

UNITED INSURANCE HOLDINGS CORP.

Form 10-Q

August 15, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

Commission File Number 000-52833

United Insurance Holdings Corp.

(Exact name of Registrant as specified in its charter)

Delaware

(State of Incorporation)

75-3241967

(IRS Employer Identification
Number)

360 Central Avenue, Suite 900

St. Petersburg, Florida 33701

(Address, including zip code, of principal executive offices)

727-895-7737

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

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

Large accelerated filer

☐

Accelerated filer

☐

Non-accelerated filer

☒

Smaller reporting company

☐

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

As of August 15, 2011, 10,361,849 shares of common stock, par value \$0.0001 per share, were outstanding.

UNITED INSURANCE HOLDINGS CORP.

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Throughout this Form 10-Q, we present amounts rounded to the nearest thousand, except for share amounts, per share amounts, policy counts or where more specific language or context indicates a different presentation.

UNITED INSURANCE HOLDINGS CORP.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Investments available for sale, at fair value:		
Fixed maturities (amortized cost of \$127,079 and \$50,984, respectively)	\$ 127,450	\$ 50,683
Equity securities (adjusted cost of \$3,579 and \$3,666, respectively)	3,773	3,615
Other long-term investments	300	300
Total investments	131,523	54,598
Cash and cash equivalents	46,960	71,644
Accrued investment income	929	414
Premiums receivable, net of allowances for credit losses of \$64 and \$61, respectively	14,845	7,825
Reinsurance recoverable on paid and unpaid losses	19,928	27,304
Prepaid reinsurance premiums	84,230	38,307
Deferred policy acquisition costs	13,632	9,342
Other assets	8,241	4,187
Total Assets	\$ 320,288	\$ 213,621
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 44,057	\$ 47,414
Unearned premiums	108,607	77,161
Reinsurance payable	86,043	14,982
Other liabilities	17,296	10,536
Notes payable	17,647	18,235
Total Liabilities	273,650	168,328
Commitments and contingencies (<u>Note 9</u>)		
Stockholders' Equity:		
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized; none issued or outstanding for 2011 and 2010	—	—
Common stock, \$0.0001 par value; 50,000,000 shares authorized; 10,573,932 issued for 2011 and 2010, respectively; 10,361,849 and 10,573,932 outstanding for 2011 and 2010, respectively	1	1
Additional paid-in capital	75	75
Treasury shares, at cost; 212,083 and 0 shares, respectively	(431)) —
Accumulated other comprehensive income	347	(216)
Retained earnings	46,646	45,433
Total Stockholders' Equity	46,638	45,293
Total Liabilities and Stockholders' Equity	\$ 320,288	\$ 213,621
See accompanying notes to unaudited condensed consolidated financial statements.		

UNITED INSURANCE HOLDINGS CORP.

Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
REVENUE:				
Gross premiums written	\$65,296	\$55,675	\$116,071	\$91,242
Decrease (increase) in gross unearned premiums	(21,037)	) (17,431	) (31,446	) (14,912
Gross premiums earned	44,259	38,244	84,625	76,330
Ceded premiums earned	(21,960)	) (21,944	) (43,218	) (45,337
Net premiums earned	22,299	16,300	41,407	30,993
Net investment income	700	968	1,234	2,016
Net realized gains	112	42	112	28
Other revenue	884	2,059	1,710	3,280
Total revenue	23,995	19,369	44,463	36,317
EXPENSES:				
Losses and loss adjustment expenses	12,601	8,546	20,985	21,015
Policy acquisition costs	7,181	6,161	13,725	12,616
Operating expenses	3,557	3,149	7,217	6,104
Interest expense	157	391	311	1,482
Total expenses	23,496	18,247	42,238	41,217
Income (loss) before other expenses	499	1,122	2,225	(4,900
Other expenses	279	726	279	726
Income (loss) before income taxes	220	396	1,946	(5,626
Provision for (benefit from) income taxes	131	201	733	(2,122
Net income (loss)	\$89	\$195	\$1,213	\$(3,504
OTHER COMPREHENSIVE INCOME (LOSS):				
Change in net unrealized gain on investments	1,091	684	1,029	1,796
Reclassification adjustment for net realized investment gains	(112	) (42	) (112	) (28
Income tax expense related to items of other comprehensive income	(377	) (247	) (354	) (682
Total comprehensive income (loss)	\$691	\$590	\$1,776	\$(2,418
Weighted average shares outstanding				
Basic and Diluted	10,473,717	10,573,932	10,523,548	10,573,932
Earnings (loss) per share				
Basic and Diluted	\$0.01	\$0.02	\$0.12	\$(0.33
Dividends declared per share				
	\$—	\$—	\$—	\$0.05

See accompanying notes to unaudited condensed consolidated financial statements.

