

UNIVERSAL INSURANCE HOLDINGS, INC.

Form 10-Q

May 08, 2014

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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 March 31, 2014

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
(State or other jurisdiction of
incorporation or organization)
1110 W. Commercial Blvd., Fort Lauderdale, Florida 33309
(Address of principal executive offices)
(954) 958-1200
(Registrant's telephone number, including area code)

65-0231984
(I.R.S. Employer
Identification No.)

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

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

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

| | |
|--|---|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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: 35,434,617 shares of common stock, par value \$0.01 per share, outstanding on April 28, 2014.

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UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of

Universal Insurance Holdings, Inc. and Subsidiaries

Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of **Universal Insurance Holdings, Inc. (the Company) and its Subsidiaries** as of March 31, 2014 and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three-month periods ended March 31, 2014 and 2013. 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.

/s/ Plante & Moran, PLLC

Chicago, Illinois

May 8, 2014

Table of Contents**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)**

| | March 31, 2014 | As of December 31, 2013 |
|---|-------------------|-------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 122,771 | \$ 117,275 |
| Restricted cash and cash equivalents | 2,635 | 2,600 |
| Fixed maturities, at fair value | 300,346 | 289,418 |
| Equity securities, at fair value | 60,152 | 65,022 |
| Prepaid reinsurance premiums | 236,026 | 241,214 |
| Reinsurance recoverable | 76,097 | 107,847 |
| Reinsurance receivable, net | 7,004 | 203 |
| Premiums receivable, net | 48,105 | 46,461 |
| Other receivables | 3,261 | 2,587 |
| Property and equipment, net | 9,749 | 9,289 |
| Deferred policy acquisition costs, net | 15,893 | 15,899 |
| Income taxes recoverable | 6,199 | 8,152 |
| Deferred income tax asset, net | 11,472 | 12,051 |
| Other assets | 1,722 | 2,072 |
| Total assets | \$ 901,432 | \$ 920,090 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Unpaid losses and loss adjustment expenses | \$ 150,557 | \$ 159,222 |
| Unearned premiums | 384,761 | 383,488 |
| Advance premium | 25,413 | 22,959 |
| Accounts payable | 4,499 | 3,441 |
| Book overdraft | 2,985 | 14,947 |
| Payable for securities purchased | 2,185 | |
| Reinsurance payable, net | 93,654 | 86,232 |
| Income taxes payable | 915 | 2,566 |
| Other liabilities and accrued expenses | 28,357 | 34,386 |
| Long-term debt | 37,122 | 37,240 |
| Total liabilities | 730,448 | 744,481 |

Commitments and Contingencies (Note 12)

STOCKHOLDERS' EQUITY:

Cumulative convertible preferred stock, \$.01 par value

Authorized shares 1,000

Issued shares 22 and 30

Outstanding shares 22 and 30

Minimum liquidation preference, \$9.17 and \$6.98 per share

| | | |
|-------------------------------|-----|-----|
| Common stock, \$.01 par value | 443 | 436 |
|-------------------------------|-----|-----|

Authorized shares 55,000

Issued shares 44,276 and 43,641

Outstanding shares 34,776 and 35,366

| | | |
|--|----------|----------|
| Treasury shares, at cost 9,500 and 8,275 | (50,204) | (35,467) |
|--|----------|----------|

| | | |
|----------------------------|--------|--------|
| Additional paid-in capital | 42,195 | 42,282 |
|----------------------------|--------|--------|

| | | |
|---|-------|-------|
| Accumulated other comprehensive income (loss), net of taxes | (264) | (376) |
|---|-------|-------|

| | | |
|-------------------|---------|---------|
| Retained earnings | 178,814 | 168,734 |
|-------------------|---------|---------|

| | | |
|----------------------------|---------|---------|
| Total stockholders' equity | 170,984 | 175,609 |
|----------------------------|---------|---------|

| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 901,432 | \$ 920,090 |
|--|------------|------------|

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(in thousands, except per share data)

| | Three Months Ended March 31, | |
|--|------------------------------|------------|
| | 2014 | 2013 |
| PREMIUMS EARNED AND OTHER REVENUES | | |
| Direct premiums written | \$ 191,917 | \$ 204,139 |
| Ceded premiums written | (121,649) | (141,317) |
| Net premiums written | 70,268 | 62,822 |
| Change in net unearned premium | (6,461) | 2,587 |
| Premiums earned, net | 63,807 | 65,409 |
| Net investment income (expense) | 518 | 12 |
| Net realized gains (losses) on investments | 902 | (16,037) |
| Net change in unrealized gains (losses) on investments | | 7,874 |
| Commission revenue | 4,089 | 4,986 |
| Policy fees | 3,512 | 3,687 |
| Other revenue | 1,477 | 1,524 |
| Total premiums earned and other revenues | 74,305 | 67,455 |
| OPERATING COSTS AND EXPENSES | | |
| Losses and loss adjustment expenses | 26,825 | 26,483 |
| General and administrative expenses | 24,363 | 21,210 |
| Total operating costs and expenses | 51,188 | 47,693 |
| INCOME BEFORE INCOME TAXES | 23,117 | 19,762 |
| Income taxes, current | 9,059 | 3,947 |
| Income taxes, deferred | 509 | 3,856 |
| Income taxes, net | 9,568 | 7,803 |
| NET INCOME | \$ 13,549 | \$ 11,959 |
| Basic earnings per common share | \$ 0.41 | \$ 0.30 |
| Weighted average common shares outstanding Basic | 33,422 | 39,917 |
| Fully diluted earnings per common share | \$ 0.38 | \$ 0.29 |
| Weighted average common shares outstanding Diluted | 35,641 | 41,199 |

| | | | | |
|---|----|------|----|------|
| Cash dividend declared per common share | \$ | 0.10 | \$ | 0.08 |
|---|----|------|----|------|

