9,520 | $ 29,165 | $ (11,511) | $ (2,751) | $ (8,760) |
| Less: Reclassification adjustments for (gains) losses realized in net income | (87) | (21) | (66) | 2,807 | 683 | 2,124 |
| Other comprehensive income (loss) | $ 38,598 | $ 9,499 | $ 29,099 | $ (8,704) | $ (2,068) | $ (6,636) |

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

| | Amount Reclassified from Accumulated Other Comprehensive Income (Loss) | | | | |
|---|---|---|---|---|---|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | | |
| Details about Accumulated Other Comprehensive Income (Loss) Components | 2019 | 2018 | 2019 | 2018 | Affected Line Item in the Statement Where Net Income is Presented |
| Unrealized gains (losses) on available-for-sale debt securities | | | | | |
| | $ (22) | $ (10) | $ 87 | $ (2,807) | Net realized gains (losses) on sale of securities |
| | 6 | 2 | (21) | 683 | Income taxes |
| Total reclassification for the period | $ (16) | $ (8) | $ 66 | $ (2,124) | Net of tax |

**12. Commitments and Contingencies**

*Obligations under Multi-Year Reinsurance Contracts*

The Company purchases reinsurance coverage to protect its capital and to limit its losses when major events occur. Reinsurance commitments run from June 1 of the current year to May 31 of the following year. Certain of the Company's reinsurance agreements are for periods longer than one year. Amounts payable for coverage during the current June 1 to May 31 contract period are recorded as "Reinsurance Payable" in the financial statements. Multi-year contract commitments for future years will be recorded at the commencement of the coverage period. Amounts payable for future reinsurance contract years that the Company is obligated to pay are: (1) $117.6 million in 2020 and (2) $83.6 million in 2021.

*Litigation*

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

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

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

**13. Fair Value Measurements**

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

- Level 1 — Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data.

- Level 3 — Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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

Level 1

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

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

Level 2

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

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

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

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

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

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

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

| | Fair Value Measurements September 30, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Available-For-Sale Debt Securities: | | | | |
| U.S. government obligations and agencies | $ — | $ 72,586 | $ — | $ 72,586 |
| Corporate bonds | — | 469,298 | — | 469,298 |
| Mortgage-backed and asset-backed securities | — | 321,134 | — | 321,134 |
| Municipal bonds | — | 3,542 | — | 3,542 |
| Redeemable preferred stock | — | 12,007 | — | 12,007 |
| Equity Securities: | | | | |
| Common stock | 2,678 | — | — | 2,678 |
| Mutual funds | 40,463 | — | — | 40,463 |
| Total assets accounted for at fair value | $ 43,141 | $ 878,567 | $ — | $ 921,708 |

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

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

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

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Value | (Level 3) Estimated Fair Value | Carrying Value | (Level 3) Estimated Fair Value |
| **Liabilities (debt):** | | | | |
| Surplus note | $ 10,294 | $ 9,584 | $ 11,397 | $ 10,125 |

Level 3

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

**14. Subsequent Events**

The Company performed an evaluation of subsequent events through the date the Financial Statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the Financial Statements as of September 30, 2019.

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

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

### Cautionary Note Regarding Forward-Looking Statements

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

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

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

## OVERVIEW

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

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

## RESULTS OF OPERATIONS AND ANALYSIS OF FINANCIAL CONDITION

### Highlights

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

- Direct premiums written overall grew by $33.7 million, or 10.9%, to $342.9 million.
- In Florida, direct premiums written grew by $20.1 million, or 7.7%, and in our other states, direct premiums written grew by $13.6 million, or 27.6%.
- Net earned premiums grew by $17.7 million, or 9.3%, to $206.6 million.
- Total revenues increased by $23.5 million, or 11.4%, to $229.6 million.
- Diluted earnings per share ("EPS") of $0.59 compared to $1.04.
- Book value per share increased by $2.71, or 18.8%, to $17.13 at September 30, 2019 from $14.42 at December 31, 2018.
- Paid dividends of $0.16 per share in the third quarter of 2019.
- Repurchased 964,127 shares during the quarter at an aggregate purchase price of $25.7 million.

### Reinsurance

Reinsurance enables our Insurance Entities to limit potential exposures to catastrophic events. Reinsurance contracts are typically classified as treaty or facultative contracts. Treaty reinsurance provides coverage for all or a portion of a specified group or class of risks ceded by the primary insurer, while facultative reinsurance provides coverage for specific individual risks. Within each classification, reinsurance can be further classified as quota share or excess of loss. Quota-share reinsurance is where the primary insurer and the reinsurer share proportionally or pro-rata in the direct premiums and losses of the insurer. Excess of loss reinsurance indemnifies the direct insurer or reinsurer for all or a portion of the loss in excess of an agreed upon amount or retention.

Developing and implementing our reinsurance strategy to adequately protect our balance sheet and Insurance Entities in the event of one or more catastrophes while maintaining efficient reinsurance costs has been a key strategic priority for us. In order to limit the Insurance Entities' potential exposure to catastrophic events, we purchase significant reinsurance from third-party reinsurers and the Florida Hurricane Catastrophe Fund ("FHCF"). The Florida Office of Insurance Regulation ("FLOIR") requires the Insurance Entities, like all residential property insurance companies doing business in Florida, to have a certain amount of capital and reinsurance coverage in order to cover losses upon the occurrence of a single catastrophic event and a series of catastrophic events occurring in the same hurricane season. The Insurance Entities' 2019-2020 reinsurance programs meet the FLOIR's requirements, which are based on, among other things, successfully demonstrating a cohesive and comprehensive reinsurance program that protects the policyholders of our Insurance Entities as well as satisfying a series of stress test catastrophe loss scenarios based on past historical events.

We believe the Insurance Entities' retentions under their respective reinsurance programs are appropriate and structured to protect policyholders. We test the sufficiency of the reinsurance programs by subjecting the Insurance Entities' personal residential exposures to statistical testing using a third-party hurricane model, RMS RiskLink v17.0 (Build 1825). This model combines simulations of the natural occurrence patterns and characteristics of hurricanes, tornadoes, earthquakes and other catastrophes with information on property values, construction types and occupancy classes. The model outputs provide information concerning the potential for large losses before they occur, so companies can prepare for their financial impact. Furthermore, as part of our operational excellence initiatives, we continually look to enable new technology to refine our data intelligence on catastrophe risk modeling.

Effective June 1, 2019, the Insurance Entities entered into multiple reinsurance agreements comprising our 2019-2020 reinsurance program. See "Item 1—Note 4 (Reinsurance)."

**UPCIC's 2019-2020 Reinsurance Program**

- First event All States retention of $43 million; First event Non-Florida retention of $10 million.
- All States first event tower expanded to $3.32 billion, an increase of $170 million over the final 2018-2019 program.
- Assuming a first event completely exhausts the $3.32 billion tower, the second event exhaustion point would be $1.3 billion, an increase of $262 million over the final 2018-2019 program on the same assumptions.
- Full reinstatement available for all private market first event catastrophe layers for guaranteed second event coverage. For all layers purchased below the FHCF, to the extent that all coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, UPCIC has purchased reinstatement premium protection ("RPP") to pay the premium necessary for the reinstatement of these coverages.
- Private market reinsurance coverage continues to be structured into layers. This structure utilizes a cascading feature such that any layers above a $111 million attachment point are excess of loss over the immediately preceding layer. If the aggregate limit of the preceding layer is exhausted, the next layer cascades down in its place for future events.
- Specific 3rd and 4th event private market catastrophe excess of loss coverage of $76 million in excess of $35 million provides robust frequency protection for a multiple event storm season.
- For the FHCF Reimbursement Contracts effective June 1, 2019, UPCIC has continued the election of the 90% coverage level. The total mandatory FHCF layer is estimated to provide approximately $2.017 billion of coverage for UPCIC, which inures to the benefit of the open market coverage secured from private reinsurers.

