UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
November 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices)

(954) 958-1200

(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 40,871,028 shares of common stock, par value $0.01 per share, outstanding on November 2, 2012.

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PART I FINANCIAL INFORMATION

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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 September 30, 2012 and the related condensed consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2012 and cash flows for the nine-month period ended September 30, 2012. These interim financial statements are the responsibility of the Company s management.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements as of September 30, 2012 and for the three and nine-month periods then ended for them to be in conformity with accounting principles generally accepted in the United States of America.

The condensed consolidated statements of comprehensive income for the three and nine-month periods ended September 30, 2011 and statement of cash flows for the nine-month period ended September 30, 2011 of **Universal Insurance Holdings, Inc. (the Company) and its Subsidiaries** were reviewed by other accountants whose report dated November 8, 2011, stated that based on their procedures, they were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

Chicago, Illinois

November 9, 2012

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in thousands, except per share data)

	As of September 30, 2012	As of December 31, 2011
ASSETS:		
Cash and cash equivalents	$ 365,675	$ 229,685
Restricted cash and cash equivalents	95,135	78,312
Fixed maturities, at fair value	4,008	3,801
Equity securities, at fair value	48,875	95,345
Prepaid reinsurance premiums	248,899	243,095
Reinsurance recoverables	80,800	85,706
Reinsurance receivable, net	30,528	55,205
Premiums receivable, net	56,044	45,828
Receivable from securities sold	1,750	9,737
Other receivables	3,197	2,732
Property and equipment, net	8,838	7,116
Deferred policy acquisition costs, net	18,019	12,996
Income taxes recoverable	406	
Deferred income tax asset, net	16,185	22,991
Other assets	1,553	1,477
Total assets	$ 979,912	$ 894,026
LIABILITIES AND STOCKHOLDERS EQUITY LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 172,674	$ 187,215
Unearned premiums	408,714	359,842
Advance premium	18,468	19,390
Accounts payable	4,252	4,314
Bank overdraft	29,198	25,485
Payable for securities purchased	4,706	1,067
Reinsurance payable	123,934	87,497
Income taxes payable	23	12,740
Dividends payable to shareholders	3,287	
Other liabilities and accrued expenses	28,054	24,780
Long-term debt	20,588	21,691
Total liabilities	813,898	744,021
Commitments and Contingencies (Note 11)		
STOCKHOLDERS EQUITY:		
Cumulative convertible preferred stock, $.01 par value	1	1
Authorized shares - 1,000		
Issued shares - 108		
Outstanding shares - 108		
Minimum liquidation preference, $2.66 per share		

Common stock, $.01 par value	419	411
Authorized shares - 55,000		
Issued shares - 41,889 and 41,100		
Outstanding shares - 40,871 and 40,082		
Treasury shares, at cost - 1,018	(3,101)	(3,101)
Additional paid-in capital	37,408	36,536
Retained earnings	131,287	116,158
Total stockholders equity	166,014	150,005
Total liabilities and stockholders equity	$ 979,912	$ 894,026

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 COMPREHENSIVE INCOME (unaudited)

(in thousands, except per share data)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$ 192,986	$ 171,370	$ 605,557	$ 558,024
Ceded premiums written	(132,776)	(123,984)	(398,643)	(393,673)
Net premiums written	60,210	47,386	206,914	164,351
Change in net unearned premium	(698)	2,248	(43,068)	(17,189)
Premiums earned, net	59,512	49,634	163,846	147,162
Net investment income (expense)	215	122	163	358
Net realized gains (losses) on investments	(3,142)	5,884	(12,296)	12,496
Net unrealized gains (losses) on investments	8,091	(15,985)	11,490	(23,037)
Net foreign currency gains (losses) on investments		(455)	23	(384)
Commission revenue	4,822	5,192	15,494	14,313
Policy fees	3,461	3,535	11,434	12,110
Other revenue	1,578	1,486	4,558	4,400
Total premiums earned and other revenues	74,537	49,413	194,712	167,418
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	36,301	29,343	91,912	81,380
General and administrative expenses	24,262	18,827	59,605	48,598
Total operating costs and expenses	60,563	48,170	151,517	129,978
INCOME BEFORE INCOME TAXES	13,974	1,243	43,195	37,440
Income taxes, current	624	7,331	10,484	25,690
Income taxes, deferred	5,094	(7,063)	6,805	(10,672)
Income taxes, net	5,718	268	17,289	15,018
NET INCOME AND COMPREHENSIVE INCOME	$ 8,256	$ 975	$ 25,906	$ 22,422
Basic earnings per common share	$ 0.21	$ 0.02	$ 0.65	$ 0.57
Weighted average of common shares outstanding - Basic	39,679	39,190	39,579	39,177
Fully diluted earnings per common share	$ 0.20	$ 0.02	$ 0.64	$ 0.55
Weighted average of common shares outstanding - Diluted	40,450	40,330	40,458	40,536
Cash dividends declared per common share	$ 0.08	$ 0.08	$ 0.26	$ 0.18