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

| | Three Months Ended March 31, | | | |
|---|------------------------------|--------|------|--------|
| | 2014 | | 2013 | |
| Net income | \$ | 13,549 | \$ | 11,959 |
| Other comprehensive income (loss), net of taxes | | 112 | | |
| Comprehensive income (loss) | \$ | 13,661 | \$ | 11,959 |

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

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

| | Three Months Ended March 31, | |
|---|------------------------------|-----------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net Income | \$ 13,549 | \$ 11,959 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Bad debt expense | 71 | 124 |
| Depreciation | 280 | 249 |
| Amortization of share-based compensation | 1,685 | 1,168 |
| Amortization of original issue discount on debt | 250 | |
| Accretion of deferred credit | (250) | |
| Book overdraft increase (decrease) | (11,962) | 1,075 |
| Net realized (gains) losses on investments | (902) | 16,037 |
| Net change in unrealized (gains) losses on investments | | (7,874) |
| Amortization of premium/accretion of discount, net | 499 | 42 |
| Deferred income taxes | 509 | 3,856 |
| Excess tax (benefits) shortfall from share-based compensation | (6,342) | 151 |
| Other | (12) | |
| Net change in assets and liabilities relating to operating activities: | | |
| Restricted cash and cash equivalents | (35) | 30,356 |
| Prepaid reinsurance premiums | 5,188 | (12,558) |
| Reinsurance recoverables | 31,750 | 1,960 |
| Reinsurance receivables, net | (6,801) | 19,854 |
| Premiums receivable, net | (1,715) | (830) |
| Accrued investment income | (32) | 20 |
| Other receivables | (636) | (273) |
| Income taxes recoverable | 1,953 | 616 |
| Deferred policy acquisition costs, net | 6 | (95) |
| Purchase of trading securities | | (26,009) |
| Proceeds from sales of trading securities | | 80,670 |
| Other assets | 350 | 73 |
| Unpaid losses and loss adjustment expenses | (8,665) | (10,712) |
| Unearned premiums | 1,273 | 9,971 |
| Accounts payable | 1,058 | (52) |
| Reinsurance payable, net | 7,422 | 19,621 |
| Income taxes payable | 4,691 | (850) |
| Other liabilities and accrued expenses | (5,779) | (3,259) |
| Advance premium | 2,454 | 12,187 |
| Net cash provided by (used in) operating activities | 29,857 | 147,477 |

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| | | |
|---|------------|------------|
| Cash flows from investing activities: | | |
| Proceeds from sale of property and equipment | 17 | |
| Purchase of property and equipment | (751) | (409) |
| Purchases of available for sale equity securities | (4,782) | |
| Purchases of available for sale fixed maturities | (20,475) | (9,988) |
| Proceeds from sales of available for sale equity securities | 10,071 | |
| Proceeds from sales of available for sale fixed maturities | 4,370 | |
| Maturities of available for sale fixed maturities | 7,528 | |
| Net cash provided by (used in) investing activities | (4,022) | (10,397) |
| Cash flows from financing activities: | | |
| Preferred stock dividend | (5) | (5) |
| Common stock dividend | (3,463) | |
| Purchase of treasury stock | (14,737) | |
| Payments related to tax withholding for share-based compensation | (8,108) | (1,072) |
| Excess tax benefits (shortfall) from share-based compensation | 6,342 | (151) |
| Repayment of debt | (368) | (368) |
| Net cash provided by (used in) financing activities | (20,339) | (1,596) |
| Net increase (decrease) in cash and cash equivalents | 5,496 | 135,484 |
| Cash and cash equivalents at beginning of period | 117,275 | 347,392 |
| Cash and cash equivalents at end of period | \$ 122,771 | \$ 482,876 |
| Supplemental cash flow and non-cash disclosures: | | |
| Interest paid | \$ 433 | \$ 87 |
| Income taxes paid | \$ 2,404 | \$ 4,313 |
| Non-cash transfer of investments from trading to available for sale portfolio | \$ | \$ 4,004 |

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Universal Insurance Holdings, Inc. (UIH) is a Delaware corporation originally incorporated as Universal Heights, Inc. in November 1990. UIH and its wholly-owned subsidiaries (collectively, the Company) are a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned subsidiaries, including Universal Property & Casualty Insurance Company (UPCIC) and American Platinum Property and Casualty Insurance Company (APPCIC), collectively referred to as the Insurance Entities , the Company is principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. Risk from catastrophic losses is managed through the use of reinsurance agreements. The Company's primary product is homeowners insurance offered in seven states as of March 31, 2014, including Florida, which comprises the vast majority of the Company's in-force policies. See Note 5 (Insurance Operations) for more information regarding the Company's insurance operations.

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

Basis of Presentation

The Company has prepared the accompanying unaudited Condensed Consolidated Financial Statements (Financial Statements) in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by United States Generally Accepted Accounting Principles (GAAP) for complete financial statements. Therefore, the Financial Statements should be read in conjunction with the audited Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 3, 2014. The condensed consolidated balance sheet at December 31, 2013, was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

To conform to current period presentation, certain amounts in the prior periods' 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 UIH and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

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

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2. Significant Accounting Policies