**APPCIC's 2019-2020 Reinsurance Program**

- First event All States retention of $2 million.
- All States first event tower of $30.5 million.
- Full reinstatement available for all private market first event catastrophe layers for guaranteed second event coverage. For the layer purchased below the FHCF, to the extent that all coverage or a portion thereof is exhausted in a catastrophic event and reinstatement premium is due, APPCIC has purchased RPP to pay the premium necessary for the reinstatement of this coverage.
- Private market reinsurance coverage continues to be structured into layers. This structure utilizes a cascading feature such that any layers above the $2 million attachment point are excess of loss over the immediately preceding layer. If the aggregate limit of the preceding layer is exhausted, the next layer cascades down in its place for future events.
- APPCIC also purchases extensive multiple line excess per risk reinsurance with various reinsurers due to the high-value risks it insures in both the personal residential and commercial multiple peril lines of business. Under this multiple line excess per risk contract, APPCIC has coverage of $8.5 million in excess of $500 thousand ultimate net loss for each risk and each property loss, and $1 million in excess of $0.3 million for each casualty loss. A $19.5 million aggregate limit applies to the term of the contract for property-related losses and a $2.0 million aggregate limit applies to the term of the contract for casualty-related losses. This contract also contains a profit-sharing feature if specific performance measures are met.
- For the FHCF Reimbursement Contracts effective June 1, 2019, APPCIC has continued the election of the 90% coverage level. The total mandatory FHCF layer is estimated to provide approximately $14.7 million of coverage for APPCIC, which inures to the benefit of the open market coverage secured from private reinsurers.

The total cost of the 2019-2020 reinsurance programs for UPCIC and APPCIC is projected to be $420 million, representing approximately 33.5% of estimated direct premium earned for the 12-month treaty period.

**Results of Operations - Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018**

Net income was $20.1 million for the three months ended September 30, 2019 compared to $37.4 million for the three months ended September 30, 2018, a decrease of $17.2 million or 46.1%. Diluted EPS for the current quarter was $0.59 compared to $1.04 in 2018, a decrease of $0.45 or 43.3%. Weighted average diluted common shares outstanding were lower by 5.5% to 33.9 million shares from 35.9 million shares at September 30, 2018. Benefiting the quarter were increases in net earned premium, net investment income, net change in unrealized gains of equity securities, and commission revenue, offset by increased operating costs for losses and LAE. Direct and net earned premium were up 8.6% and 9.3%, respectively, due to growth in states in which we are licensed and writing during the past 12 months. Increases in losses and LAE were the result of: (1) premium growth and change in mix between Florida and other states; (2) reduced financial benefit from the management of claims including claim fees ceded to reinsurers; (3) increased estimated core losses and LAE for the current year compared to prior year; (4) a higher level of unexpected weather events this year; and (5) a higher level of prior year adverse development compared to the prior year. Income tax expense was lower than the prior year primarily as a result of lower pre-tax income.

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

| | Three Months Ended September 30, | | Change | |
|---|---|---|---|---|
| | 2019 | 2018 | $ | % |
| PREMIUMS EARNED AND OTHER REVENUES | | | | |
| Direct premiums written | $ 342,872 | $ 309,176 | $ 33,696 | 10.9 % |
| Change in unearned premium | (29,807) | (20,772) | (9,035) | 43.5 % |
| Direct premium earned | 313,065 | 288,404 | 24,661 | 8.6 % |
| Ceded premium earned | (106,466) | (99,466) | (7,000) | 7.0 % |
| Premiums earned, net | 206,599 | 188,938 | 17,661 | 9.3 % |
| Net investment income | 7,613 | 6,642 | 971 | 14.6 % |
| Net realized gains (losses) on investments | (22) | 403 | (425) | NM |
| Net change in unrealized gains (losses) of equity securities | 573 | (2,473) | 3,046 | NM |
| Commission revenue | 7,380 | 5,658 | 1,722 | 30.4 % |
| Policy fees | 5,569 | 5,204 | 365 | 7.0 % |
| Other revenue | 1,929 | 1,783 | 146 | 8.2 % |
| Total premiums earned and other revenues | 229,641 | 206,155 | 23,486 | 11.4 % |
| OPERATING COSTS AND EXPENSES | | | | |
| Losses and loss adjustment expenses | 132,571 | 85,947 | 46,624 | 54.2 % |
| General and administrative expenses | 69,174 | 69,041 | 133 | 0.2 % |
| Total operating costs and expenses | 201,745 | 154,988 | 46,757 | 30.2 % |
| INCOME BEFORE INCOME TAXES | 27,896 | 51,167 | (23,271) | (45.5)% |
| Income tax expense | 7,750 | 13,787 | (6,037) | (43.8)% |
| NET INCOME | $ 20,146 | $ 37,380 | $ (17,234) | (46.1)% |
| Other comprehensive income (loss), net of taxes | 5,160 | (737) | 5,897 | NM |
| COMPREHENSIVE INCOME | $ 25,306 | $ 36,643 | $ (11,337) | (30.9)% |
| DILUTED EARNINGS PER SHARE DATA: | | | | |
| Diluted earnings per common share | $ 0.59 | $ 1.04 | $ (0.45) | (43.3)% |
| Weighted average diluted common shares outstanding | 33,930 | 35,919 | (1,989) | (5.5)% |

NM – Not Meaningful

Policy count, premium in force and total insured value increased at September 30, 2019 when compared to September 30, 2018. Direct premiums written increased by $33.7 million, or 10.9%, for the quarter ended September 30, 2019, driven by growth within our Florida business of $20.1 million, or 7.7%, and growth in our other states business of $13.6 million, or 27.6%, as compared to the same period of the prior year. Rate increases in Florida and in certain other states along with slightly improved retention were also a source of premium growth. As discussed below in losses and LAE, we implemented new guidelines during the first quarter of 2019 on new business to address emerging loss trends that have impacted the rate of growth in Florida. Premiums in force increased in every state in which we are writing compared to the prior year. In early March 2019, we commenced writing in Illinois, and we are now actively writing policies in 17 states outside our home state of Florida.

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The following table provides direct premiums written for Florida and Other States for the three months ended September 30, 2019 and 2018 (dollars in thousands):

| | For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2019 | | September 30, 2018 | | Growth year over year | |
| State | Direct Premiums Written | % | Direct Premiums Written | % | $ | % |
| Florida | $ 280,141 | 81.7% | $ 260,024 | 84.1% | $ 20,117 | 7.7% |
| Other states | 62,731 | 18.3% | 49,152 | 15.9% | 13,579 | 27.6% |
| Total | $ 342,872 | 100.0% | $ 309,176 | 100.0% | $ 33,696 | 10.9% |

Direct premium earned increased by $24.7 million, or 8.6%, for the quarter ended September 30, 2019, reflecting the earning of premiums written over the past 12 months and changes in rates and policy count during that time.

Reinsurance enables our Insurance Entities to limit potential exposures to catastrophic events. Ceded premium represents amounts paid to reinsurers for this protection. Ceded premium earned increased by $7.0 million, or 7.0%, for the quarter ended September 30, 2019. Reinsurance costs, as a percentage of direct premium earned, decreased from 34.5% to 34.0%, reflecting a lower level of additional costs from ceded earned reinstatement premiums of $1.1 million in 2019 compared to $13.5 million in 2018 relating to additional reinsurance costs from Hurricane Irma. Excluding reinstatement premiums, ceded premiums earned were 33.6% of direct premiums earned in 2019 compared to 29.8% in 2018. The increase is a result of costs for the Company’s 2019-2020 reinsurance program compared to the expired program. The increased costs associated with the 2019-2020 reinsurance program will be earned over the June 1, 2019 to May 31, 2020 coverage period. See the discussion above for the new 2019-2020 reinsurance program and “Item 1—Note 4 (Reinsurance).”

Premiums earned, net of ceded premium earned, grew by 9.3%, or $17.7 million, to $206.6 million for the three months ended September 30, 2019, reflecting an increase in direct premiums earned offset by increased cost for reinsurance.

Net investment income was $7.6 million for the three months ended September 30, 2019, compared to $6.6 million for the same period in 2018, an increase of $1.0 million, or 14.6%. The increase is driven by the combination of growth in cash and invested assets compared to the prior year and benefits from higher yielding assets, offset by a lower trend in yields on cash and short term investments during 2019. Total invested assets were $937.4 million as of September 30, 2019 compared to $908.2 million as of December 31, 2018. The credit rating on our fixed income securities was A+ as of September 30, 2019 and December 31, 2018. The duration of fixed income securities was 2.63 years at September 30, 2019 compared to 2.79 years at December 31, 2018. Cash and cash equivalents are invested short term until needed to settle loss and LAE payments, reinsurance premium payments and operating cash needs or until they are deployed to investment advisors.

Yields from the fixed income portfolio are dependent on future market forces, monetary policy and interest rate policy from the Federal Reserve. During 2019, the Federal Reserve has been lowering interest rates, which has impacted effective yields on new fixed income and overnight cash purchases. The impact from this trend in 2019 has been somewhat limited as investments mature over many future years based on the effective maturity of the portfolio, subjecting only the current year redemptions to the lower interest rate environment. The Company’s investment strategy is to invest in assets with multi-year effective maturities, locking in book yields for future years which dampers the impact that market fluctuations have on current investment income.