UNITED INSURANCE HOLDINGS CORP.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2011	2010
OPERATING ACTIVITIES		
Net income (loss)	\$1,213	\$(3,504)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	601	485
Net realized gains	(112)	(28)
Amortization of discount on notes payable	—	159
Loss on extinguishment of debt	—	726
Provision for uncollectible premiums	8	11
Deferred income taxes, net	(684)	(260)
Changes in operating assets and liabilities:		
Accrued investment income	(515)	30
Premiums receivable	(7,028)	(4,110)
Reinsurance recoverable on paid and unpaid losses	7,376	(2,067)
Prepaid reinsurance premiums	(45,923)	(41,823)
Deferred policy acquisition costs, net	(4,290)	(1,605)
Other assets	(4,077)	(2,229)
Unpaid losses and loss adjustment expenses	(3,357)	3,463
Unearned premiums	31,446	14,912
Reinsurance payable	71,061	56,635
Other liabilities	3,856	3,084
Net cash provided by operating activities	49,575	23,879
INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments available for sale	21,271	46,198
Purchases of investments available for sale	(97,400)	(47,681)
Cost of property and equipment acquired	—	(72)
Cost of capitalized software acquired	(15)	(192)
Net cash used in investing activities	(76,144)	(1,747)
FINANCING ACTIVITIES		
Repayments of borrowings	(588)	(23,489)
Repurchases of common stock	(431)	—
Dividends	—	(529)
Bank overdrafts	2,904	(2,813)
Net cash provided by (used in) financing activities	1,885	(26,831)
Decrease in cash	(24,684)	(4,699)
Cash and cash equivalents at beginning of period	71,644	27,086
Cash and cash equivalents at end of period	\$46,960	\$22,387
Supplemental Cash Flows Information		
Cash paid during the period:		
Interest	\$322	\$1,846
Income taxes	\$1,580	\$—

See accompanying notes to unaudited condensed consolidated financial statements.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2011

1) ORGANIZATION, CONSOLIDATION AND PRESENTATION

a) Business

We incorporated as a blank-check company in May 2007 under Delaware law, and became a publicly-traded company in October 2007. In September 2008, we acquired an insurance holding company and its subsidiaries, and changed our name to United Insurance Holdings Corp. (UIHC).

Through our wholly-owned subsidiaries, we write and service property and casualty insurance policies in Florida and South Carolina. We incorporated three of our subsidiaries under Florida law, including United Property and Casualty Insurance Company (UPC), which writes insurance policies; United Insurance Management, L.C. (UIM), the managing general agent that manages substantially all aspects of UPC's business; and Skyway Claims Services, LLC (SCS), a claims adjusting company that provides services to UPC. In April 2011, we formed a fourth subsidiary, UPC Re. Operating as a reinsurer under the laws of the Cayman Islands, UPC Re provides reinsurance protection to UPC.

We conduct our operations under one business segment.

We believe our holding company structure provides us flexibility to expand our products and services in the future. In January 2011, the state regulatory authority in Massachusetts authorized UPC to write in that state, and UPC has license applications pending in three additional states.

b) Consolidation and Presentation

While preparing our financial statements, we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Reported amounts that require us to make extensive use of estimates include our reserves for unpaid losses and loss adjustment expenses, reinsurance recoverable, deferred policy acquisition costs, and investments.

We include all of our subsidiaries in our condensed consolidated financial statements, eliminating all significant intercompany balances and transactions during consolidation.

We prepared the accompanying Condensed Consolidated Balance Sheet as of June 30, 2011, which we derived from audited consolidated financial statements as of December 31, 2010, and the unaudited condensed consolidated interim financial statements in accordance with the instructions for Form 10-Q and Article 8 of Regulation S-X. In compliance with those instructions, we have condensed or omitted certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP), though management believes the disclosures made herein are sufficient to ensure that the information presented is not misleading.

Our results of operations and our cash flows as of the end of the interim periods reported herein do not necessarily indicate the results we may experience for the remainder of the year or for any other future period.

We reclassified certain amounts in the 2010 financial statements to conform to the 2011 presentation. These reclassifications had no impact on our results of operations or stockholders' equity as previously reported.

Management believes our unaudited condensed consolidated interim financial statements include all the normal recurring adjustments necessary to fairly present our Condensed Consolidated Balance Sheet as of June 30, 2011, our Condensed Consolidated Statements of Income and our Condensed Consolidated Statements of Cash Flows for all periods presented. Our unaudited condensed consolidated interim financial statements and footnotes should be read in conjunction with our consolidated financial statements and footnotes included within our Annual Report filed on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K).