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 CASH FLOWS (unaudited)

(in thousands)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:		
Net Income	$ 25,906	$ 22,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense (recovery)	224	622
Depreciation	625	379
Amortization of stock-based compensation	2,559	1,888
Net realized (gains) losses on investments	12,296	(12,496)
Net unrealized (gains) losses on investments	(11,490)	23,037
Net foreign currency (gains) losses on investments	(23)	384
Amortization of premium / accretion of discount, net	(5)	185
Deferred income taxes	6,806	(10,672)
Excess tax (benefits) shortfall from stock-based compensation	1,765	
Other		(21)
Net change in assets and liabilities relating to operating activities:		
Restricted cash and cash equivalents	(16,823)	(51,533)
Prepaid reinsurance premiums	(5,804)	(30,256)
Reinsurance recoverables	4,906	2,007
Reinsurance receivable, net	24,677	(12,209)
Premiums receivable, net	(10,414)	(7,578)
Accrued investment income	274	580
Other receivables	(766)	(629)
Income taxes recoverable	(406)	
Deferred policy acquisition costs, net	(5,023)	(3,567)
Proceeds from sale of trading securities	310,943	661,809
Purchases of trading securities	(254,270)	(572,790)
Other assets	362	(1,428)
Unpaid losses and loss adjustment expenses	(14,541)	4,025
Unearned premiums	48,872	47,445
Accounts payable	(62)	519
Reinsurance payable, net	36,437	53,251
Income taxes payable	(14,482)	8,096
Other liabilities and accrued expenses	3,274	(828)
Advance premium	(922)	1,799
Net cash provided by (used in) operating activities	144,895	124,441
Cash flows from investing activities:		
Proceeds from sale of property and equipment	18	63
Purchases of property and equipment	(2,365)	(1,611)
Net cash provided by (used in) investing activities	(2,347)	(1,548)
Cash flows from financing activities:		
Bank overdraft	3,713	11,884
Preferred stock dividend	(264)	(15)
Common stock dividend	(7,225)	(3,939)

Issuance of common stock	207	
Payments related to tax withholding for share-based compensation	(121)	
Excess tax benefits (shortfall) from stock-based compensation	(1,765)	
Repayment of debt	(1,103)	(1,103)
Net cash provided by (used in) financing activities	(6,558)	6,827
Net increase (decrease) in cash and cash equivalents	135,990	129,720
Cash and cash equivalents at beginning of period	229,685	133,645
Cash and cash equivalents at end of period	$ 365,675	$ 263,365
Supplemental cash flow disclosures		
Interest	$ 327	$ 744
Income taxes	$ 22,453	$ 13,513

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, with its wholly-owned subsidiaries (the Company), is 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 September 30, 2012, 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, 2011, filed with the SEC on March 26, 2012. The condensed consolidated balance sheet at December 31, 2011, was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

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

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

To conform to the current period presentation, certain amounts in the prior periods consolidated financial statements and notes have been reclassified. An adjustment has been made to the Company s Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2011 to reflect the effect of a reclassification made to the Company s Condensed Consolidated Balance Sheet as of September 30, 2011 related to restricted cash and cash equivalents. The Company reclassified amounts out of cash and cash equivalents that were restricted in terms of their use and withdrawal and has presented those amounts of restricted cash and cash equivalents as a separate line item on the face of the Condensed Consolidated Balance Sheets.

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The following line items were adjusted (in thousands):

	Nine Months Ended September 30, 2011		
	As Reported	Reclassification	Adjusted
Condensed Consolidated Statements of Cash Flows:			
Net change in assets and liabilities relating to operating activities:			
Restricted cash and cash equivalents	$	$ (51,533)	$ (51,533)
Net cash flows provided by (used in) operating activities	$ 175,974	$ (51,533)	$ 124,441
Net increase in cash and cash equivalents	$ 181,253	$ (51,533)	$ 129,720
Cash and cash equivalents at beginning of period	$ 147,585	$ (13,940)	$ 133,645
Cash and cash equivalents at end of period	$ 328,838	$ (65,473)	$ 263,365

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2011. The following are new or revised disclosures or disclosures required on a quarterly basis.

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

Concentrations of credit risk with respect to cash and cash equivalents and restricted cash and cash equivalents are limited by guarantees currently provided by the financial institutions that maintain the Company s depository or custodial accounts.

The Company maintains depository relationships with SunTrust Bank and Wells Fargo Bank N.A., and other banking institutions and invests excess cash with custodial institutions that invest primarily in money market accounts consisting of short-term U.S. Treasury securities. These accounts are held primarily by the Institutional Trust & Custody division of U.S. Bank and SunTrust Bank Escrow Services.