We sell securities from our investment portfolio from time to time to meet our investment objectives. During the three months ended September 30, 2019, sales resulted in a net realized loss of $22 thousand. We sold securities during the three months ended September 30, 2018, generating net realized gain of $0.4 million. See “Item 1—(Note 3 Investments).”

There was a $0.6 million favorable net unrealized gain in equity securities during the three months ended September 30, 2019 compared to a $2.5 million unfavorable net unrealized loss during the three months ended September 30, 2018. Unrealized gains or losses are the result of changes in the fair market value of our equity securities during the period for securities still held and the reversal of unrealized gains or losses for securities sold during the period. See “Item 1—(Note 3 Investments).”

Commission revenue is comprised principally of brokerage commissions we earn from reinsurers on reinsurance placed for the Insurance Entities. Commission revenue is earned pro-rata over the reinsurance policy period which runs from June 1 to May 31 of the following year. For the three months ended September 30, 2019, commission revenue was $7.4 million, compared to $5.7 million for the three months ended September 30, 2018. The increase in commission revenue of $1.7 million, or 30.4%, for the three months ended September 30, 2019 was primarily from increased commissions earned on reinsurance premiums associated with the new reinsurance program.

Policy fees for the three months ended September 30, 2019 were $5.6 million compared to $5.2 million for the same period in 2018. The increase of $0.4 million, or 7.0%, was the result of an increase in the total number of new and renewal policies written during the three months ended September 30, 2019 compared to the same period in 2018.

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Losses and LAE, net of reinsurance, were $132.6 million for the three months ended September 30, 2019, compared to $85.9 million during the same period in 2018 as follows (dollars in thousands):

| | Three Months Ended September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Direct | Loss Ratio | Ceded | Loss Ratio | Net | Loss Ratio |
| Premiums earned | $ 313,065 | | $ 106,466 | | $ 206,599 | |
| Loss and loss adjustment expenses: | | | | | | |
| Weather events* | $ 15,000 | 4.8% | $ — | —% | $ 15,000 | 7.3% |
| Prior year adverse/(favorable) reserve development | 205,087 | 65.5% | 201,869 | 189.6% | 3,218 | 1.6% |
| All other losses and loss adjustment expenses | 114,353 | 36.5% | — | — | 114,353 | 55.4% |
| Total losses and loss adjustment expenses | $ 334,440 | 106.8% | $ 201,869 | 189.6% | $ 132,571 | 64.3% |

*Includes only current year weather events beyond those expected.

| | Three Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Direct | Loss Ratio | Ceded | Loss Ratio | Net | Loss Ratio |
| Premiums earned | $ 288,404 | | $ 99,466 | | $ 188,938 | |
| Loss and loss adjustment expenses: | | | | | | |
| Weather events* | $ 41,858 | 14.5% | $ 34,358 | 34.5% | $ 7,500 | 4.0% |
| Prior year adverse/(favorable) reserve development | 149,633 | 51.9% | 149,672 | 150.5% | (39) | 0.0% |
| All other losses and loss adjustment expenses | 78,667 | 27.3% | 181 | 0.2% | 78,486 | 41.5% |
| Total losses and loss adjustment expenses | $ 270,158 | 93.7% | $ 184,211 | 185.2% | $ 85,947 | 45.5% |

*Includes only current year weather events beyond those expected.

See "Item 1—Note 6 (Liability for Unpaid Losses and Loss Adjustment Expenses)" for change in liability for unpaid losses and LAE.

For the third quarter of 2019, we experienced $15.0 million of losses and LAE for weather events beyond those expected, principally for Hurricane Dorian and other weather-related events. This compares to $7.5 million of losses and LAE for weather events beyond those expected in 2018, primarily related to Hurricane Florence, Tropical Storm Gordon and other events. All other losses and LAE increased during the third quarter ended September 30, 2019 principally due to three key factors: (1) increased losses in connection with the growth in our underlying business; (2) increased core loss ratio (as defined below) from 33% in 2018 to 37% in 2019; and (3) reduced level of financial benefits from claim settlement fees ceded to reinsurers as hurricanes claims conclude. In the third quarter of 2019, there was adverse prior year reserve development of $205.1 million gross, less $201.9 million ceded, resulting in $3.2 million net. The direct prior year reserve development for the quarter ended September 30, 2019 was principally due to increased ultimate direct losses and LAE for Hurricane Irma, which were fully ceded. For the three months ended September 30, 2019, there was net prior year adverse reserve development of $3.2 million, which principally resulted from a change in the allocation of estimated Hurricane Michael losses and LAE recoveries from the Non-Florida reinsurance coverage to the All States reinsurance coverage. The Non-Florida reinsurance coverage has a lower retention and the change in the allocation of reinsurance recoveries to the All States reinsurance coverage resulted in higher retained losses. There was no change to gross Hurricane Michael losses. Direct and net losses and LAE prior year reserve development for 2018 resulted from increased estimated losses and LAE for Hurricane Irma.

The net loss ratio for the third quarter ended September 30, 2019 was 64.3% compared to 45.5% in the prior year. The increase of 18.8 loss ratio points was a result of: (1) reduced financial benefit from the management of claims, including claims fees ceded to reinsurers (8.3 loss ratio points); (2) increased core loss ratio (5.6 loss ratio points); (3) increased weather (3.3 loss ratio points); and (4) prior year development (1.6 loss ratio points).

We increased our core loss ratio to be in line with recent claim experience, specifically in the Florida market, as we continue to address: (1) the assignment of benefits issue ("AOB") described below and increases in the systemic solicitation and representation of claims; and (2) emerging trends impacting the severity and frequency of claims. Claims paid under an AOB often involve unnecessary litigation and as a result cost significantly more than claims settled when an AOB is not involved, with most of the increase going to the attorneys or representatives of insureds. The increase in the underlying core loss and LAE ratio also reflects continued geographic expansion into states outside of Florida where non-catastrophe loss ratios are generally higher than in Florida. "Core loss ratio" is a common operational metric used in the insurance industry to describe the ratio of current accident year expected losses to premiums earned.

On May 23, 2019, Florida Governor Ron DeSantis signed HB 7065: Insurance Assignment Agreements, which aims to curtail the abuse of AOB. We are evaluating this bill to determine its impact on our business.

These market trends in losses and LAE led us to file for an overall 2.6% rate increase in Florida (effective April 2019 for new business and May 2019 for renewals), make changes to certain new business guidelines and develop specialized claims and litigation management efforts to address market trends driving up claim costs.

The financial benefit from the management of claims, including claims fees ceded to reinsurers, was $1.1 million for the third quarter of 2019 compared to $16.7 million during the third quarter of 2018. The benefit was recorded in the condensed consolidated financial statements as a reduction to losses and LAE. This reduction in the third quarter of 2019 reflects a lower volume of hurricane claim costs ceded to reinsurers.

General and administrative expenses were $69.2 million for the three months ended September 30, 2019, compared to $69.0 million during the same period in 2018, as follows (dollars in thousands):

| | Three Months Ended September 30, | | | | Change | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | $ | % |
| | $ | Ratio | $ | Ratio | | |
| Premiums earned, net | $ 206,599 | | $ 188,938 | | $ 17,661 | 9.3 % |
| General and administrative expenses: | | | | | | |
| Policy acquisition costs | 45,131 | 21.8% | 42,745 | 22.6% | 2,386 | 5.6 % |
| Other operating costs | 24,043 | 11.6% | 26,296 | 13.9% | (2,253) | (8.6)% |
| Total general and administrative expenses | $ 69,174 | 33.5% | $ 69,041 | 36.5% | $ 133 | 0.2 % |

General and administrative costs increased by $0.1 million, which was the result of increases in policy acquisition costs of $2.4 million, offset by a decrease in other operating costs of $2.3 million. As a percentage of earned premiums, general and administrative costs decreased from 36.5% of earned premiums for the three months ended September 30, 2018 to 33.5% of earned premiums for the same period in 2019. Our underlying policy acquisition costs continued to be driven by increased premium volume and continued geographic expansion into states that typically have higher commission rates as compared to Florida. Other operating costs for the three months ended September 30, 2019 decreased $2.3 million, reflecting lower amounts recorded for executive compensation and temporary employee expenses, partially offset by added costs to support the growth in business. Other operating costs ratio for the three months ended September 30, 2019 was 11.6% in 2019 compared to 13.9% in 2018, reflecting lower amounts recorded for executive compensation. Overall, the expense ratio (general and administrative expenses as a percentage of net earned premiums) benefited from the items mentioned above, a lower level of costs from reinstatement premiums impacting premiums earned net and economies of scale as general and administrative expenses did not increase at the same rate as net premiums earned.

Income tax expense decreased by $6.0 million, or 43.8%, for the three months ended September 30, 2019, primarily as a result of a 45.5% reduction in income before income taxes, when compared with the three months ended September 30, 2018. Our effective tax rate ("ETR") increased to 27.8% for the three months ended September 30, 2019, as compared to 26.9% for the three months ended September 30, 2018. The ETR increased by 0.9% as a result of a higher ratio of permanent items relative to the amount of income before taxes, principally non-deductible compensation, partially offset by increased discrete tax benefits.

Other comprehensive income, net of taxes for the three months ended September 30, 2019, was $5.2 million compared to other comprehensive loss of $0.7 million for the same period in 2018. See "Item 1—Note 11 (Other Comprehensive Income (Loss))" for additional information about the amounts comprising other comprehensive income and loss for these periods.

**Results of Operations - Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018**

Net income was $97.6 million for the nine months ended September 30, 2019 compared to $123.5 million for the nine months ended September 30, 2018, a decrease of $25.9 million. Diluted EPS for the nine months ended September 30, 2019 was $2.82 compared to $3.45 in 2018, a decrease of $0.63 or 18.3%. Weighted average diluted common shares outstanding were lower by 3.3% to 34.6 million shares from 35.8 million shares at September 30, 2018. Benefiting the nine months ended September 30, 2019 were increases in net earned premium, net investment income, commission revenue and increases in the net change in unrealized gains of equity securities, offset by realized losses on investments and increased operating costs for losses and LAE and general and administrative costs. Direct and net earned premium were up 10.5% and 11.2%, respectively, due to growth in all states in which we are licensed and writing during the past 12 months. Increases in losses and LAE were the result of (1) premium growth and change in mix between Florida and other states, (2) reduced financial benefit from the management of claims including claim fees ceded to reinsurers, (3) increased estimated core losses and LAE for the current year compared to prior year, and (4) unexpected weather events this year. As discussed further below, certain non-recurring items from 2018 impacted the period over period comparison, such as a $6.5 million benefit associated with a premium tax refund in 2018 and the decline in the amount of costs related to reinstatement premiums. Income tax expense was lower than prior year as a result of lower pre-tax income.

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

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 | Change $ | Change % |
|---|---|---|---|---|
| PREMIUMS EARNED AND OTHER REVENUES | | | | |
| Direct premiums written | $ 990,066 | $ 921,941 | $ 68,125 | 7.4 % |
| Change in unearned premium | (78,516) | (97,249) | 18,733 | (19.3)% |
| Direct premium earned | 911,550 | 824,692 | 86,858 | 10.5 % |
| Ceded premium earned | (284,867) | (260,905) | (23,962) | 9.2 % |
| Premiums earned, net | 626,683 | 563,787 | 62,896 | 11.2 % |
| Net investment income | 23,165 | 17,213 | 5,952 | 34.6 % |
| Net realized gains (losses) on investments | (13,152) | (2,093) | (11,059) | 528.4 % |
| Net change in unrealized gains (losses) of equity securities | 22,364 | (9,103) | 31,467 | NM |
| Commission revenue | 18,933 | 16,638 | 2,295 | 13.8 % |
| Policy fees | 16,587 | 15,743 | 844 | 5.4 % |
| Other revenue | 5,369 | 5,258 | 111 | 2.1 % |
| Total premiums earned and other revenues | 699,949 | 607,443 | 92,506 | 15.2 % |
| OPERATING COSTS AND EXPENSES | | | | |
| Losses and loss adjustment expenses | 358,961 | 251,715 | 107,246 | 42.6 % |
| General and administrative expenses | 208,418 | 191,614 | 16,804 | 8.8 % |
| Total operating costs and expenses | 567,379 | 443,329 | 124,050 | 28.0 % |
| INCOME BEFORE INCOME TAXES | 132,570 | 164,114 | (31,544) | (19.2)% |
| Income tax expense | 34,983 | 40,595 | (5,612) | (13.8)% |
| NET INCOME | $ 97,587 | $ 123,519 | $ (25,932) | (21.0)% |
| Other comprehensive income (loss), net of taxes | 29,099 | (6,636) | 35,735 | NM |
| COMPREHENSIVE INCOME | $ 126,686 | $ 116,883 | $ 9,803 | 8.4 % |
| DILUTED EARNINGS PER SHARE DATA: | | | | |
| Diluted earnings per common share | $ 2.82 | $ 3.45 | $ (0.63) | (18.3)% |
| Weighted average diluted common shares outstanding | 34,565 | 35,754 | (1,189) | (3.3)% |

NM – Not Meaningful

Policy count, premium in force and total insured value increased at September 30, 2019 when compared to September 30, 2018. Direct premiums written increased by $68.1 million, or 7.4%, for the nine months ended September 30, 2019, driven by growth within our Florida business of $29.6 million, or 3.8%, and growth in our other states business of $38.5 million, or 29.1%, as compared to the same period of the prior year. Rate increases in Florida and in certain other states along with slightly improved retention were also a source of premium growth. We implemented new guidelines during the nine months ended September 30, 2019 on new business to address emerging loss trends that have impacted the rate of growth in Florida. Premiums in force increased in every state in which we are writing compared to September 30, 2018. In early March 2019, we commenced writing in Illinois, and we are now actively writing policies in 17 states outside our home state of Florida.

The following table provides direct premiums written for Florida and Other States for the nine months ended September 30, 2019 and 2018 (dollars in thousands):

| | For the Nine Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2019 | | September 30, 2018 | | Growth year over year | |
| State | Direct Premiums Written | % | Direct Premiums Written | % | $ | % |
| Florida | $ 819,185 | 82.7% | $ 789,539 | 85.6% | $ 29,646 | 3.8% |
| Other states | 170,881 | 17.3% | 132,402 | 14.4% | 38,479 | 29.1% |
| Total | $ 990,066 | 100.0% | $ 921,941 | 100.0% | $ 68,125 | 7.4% |

Direct premium earned increased by $86.9 million, or 10.5%, for the nine months ended September 30, 2019, reflecting the earning of premiums written over the past 12 months and changes in rates and policy count during that time.

Reinsurance enables our Insurance Entities to limit potential exposures to catastrophic events. Ceded premium represents amounts paid to reinsurers for this protection. Ceded premium earned increased $24.0 million, or 9.2%, for the nine months ended September 30, 2019. Reinsurance costs, as a percentage of direct premium earned, decreased from 31.6% in 2018 to 31.3% in 2019, reflecting a lower level of additional costs from ceded earned reinstatement premiums of $2.1 million in 2019, compared to $14.0 million in 2018 relating to additional reinsurance costs from Hurricane Irma. Excluding reinstatement premiums, ceded premiums earned were 31.0% of direct premiums earned in 2019 compared to 30.0% in 2018. The increase in the ratio is a result of costs for the Company's 2019-2020 reinsurance program, compared to the expired program. Costs associated with each year's reinsurance program are earned over the June 1 to May 31 coverage period. See the discussion above for the new 2019-2020 reinsurance program and "Item 1— (Note 4 Reinsurance)."

Premiums earned, net of ceded premium earned, grew by 11.2%, or $62.9 million, to $626.7 million for the nine months ended September 30, 2019, reflecting the increase in direct premiums earned offset by increased costs for reinsurance.

Net investment income was $23.2 million for the nine months ended September 30, 2019, compared to $17.2 million for the same period in 2018, an increase of $6.0 million, or 34.6%. The increase is driven by the combination of the growth in cash and invested assets compared to the prior year and benefits from higher yielding assets offset by a lower trend in yields on cash and short term investments during 2019. Total invested assets were $937.4 million as of September 30, 2019 compared to $908.2 million as of December 31, 2018. The credit rating on our fixed income securities was A+ as of September 30, 2019 and December 31, 2018. The duration of fixed income securities was 2.63 years at September 30, 2019 compared to 2.79 years at December 31, 2018. Cash and cash equivalents are invested short term until needed to settle loss and LAE payments, reinsurance premium payments and operating cash needs or until they are deployed to investment advisors.

Yields from the fixed income portfolio are dependent on future market forces, monetary policy and interest rate policy from the Federal Reserve. During 2019, the Federal Reserve has been lowering interest rates, which has impacted effective yields on new fixed income and overnight cash purchases. The impact from this trend in 2019 has been somewhat limited as investments mature over many future years based on the effective maturity of the portfolio, subjecting only the current year redemptions to the lower interest rate environment. The Company's investment strategy is to invest in assets with multi-year effective maturities, locking in book yields for future years which dampers the impact that market fluctuations have on current investment income.