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

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

	Cash and cash equivalents							
	As of September 30, 2012				As of December 31, 2011			
Institution	Cash	Money Market Funds	Total	% by institution	Cash	Money Market Funds	Total	% by institution
U. S. Bank IT&C	$	$ 40,464	$ 40,464	11.1%	$	$ 40,474	$ 40,474	17.6%
SunTrust Bank	1,464	4,155	5,619	1.5%	1,629		1,629	0.7%
SunTrust Bank Escrow Services		309,661	309,661	84.7%		182,701	182,701	79.5%
Wells Fargo Bank N.A.	2,002	3	2,005	0.5%	1,244	14	1,258	0.6%
All Other Banking Institutions	1,972	5,954	7,926	2.2%	1,739	1,884	3,623	1.6%
Total	$ 5,438	$ 360,237	$ 365,675	100.0%	$ 4,612	$ 225,073	$ 229,685	100.0%

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

	Restricted cash and cash equivalents							
	As of September 30, 2012				As of December 31, 2011			
Institution	Funds held in Trust (1)	State Deposits	Total	% by institution	Funds held in Trust (1)	State Deposits	Total	% by institution
U. S. Bank IT&C	$	$ 800	$ 800	0.9%	$	$ 800	$ 800	1.0%
Bank of New York Mellon Trust Co. (1)	40,840		40,840	42.9%	30,220		30,220	38.6%
Florida Department of Financial Services		53,495	53,495	56.2%		47,292	47,292	60.4%
Total	$ 40,840	$ 54,295	$ 95,135	100.0%	$ 30,220	$ 48,092	$ 78,312	100.0%

(1) Amounts held in trust include collateral contributed by UIH in connection with reinsurance contracts entered into between UPCIC and a segregated account owned and maintained by UIH.

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

In order to reduce credit risk for amounts due from reinsurers, the Insurance Entities seek to do business with financially sound reinsurance companies and regularly evaluate the financial strength of all reinsurers used. Everest Reinsurance Company, the reinsurer to which the Insurance Entities ceded the most risk through May 31, 2012, has the following ratings from each of the rating agencies: A+ from A.M. Best Company; A+ from Standard and Poor s Rating Services and; Aa3 from Moody s Investors Service, Inc. Odyssey Reinsurance Company, the reinsurer to which the Insurance Entities cede the most risk effective June 1, 2012, has the following ratings from each of the rating agencies: A from A.M. Best Company; A- from Standard and Poor s Rating Services and; A3 from Moody s Investors Service, Inc.

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

	As of	
Reinsurer	September 30, 2012	December 31, 2011
Everest Reinsurance Company	$ 45,236	$ 264,997
Florida Hurricane Catastrophe Fund		30,422
Odyssey Reinsurance Company	194,427	
Total (1)	$ 239,663	$ 295,419

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

Recently Issued Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) updated its guidance to the Balance Sheet Topic 210 of the FASB Accounting Standards Codification (ASC). This updated guidance requires entities that have financial instruments and derivative instruments that are offset, to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on an entity s financial position. This guidance is to be applied for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Disclosure is required retrospectively for all comparative periods presented. The additional disclosures required by the updated guidance will not have an impact on the Company s operating results, cash flows or financial position.

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In June 2011, the FASB updated its guidance related to the Comprehensive Income Topic 220 of the FASB ASC. This updated guidance increases the prominence of items reported in other comprehensive income by eliminating the option of presenting components of other comprehensive income as part of the statement of changes in stockholders equity. The guidance requires that total comprehensive income (including both the net income components and other comprehensive income components) be reported in either a single continuous statement of comprehensive income (the approach currently used in the Company s financial statements), or two separate but consecutive statements. This guidance is to be applied retrospectively to fiscal years (and interim periods within those years) beginning after December 15, 2011. The Company adopted this guidance effective January 1, 2012. This guidance did not have an impact on the presentation of the Company s financial statements and notes herein, as the Company did not have any amounts of other comprehensive income during the periods presented.

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

In September 2010, the FASB issued guidance related to accounting for costs associated with acquiring or renewing insurance contracts. This guidance defines allowable deferred policy acquisition costs as costs incurred by insurance entities for the successful acquisition of new and renewal contracts. Such costs result directly from and are essential to the contract transaction(s) and would not have been incurred by the insurance entity had the contract(s) not occurred. This guidance is effective for periods beginning after December 15, 2011, with early adoption permitted. The Company adopted this guidance prospectively effective January 1, 2012. Under the new guidance, the Company s net deferred policy acquisition costs were reduced from $13.0 million to $11.4 million, a difference of 13% at December 31, 2011. The resulting $1.6 million difference was charged directly to earnings during the three months ended March 31, 2012. This charge represents a charge-off of capitalized costs existing at December 31, 2011, which would have been amortized to earnings within a twelve-month period under the old guidance.

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3. Investments

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

	As of September 30, 2012			As of December 31, 2011		
	Cost or Amortized Cost	Fair Value	Carrying Value	Cost or Amortized Cost	Fair Value	Carrying Value
Cash and cash equivalents (1)	$ 365,675	$ 365,675	$			