We sell investments from our investment portfolio from time to time to meet our investment objectives. We sold securities and investment real estate during the nine months ended September 30, 2019, generating net realized loss of $13.2 million compared to net realized loss of $2.1 million for the nine months ended September 30, 2018. The realized losses during the nine months ended September 30, 2019 resulted primarily from the sale of equity securities, whereas the realized loss for the nine months ended September 30, 2018 resulted primarily from the sale of municipal securities, which were liquidated in light of their diminished after-tax returns following the enactment of the Tax Act. See "Item 1—(Note 3 Investments)."

There was a $22.4 million favorable net unrealized gain in equity securities during the nine months ended September 30, 2019 compared to a $9.1 million unfavorable net unrealized loss during the nine months ended September 30, 2018. Unrealized gains or losses are the result of changes in the fair market value of our equity securities during the period for securities still held and the reversal of unrealized gains or losses for securities sold during the period. See "Item 1—(Note 3 Investments)."

Commission revenue is comprised principally of brokerage commissions we earn from reinsurers on reinsurance placed for the Insurance Entities. Commission revenue is earned pro-rata over the reinsurance policy period which runs from June 1 to May 31 of the following year. For the nine months ended September 30, 2019, commission revenue was $18.9 million, compared to $16.6 million for the nine months ended September 30, 2018. The increase in commission revenue of $2.3 million, or 13.8%, for the nine months ended September 30, 2019 was primarily from increased commissions earned on reinsurance premiums associated with our reinsurance program.

Policy fees for the nine months ended September 30, 2019 were $16.6 million compared to $15.7 million for the same period in 2018. The increase of $0.8 million, or 5.4%, was the result of an increase in the total number of new and renewed policies written during the nine months ended September 30, 2019 compared to the same period in 2018.

Losses and LAE, net of reinsurance, were $359.0 million for the nine months ended September 30, 2019, compared to $251.7 million during the same period in 2018, as follows (dollars in thousands):

| | Nine Months Ended September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Direct | Loss Ratio | Ceded | Loss Ratio | Net | Loss Ratio |
| Premiums earned | $ 911,550 | | $ 284,867 | | $ 626,683 | |
| Loss and loss adjustment expenses: | | | | | | |
| Weather events* | $ 24,917 | 2.7% | $ 2,917 | 1.0% | $ 22,000 | 3.5% |
| Prior year adverse/(favorable) reserve development | 305,295 | 33.5% | 301,592 | 105.9% | 3,703 | 0.6% |
| All other losses and loss adjustment expenses | 333,556 | 36.6% | 298 | 0.1% | 333,258 | 53.2% |
| Total losses and loss adjustment expenses | $ 663,768 | 72.8% | $ 304,807 | 107.0% | $ 358,961 | 57.3% |

*Includes only current year weather events beyond those expected.

| | Nine Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Direct | Loss Ratio | Ceded | Loss Ratio | Net | Loss Ratio |
| Premiums earned | $ 824,692 | | $ 260,905 | | $ 563,787 | |
| Loss and loss adjustment expenses: | | | | | | |
| Weather events* | $ 46,858 | 5.7% | $ 34,358 | 13.2 % | $ 12,500 | 2.2% |
| Prior year adverse/(favorable) reserve development | 311,683 | 37.8% | 309,456 | 118.6 % | 2,227 | 0.4% |
| All other losses and loss adjustment expenses | 234,878 | 28.5% | (2,110) | (0.8)% | 236,988 | 42.0% |
| Total losses and loss adjustment expenses | $ 593,419 | 72.0% | $ 341,704 | 131.0 % | $ 251,715 | 44.6% |

*Includes only current year weather events beyond those expected.

See “Item 1—Note 6 (Liability for Unpaid Losses and Loss Adjustment Expenses)” for change in liability for unpaid losses and LAE.

Losses and LAE, net for the nine months ended September 30, 2019 were $359.0 million compared to $251.7 million in the same period in 2018, an increase of $107.2 million, or 42.6%. All other losses and LAE increased during the nine months ended September 30, 2019 principally due to three key factors: (1) increased losses in connection with the growth in our underlying business; (2) reduced level of benefits from claim settlement fees ceded to reinsurers as hurricanes claims conclude and; (3) increased core loss ratio (as defined below) from 33% in 2018 to 37% in 2019. For the nine months ended September 30, 2019, there was prior year adverse reserve development of $305.3 million gross, less $301.6 million ceded, resulting in $3.7 million net. For 2019, net prior year adverse reserve development of $3.7 million principally resulted from a change in the allocation of estimated Hurricane Michael losses and LAE recoveries from the Non-Florida reinsurance coverage to the All States reinsurance coverage. The Non-Florida reinsurance coverage has a lower retention and the change in the allocation of reinsurance recoveries to the All States reinsurance coverage resulted in higher retained losses. There was no change to gross Hurricane Michael losses. For the nine months ended September 30, 2018, there was $311.7 million gross, less $309.5 million ceded, resulting in $2.2 million net of prior year reserve development principally reflecting an increase in estimated Hurricane Irma claims.The nine months ended September 30, 2019 included net $22.0 million for weather events beyond those expected compared to net $12.5 million in the prior year.

The net loss ratio for the nine months ended September 30, 2019 was 57.3% compared to 44.6% in the prior year. The increase of 12.7 loss ratio points was a result of: (1) reduced financial benefit from the management of claims, including claims fees ceded to reinsurers (5.8 loss ratio points); (2) increased core loss ratio (5.4 loss ratio points); (3) increased weather (1.3 loss ratio points); and (4) prior year development (0.2 loss ratio points).

We increased our core loss ratio to be in line with recent claim experience, specifically in the Florida market, as we continue to address: (1) the AOB issue described below and increases in the systemic solicitation and representation of claims; and (2) emerging trends impacting the severity and frequency of claims. Claims paid under an AOB often involve unnecessary litigation and as a result cost significantly more than claims settled when an AOB is not involved, with most of the increase going to the attorneys or representatives of insureds. The increase in the underlying core loss and LAE ratio also reflects continued geographic expansion into states outside of Florida where non-catastrophe loss ratios are generally higher than in Florida. “Core loss ratio” is a common operational metric used in the insurance industry to describe the ratio of current accident year expected losses to premiums earned.

On May 23, 2019, Florida Governor Ron DeSantis signed HB 7065: Insurance Assignment Agreements which aims to curtail the abuse of AOB. We are evaluating this bill to determine its impact on our business.

These market trends in losses and LAE have led us to file for an overall 2.6% rate increase in Florida (effective April 2019 for new business and May 2019 for renewals), make changes to certain new business guidelines and develop specialized claims and litigation management efforts to address market trends driving up claim costs.

The financial benefit from the management of claims ceded, including claim fees ceded to reinsurers, was $3.2 million for the nine months ended September 30, 2019, compared to $35.5 million during the nine months ended September 30, 2018. The benefit was recorded in the condensed consolidated financial statements as a reduction to losses and LAE.

General and administrative expenses were $208.4 million for the nine months ended September 30, 2019, compared to $191.6 million during the same period in 2018, as follows (dollars in thousands):

| | Nine Months Ended September 30, | | | | Change | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | $ | % |
| | $ | Ratio | $ | Ratio | | |
| Premiums earned, net | $ 626,683 | | $ 563,787 | | $ 62,896 | 11.2 % |
| General and administrative expenses: | | | | | | |
| Policy acquisition costs | 132,863 | 21.2% | 114,333 | 20.3% | 18,530 | 16.2 % |
| Other operating costs | 75,555 | 12.1% | 77,281 | 13.7% | (1,726) | (2.2)% |
| Total general and administrative expenses | $ 208,418 | 33.3% | $ 191,614 | 34.0% | $ 16,804 | 8.8 % |

General and administrative costs increased by $16.8 million, which was primarily the result of increases in policy acquisition costs of $18.5 million due to commissions associated with increased premium volume, and a $6.5 million non-recurring audit settlement in 2018 related to premium taxes, offset by a decrease in other operating costs of $1.7 million. As a percentage of earned premiums, general and administrative costs decreased from 34.0% of earned premiums for the nine months ended September 30, 2018 to 33.3% of earned premiums for the same period in 2019. The increase in policy acquisition costs and ratio for the nine months ended September 30, 2019 was due to a non-recurring benefit of $6.5 million recorded in 2018 related to a refund of prior year premium taxes as a result of an audit settlement with the Florida Department of Revenue, which reduced the policy acquisition costs ratio by 1.2 percentage points in 2018. Excluding this benefit in the prior year, the overall total general and administrative expense ratio in 2019 would have improved 1.9 percentage points compared to the same period in 2018 before the impact of the premium tax refund. Other operating costs for the nine months ended September 30, 2019 decreased $1.7 million, reflecting lower amounts recorded for executive compensation and temporary employee expenses, offset by added costs to support the growth in business. Other operating costs as a percentage of earned premium decreased from 13.7% of net earned premium for the nine months ended September 30, 2018 compared to 12.1% of net earned premium for the same period in 2019. Overall, the expense ratio for 2019 (general and administrative expenses as a percentage of net premiums earned) benefited from reduced executive compensation, a lower level of costs from reinstatement premiums impacting premiums earned and economies of scale as general and administrative expenses did not increase at the same rate as revenues when compared to the same period of 2018 excluding the non-recurring premium tax benefit.

Income tax expense decreased by $5.6 million, or 13.8%, for the nine months ended September 30, 2019, as a result of a 19.2% reduction in income before income taxes, when compared with the nine months ended September 30, 2018. Our ETR increased to 26.4% for the nine months ended September 30, 2019, as compared to 24.7% for the nine months ended September 30, 2018. The ETR increased slightly as a result of a higher ratio of permanent items relative to income before taxes, principally non-deductible compensation, offset by a lower level of discrete tax benefits.

Other comprehensive income, net of taxes for the nine months ended September 30, 2019, was $29.1 million compared to other comprehensive loss of $6.6 million for the same period in 2018. See “Item 1—Note 11 (Other Comprehensive Income (Loss))” for additional information about the amounts comprising other comprehensive income and loss for these periods.

**Analysis of Financial Condition—As of September 30, 2019 Compared to December 31, 2018**

We believe that cash flows generated from operations will be sufficient to meet our working capital requirements for at least the next twelve months. We 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 dates presented (in thousands):

| | As of | |
|---|---|---|
| Type of Investment | September 30, 2019 | December 31, 2018 |
| Available-for-sale debt securities | $ 878,567 | $ 820,438 |
| Equity securities | 43,141 | 63,277 |
| Investment real estate, net | 15,688 | 24,439 |
| Total | $ 937,396 | $ 908,154 |

See "Item 1—Condensed Consolidated Statements of Cash Flows" for explanations of changes in investments and "Item 1—Note 3 (Investments)." Investment real estate, net reduced $8.8 million during 2019 as a result of the sale of two investment properties. The gain on the sale of the two investment properties was $1.2 million.

Prepaid reinsurance premiums represent the portion of unearned ceded written premium that will be earned pro-rata over the coverage period of our reinsurance program, which runs from June 1 to May 31 of the following year. The increase of $137.5 million to $280.3 million as of September 30, 2019 was due primarily to additional ceded written premium for the reinsurance costs relating to our 2019-2020 catastrophe reinsurance program beginning June 1, 2019, less amortization of prepaid reinsurance premiums recorded during 2019.

Reinsurance recoverable represents the estimated amount of paid and unpaid losses, LAE and expenses that are expected to be recoverable from reinsurers. The decrease of $201.3 million to $217.3 million as of September 30, 2019 was primarily due to the collection of amounts from reinsurers relating to settled claims from hurricanes and other events.

Premiums receivable, net represents amounts receivable from policyholders. The increase in premiums receivable, net of $10.5 million to $70.4 million as of September 30, 2019 relates to the growth, seasonality and consumer payment behavior of our business. The nature of our business tends to be seasonal during the year, reflecting consumer behaviors in connection with the Florida residential real estate market and the hurricane season. The amount of direct premiums written tends to increase just prior to the second quarter and tends to decrease approaching the fourth quarter.

Property and equipment, net increased $6.0 million during 2019 primarily as the result of the purchase of a new office building in Fort Lauderdale, Florida, which will be used to meet the staffing needs of the company as the business continues to expand.

Deferred policy acquisition costs ("DPAC") increased by $10.1 million to $94.8 million as of September 30, 2019, which is consistent with the underlying premium growth and the seasonality of our business. See "Item 1—Note 5 (Insurance Operations)" for a roll-forward in the balance of our DPAC.

Income taxes recoverable represents the difference between estimated tax obligations and tax payments made to taxing authorities. At September 30, 2019, the balance recoverable was $9.9 million, representing amounts due from taxing authorities at that date, compared to a balance recoverable of $11.2 million as of December 31, 2018.

Deferred income taxes represent the estimated tax asset or tax liability caused by temporary differences between the tax return basis of certain assets and liabilities and amounts recorded in the financial statements. During the nine months ended September 30, 2019, deferred tax assets decreased by $14.6 million to a deferred tax liability of $2.6 million. The change in these accounts was primarily due to an increase in unrealized gains on investment, prepaid reinsurance premiums and unearned premiums. Deferred income taxes reverse in future years as the temporary differences between book and tax reverse.

See "Item 1—Note 6 (Liability for Unpaid Losses and Loss Adjustment Expenses)" for a roll-forward in the balance of our unpaid losses and LAE. Unpaid losses and LAE decreased by $306.5 million to $166.3 million as of September 30, 2019. The reduction in unpaid losses and LAE was principally due to the settlement of claims from previous hurricane and storm events, as more claims from those events concluded during the nine months ended September 30, 2019. Overall unpaid losses and LAE decreased, as claim settlements exceeded new emerging claims. Unpaid losses and LAE are net of estimated subrogation recoveries.

Unearned premiums represent the portion of direct premiums written that will be earned pro rata in the future. The increase of $78.5 million from December 31, 2018 to $680.2 million as of September 30, 2019 reflects both organic growth and the seasonality of our business, which is the variability of premiums written by month.

Advance premium represents premium payments made by policyholders ahead of the effective date of the policies. The increase of $14.4 million to $40.7 million as of September 30, 2019 reflects customer payment behavior and the organic growth and the seasonality of our business.

The Company excludes any net negative cash balances from cash and cash equivalents that the Company has with any single financial institution. These amounts represent outstanding checks or drafts not yet presented to the financial institution and are reclassified to liabilities and presented as book overdraft in the Company's Condensed Consolidated Balance Sheets at each balance sheet date. We maintain a short-term cash investment sweep to maximize investment returns on cash balances. Due to sweep activities, certain outstanding items are recorded as book overdrafts, which totaled $1.7 million as of September 30, 2019, compared to $102.8 million as of December 31, 2018. The decrease of $101.2 million is the result of higher cash balances available for offset as of September 30, 2019 compared to December 31, 2018.

Reinsurance payable, net, represents the unpaid installments owed to reinsurers, unpaid reinstatement premiums due to reinsurers and cash advances received from reinsurers. On June 1st of each year, we renew our catastrophe reinsurance program and record the estimated annual cost of our reinsurance program. The annual cost initially increases reinsurance payable, which is then reduced as installment payments are made over the policy period of the reinsurance, which runs from June 1st to May 31st. The balance increased by $206.8 million to $300.1 million as of September 30, 2019 as a result of the timing of the above items.

Other liabilities and accrued expenses increased by $9.6 million to $55.0 million as of September 30, 2019, primarily driven by an increase in other liabilities due to timing of payments.

Capital resources, net increased by $66.2 million during the nine months ended September 30, 2019, reflecting increases in stockholders' equity offset by a reduction in long-term debt. The increases in stockholders' equity was principally the result of our 2019 net income, share-based compensation, and after-tax changes in fair value of our investment portfolio unrealized gains in 2019 offset by treasury stock repurchases and dividends to shareholders. See "Item 1—Condensed Consolidated Statements of Stockholders' Equity" and "Item 1—Note 8 (Stockholders' Equity)."

The reduction in long-term debt of $1.1 million was the result of principal payments on debt during 2019. See "—Liquidity and Capital Resources."

## 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 been sufficient to meet our 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 September 30, 2019 was $159.6 million compared to $166.4 million at December 31, 2018. See "Item 1—Condensed Consolidated Statements of Cash Flows" for a reconciliation of the balance of cash and cash equivalents between September 30, 2019 and December 31, 2018. The decrease in cash and cash equivalents was driven by cash flows used in financing activities in excess of net cash provided by operating and investing activities. We maintain a short-term investment cash sweep to maximize investment returns on cash balances. Due to these sweep activities, certain outstanding items are routinely recorded as book overdraft in the Condensed Consolidated Financial Statements. Cash and cash equivalents balances are available to settle book overdrafts, and to pay reinsurance premiums, expenses and claims. Reinsurance premiums are paid in installments during the reinsurance policy period, which runs from June 1 to May 31 of the following year. The Florida Hurricane Catastrophe Fund ("FHCF") is paid in three installments on August 1, October 1, and December 1, and third-party reinsurance is paid in four installments on July 1, October 1, January 1 and April 1, resulting in significant payments at those times. See "Item 1—Note 12 (Commitments and Contingencies)" and "—Contractual Obligations" for more information.

The balance of restricted cash and cash equivalents as of September 30, 2019 and December 31, 2018 represents cash equivalents on deposit with regulatory agencies in the various states in which our Insurance Entities do business.

Liquidity is required for us to cover the payment of general operating expenses, dividends to shareholders (if and when authorized and declared by our Board of Directors), payment for the possible repurchase of our common stock (if and when authorized by our Board of Directors), payment of income taxes, and interest and principal payments on outstanding debt obligations, if any. The declaration and payment of future dividends to our shareholders, and any future repurchases of our common stock, will be at the discretion of our Board of Directors and will depend upon many factors, including our operating results, financial condition, debt covenants and any regulatory constraints. Principal sources of liquidity for us include revenues generated from fees paid by the Insurance Entities to affiliated companies for general agency, inspections and claims adjusting services. Additional sources of liquidity include brokerage commissions earned on reinsurance contracts, policy fees and remittances from the Insurance Entities for their respective share of income taxes. We also maintain investments, which are a source of ongoing interest and dividend income and would generate funds upon sale.

There are limitations on the dividends the Insurance Entities may pay to their immediate parent company, Protection Solutions, Inc. ("PSI", formerly known as Universal Insurance Holding Company of Florida). The maximum amount of dividends that can be paid by Florida insurance companies without prior approval of the FLOIR is subject to restrictions as referenced below and in "Item 1—Note 5 (Insurance Operations)." The maximum dividend that may be paid by the Insurance Entities to PSI 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 nine months ended September 30, 2019 and the year ended December 31, 2018, the Insurance Entities did not pay dividends to PSI.

Liquidity for the Insurance Entities is primarily required to cover payments for reinsurance premiums, claims payments including potential payments of catastrophe losses (offset by recovery of any reimbursement amounts under our reinsurance agreements), fees paid to affiliates for managing general agency services, inspections and claims adjusting services, agent commissions, premium and income taxes, regulatory assessments, general operating expenses, and interest and principal payments on debt obligations. The principal source of liquidity for the Insurance Entities consists of the revenue generated from the collection of net premiums, interest and dividend income from the investment portfolio, the collection of reinsurance recoverable and financing fees.

Our insurance operations provide liquidity as premiums are generally received months or even years before losses are paid under the policies written. In the event of catastrophic events, many of our reinsurance agreements provide for "cash advance" whereby reinsurers advance or prepay amounts to us, thereby providing liquidity, which we utilize in the claim settlement process. In addition, the Insurance Entities maintain substantial investments in highly liquid, marketable securities, which would generate funds upon sale.

The Insurance Entities are responsible for losses related to catastrophic events in excess of coverage provided by the Insurance Entities' reinsurance programs or retentions before our reinsurance protection commences. Also, the Insurance Entities are responsible for all other losses that otherwise may not be covered by the reinsurance programs and any amounts arising in the event of a reinsurer default. Losses or a default by reinsurers may have a material adverse effect on either of the Insurance Entities or our business, financial condition, results of operations and liquidity.

**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. The following table provides our stockholders' equity, total long-term debt, total capital resources, debt-to-total capital ratio and debt-to-equity ratio for the periods presented (dollars in thousands):

| | As of | |
|---|---|---|
| | September 30, 2019 | December 31, 2018 |
| Stockholders' equity | $ 568,981 | $ 501,633 |
| Total long-term debt | 10,294 | 11,397 |
| Total capital resources | $ 579,275 | $ 513,030 |
| | | |
| Debt-to-total capital ratio | 1.8% | 2.2% |
| Debt-to-equity ratio | 1.8% | 2.3% |

As described in our Annual Report on Form 10-K for the year ended December 31, 2018, UPCIC entered into a surplus note with the State Board of Administration of Florida under Florida's Insurance Capital Build-Up Incentive Program on November 9, 2006. The surplus note has a twenty-year term, with quarterly payments of principal and interest that accrue per the terms of the note agreement. At September 30, 2019, UPCIC was in compliance with the terms of the surplus note. Total adjusted capital surplus, which includes the surplus note, was in excess of regulatory requirements for both UPCIC and APPCIC.

**Common Stock Repurchases**

We may repurchase shares from time to time at our discretion, based on ongoing assessments of our capital needs, the market price of our common stock and general market conditions. We will fund the share repurchase program with cash from operations. During the nine months ended September 30, 2019, there were two authorized repurchase plans in effect:

- On December 12, 2018, we announced that our Board of Directors authorized a share repurchase program under which we were authorized to repurchase in the open market up to $20 million of outstanding shares of our common stock through May 31, 2020 (the "May 2020 Share Repurchase Program"), pursuant to which we repurchased 606,342 shares of our common stock at an average price of $32.98 per share. We completed the May 2020 Share Repurchase Program in May 2019.
- On May 6, 2019, we announced that our Board of Directors authorized a share repurchase program under which we may repurchase in the open market up to $40 million of outstanding shares of our common stock through December 31, 2020 (the "December 2020 Share Repurchase Program"). Under the December 2020 Share Repurchase Program, we repurchased 1,302,401 shares of our common stock at an average price of $27.19 per share during the nine months ended September 30, 2019 at an aggregate cost of approximately $35.4 million.

During the nine months ended September 30, 2019, we repurchased an aggregate of 1,770,509 shares of our common stock in the open market at an aggregate purchase price of $49.9 million. Also, see "Part II, Item 2—Unregistered Sales of Equity Securities and Use of Proceeds" for share repurchase activity during the three months ended September 30, 2019.

**Cash Dividends**

The following table summarizes the dividends declared by us:

| 2019 | Dividend Declared Date | Shareholders Record Date | Dividend Payable Date | Cash Dividend Per Share Amount |
|---|---|---|---|---|
| First Quarter | January 31, 2019 | March 11, 2019 | March 25, 2019 | $ 0.16 |
| Second Quarter | April 10, 2019 | May 3, 2019 | May 10, 2019 | $ 0.16 |
| Third Quarter | June 5, 2019 | July 3, 2019 | July 17, 2019 | $ 0.16 |

## CONTRACTUAL OBLIGATIONS

The following table represents our contractual obligations for which cash flows are fixed or determinable as of September 30, 2019 (in thousands):

| | Total | Less than 1 year | 1-3 years | 3-5 years | Over 5 years |
|---|---|---|---|---|---|
| Reinsurance payable and multi-year commitments (1) | $ 501,253 | $ 300,094 | $ 201,159 | $ — | $ — |
| Unpaid losses and LAE, direct (2) | 166,342 | 102,966 | 46,410 | 12,808 | 4,158 |
| Long-term debt | 11,044 | 1,253 | 4,844 | 3,081 | 1,866 |
| Total contractual obligations | $ 678,639 | $ 404,313 | $ 252,413 | $ 15,889 | $ 6,024 |

(1) The 1-3 years amount represents the payment of reinsurance premiums payable under multi-year commitments. See “Item 1——Note 12 (Commitments and Contingencies).”

(2) There are generally no notional or stated amounts related to unpaid losses and LAE. Both the amounts and timing of future loss and LAE payments are estimates and subject to the inherent variability of legal and market conditions affecting the obligations and make the timing of cash outflows uncertain. The ultimate amount and timing of unpaid losses and LAE could differ materially from the amounts in the table above. Further, the unpaid losses and LAE do not represent all the obligations that will arise under the contracts, but rather only the estimated liability incurred through September 30, 2019. Unpaid losses and LAE are net of estimated subrogation recoveries. In addition, these balances exclude amounts recoverable from the Company’s reinsurance program. See “Item 1—Note 4 (Reinsurance).”

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to Critical Accounting Policies and Estimates previously disclosed in “Part II, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2018.

**Recent Accounting Pronouncements Not Yet Adopted**

In June 2016, the Financial Accounting Standards Board (“FASB”) revised U.S. GAAP with the issuance of Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, that introduces a new process for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The new ASU will apply to: (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income and (4) beneficial interests in securitized financial assets. The ASU changes the current practice of recording a permanent write down (other than temporary impairment) for probable credit losses, which is more restrictive than the new ASU requirement that would estimate credit losses, then recorded through a temporary allowance account that can be re-measured as estimated credit losses change. The ASU further limited estimated credit losses relating to available-for-sale securities to the amount which fair value is below amortized cost. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

In August 2018, the FASB revised U.S. GAAP with the issuance of ASU 2018-13, *Fair Value Measurement (Topic 820) - Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removes, modifies and adds certain disclosure requirements associated with fair value measurements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The adoption of this ASU only affects the presentation of certain disclosures and is not expected to impact our results of operations, financial position or liquidity.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the potential for economic losses due to adverse changes in fair market value of available-for-sale debt securities, equity securities (“Financial Instruments”) and investment real estate. We carry all of our Financial Instruments at fair market value and investment real estate at net book value in our statement of financial condition. Our investment portfolio as of September 30, 2019 is comprised of available-for-sale debt securities and equity securities, carried at fair market value, which expose us to changing market conditions, specifically interest rates and equity price changes.

The primary objectives of the investment portfolio are the preservation of capital and providing adequate liquidity for potential claims payments and other cash needs. The portfolio's secondary investment objective is to provide a total rate of return with an emphasis on investment income. None of our investments in risk-sensitive Financial Instruments were entered into for trading purposes.

See "Item 1—Note 3 (Investments)" for more information about our Financial Instruments.

**Interest Rate Risk**

Interest rate risk is the sensitivity of the fair market value of a fixed-rate Financial Instrument to changes in interest rates. Generally, when interest rates rise, the fair value of our fixed-rate Financial Instruments declines over the remaining term of the agreement.

The following tables provide information about our fixed income Financial Instruments as of September 30, 2019 compared to December 31, 2018, which are sensitive to changes in interest rates. The tables present the expected cash flows of Financial Instruments based on years to effective maturity using amortized cost compared to fair market value and the related book yield compared to coupon yield (dollars in thousands):

| | September 30, 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Other | Total |
| Amortized cost | $ 122,700 | $ 113,125 | $ 66,160 | $ 122,032 | $ 126,153 | $ 300,061 | $ 427 | $ 850,658 |
| Fair market value | $ 122,907 | $ 113,784 | $ 67,142 | $ 125,963 | $ 129,137 | $ 319,159 | $ 475 | $ 878,567 |
| Coupon rate | 2.34% | 2.52% | 3.37% | 3.39% | 3.58% | 3.64% | 6.76% | 3.25% |
| Book yield | 2.29% | 2.40% | 2.88% | 3.23% | 2.88% | 3.58% | 6.24% | 3.03% |

* Years to effective maturity - 3.2 years

| | December 31, 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Other | Total |
| Amortized cost | $ 123,110 | $ 109,690 | $ 114,580 | $ 55,542 | $ 121,363 | $ 301,454 | $ 5,388 | $ 831,127 |
| Fair market value | $ 122,333 | $ 108,564 | $ 112,917 | $ 54,309 | $ 119,945 | $ 297,214 | $ 5,156 | $ 820,438 |
| Coupon rate | 2.04% | 2.35% | 2.63% | 2.99% | 3.32% | 3.90% | 6.15% | 3.11% |
| Book yield | 1.88% | 2.24% | 2.43% | 2.83% | 3.18% | 3.68% | 5.96% | 2.94% |

* Years to effective maturity - 3.5 years

All securities, except those with perpetual maturities, were categorized in the tables above utilizing years to effective maturity. Effective maturity takes into consideration all forms of potential prepayment, such as call features or prepayment schedules, that shorten the lifespan of contractual maturity dates.

**Equity Price Risk**

Equity price risk is the potential for loss in fair value of Financial Instruments in common stock and mutual funds from adverse changes in the prices of those Financial Instruments.

The following table provides information about the Financial Instruments in our investment portfolio subject to price risk as of the dates presented (in thousands):

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Fair Value | Percent | Fair Value | Percent |
| Equity Securities: | | | | |
| Common stock | $ 2,678 | 6.2% | $ 15,564 | 24.6% |
| Mutual funds | 40,463 | 93.8% | 47,713 | 75.4% |
| Total equity securities | $ 43,141 | 100.0% | $ 63,277 | 100.0% |

A hypothetical decrease of 20% in the market prices of each of the equity securities held at September 30, 2019 and December 31, 2018 would have resulted in a decrease of $8.6 million and $12.7 million, respectively, in the fair value of those securities.

## Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of September 30, 2019, to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

# PART II — OTHER INFORMATION

## Item 1. Legal Proceedings

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

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

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

## Item 1A. Risk Factors

There have been no material changes during the period covered by this Quarterly Report on Form 10-Q to the risk factors previously disclosed in "Part I, Item 1A—Risk Factors," included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below presents purchases of our common stock during the three months ended September 30, 2019.

| | Total Number of Shares Purchased | Average Price Paid per Share (1) | 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 (2) |
|---|---|---|---|---|
| 7/1/2019 - 7/30/2019 | — | $ — | — | — |
| 8/1/2019 - 8/31/2019 | 899,127 | $ 26.60 | 899,127 | — |
| 9/1/2019 - 9/30/2019 | 65,000 | $ 27.02 | 65,000 | 154,297 |
| Total | 964,127 | $ 26.63 | 964,127 | 154,297 |

(1) Average price paid per share does not reflect brokerage commissions paid to acquire shares in open market transactions.

(2) Number of shares was calculated based on a closing price at September 30, 2019 of $29.99 per share.

We may repurchase shares from time to time at our discretion, based on ongoing assessments of our capital needs, the market price of our common stock and general market conditions. We will fund the share repurchase program with cash from operations. During the nine months ended September 30, 2019, there were two authorized repurchase plans in effect:

- On December 12, 2018, we announced that the Board of Directors authorized the repurchase of up to $20 million of our outstanding shares of common stock through May 31, 2020, pursuant to which we repurchased 606,342 shares of our common stock at an aggregate price of $20.0 million. We completed the May 2020 Share Repurchase Program in May 2019.
- On May 6, 2019, we announced that the Board of Directors authorized the repurchase of up to $40 million of our outstanding shares of common stock through December 31, 2020. Under the December 2020 Share Repurchase Program, we repurchased 1,302,401 shares of our common stock from May 2019 through September 30, 2019 at an aggregate cost of approximately $35.4 million.

During the nine months ended September 30, 2019, we repurchased 1,770,509 shares of our common stock pursuant to the May 2020 Share Repurchase Program and the December 2020 Share Repurchase Program at an aggregate purchase price of approximately $49.9 million.

**Item 6. Exhibits**

| Exhibit No. | Exhibit |
|---|---|
| 10.1 | Stephen Donaghy Restricted Share Unit Award Agreement, dated August 5, 2019 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 7, 2019 and incorporated herein by reference)† |
| 15.1 | Accountants' Acknowledgment |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.1 | The following materials from Universal Insurance Holdings, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Statement of Stockholders' Equity, (v) the Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements. |
| 104 | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Inline XBRL (included in Exhibit 101.1) |

† Indicates management contract or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | UNIVERSAL INSURANCE HOLDINGS, INC. |
| Date: November 4, 2019 | /s/ Stephen J. Donaghy |
| | Stephen J. Donaghy, Chief Executive Officer and Principal Executive Officer |
| Date: November 4, 2019 | /s/ Frank C. Wilcox |
| | Frank C. Wilcox, Chief Financial Officer and Principal Accounting Officer |

EXHIBIT 15.1

**ACCOUNTANTS' ACKNOWLEDGMENT**

We hereby acknowledge our awareness of the use of our report dated November 4, 2019, included within the Quarterly Report on Form 10-Q of Universal Insurance Holdings, Inc. for the quarter ended September 30, 2019, in Registration Statement number 333-185484 on Form S-3 and Registration Statement numbers 333-163564, 333-174125, 333-181994, 333-189122, 333-203866, and 333-215750 on Form S-8.

Pursuant to Rule 436 under the Securities Act of 1933 (the "Act"), such report is not considered a part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ Plante & Moran, PLLC

Chicago Illinois
November 4, 2019

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen J. Donaghy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019 of Universal Insurance Holdings, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 4, 2019

/s/ Stephen J. Donaghy

Stephen J. Donaghy
Chief Executive Officer and Principal Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank C. Wilcox, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2019 of Universal Insurance Holdings, Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 4, 2019

/s/ Frank C. Wilcox

Frank C. Wilcox
Chief Financial Officer and Principal Accounting Officer

EXHIBIT 32

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Universal Insurance Holdings, Inc. (“Company”) on Form 10-Q for the fiscal quarter ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (“Report”), the undersigned, in the capacity and on the date indicated below, each hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

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|---|---|---|
| Date: November 4, 2019 | By: | /s/ Stephen J. Donaghy |
| | Name: | Stephen J. Donaghy |
| | Title: | Chief Executive Officer and Principal Executive Officer |

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|---|---|---|
| Date: November 4, 2019 | By: | /s/ Frank C. Wilcox |
| | Name: | Frank C. Wilcox |
| | Title: | Chief Financial Officer and Principal Accounting Officer |