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2011

2)SIGNIFICANT ACCOUNTING POLICIES

We have made no material changes to our significant accounting policies as reported in our 2010 Form 10-K.

The carrying amounts for the following financial instrument categories approximate their fair values at June 30, 2011 and December 31, 2010 because of their short-term nature: cash and cash equivalents, accrued investment income, premiums receivable, reinsurance recoverable, reinsurance payable, and accounts payable and accrued expenses. The carrying amounts of notes receivable and notes payable also approximate their fair values as the interest rate on the note payable is variable and the note receivable, which we originally recorded at fair value using a discounted cash flow methodology, is due in three years.

3)RECENTLY ADOPTED ACCOUNTING STANDARDS

In October 2010, the FASB issued ASU No. 2010-26, Financial Services—Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The amendments in ASU No. 2010-26 address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral; they clarify which costs should be deferred and which costs should be expensed when incurred. The amendments in ASU No. 2010-26 become effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Since we already record deferred acquisition costs as specified by the amendments, we do not expect that our adoption of ASU No. 2010-26 will have a material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments in ASU No. 2011-05 give entities the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in ASU No. 2011-05 become effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Since we already present the total of comprehensive income, the components of net income, and the components of other comprehensive income in a single continuous statement as specified by the amendments, our adoption of ASU No. 2011-05 will not have a material effect on our consolidated financial statements.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2011

4) INVESTMENTS

The following table details the difference between cost or adjusted/amortized cost and estimated fair value, by major investment category, at June 30, 2011, and December 31, 2010:

	Cost or Adjusted/Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011				
U.S. government and agency securities	\$ 62,848	\$129	\$79	\$62,898
States, municipalities and political subdivisions	14,302	198	88	14,412
Corporate securities	49,120	352	119	49,353
Redeemable preferred stocks	809	—	22	787
Total fixed maturities	127,079	679	308	127,450
Common stocks	2,974	280	57	3,197
Nonredeemable preferred stocks	605	—	29	576
Total equity securities	3,579	280	86	3,773
Other long-term investments	300	—	—	300
Total investments	\$ 130,958	\$959	\$394	\$131,523
December 31, 2010				
U.S. government and agency securities	\$ 32,841	\$119	\$65	\$32,895
States, municipalities and political subdivisions	13,305	10	336	12,979
Corporate securities	4,029	18	—	4,047
Redeemable preferred stocks	809	—	47	762
Total fixed maturities	50,984	147	448	50,683
Common stocks	3,061	47	60	3,048
Nonredeemable preferred stocks	605	—	38	567
Total equity securities	3,666	47	98	3,615
Other long-term investments	300	—	—	300
Total investments	\$ 54,950	\$194	\$546	\$54,598

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2011

When we sell investments, we calculate the gain or loss realized on the sale by comparing the sales price (fair value) to the cost or adjusted/amortized cost of the security sold. We determine the cost or adjusted/amortized cost of the security sold using the specific-identification method. The following tables detail our realized gains (losses) by major investment category for the three- and six-month periods ended June 30, 2011 and 2010:

	2011 Gains (Losses)	Fair Value at Sale	2010 Gains (Losses)	Fair Value at Sale
Three Months Ended June 30,				
Fixed maturities	\$ 110	\$ 12,046	\$ 4	\$ 14,972
Equity securities	10	65	45	778
Total realized gains	120	12,111	49	15,750
Fixed maturities	(8	) 2,990	(7	) 8,472
Equity securities	—	—	—	—
Total realized losses	(8	) 2,990	(7	) 8,472
Net realized investment gains	\$ 112	\$ 15,101	\$ 42	\$ 24,222
Six Months Ended June 30,				
Fixed maturities	\$ 110	\$ 12,046	\$ 4	\$ 14,972
Equity securities	10	65	45	778
Total realized gains	120	12,111	49	15,750
Fixed maturities	(8	) 2,990	(21	) 15,468
Equity securities	—	96	—	—
Total realized losses	(8	) 3,086	(21	) 15,468
Net realized investment gains	\$ 112	\$ 15,197	\$ 28	\$ 31,218

The states in which we operate require us, by statute, to maintain deposits to secure the payment of claims. In Florida, we have assigned a twelve-month, automatically renewing certificate of deposit in the amount of \$300 to the state regulatory authority to satisfy the Florida requirement. In South Carolina, we have assigned a U.S. Treasury Note with a book value of \$1,004 and a fair value of \$1,007 to the state regulatory authority to satisfy the requirement. We report the certificate of deposit in other long-term investments, while we report the U.S. Treasury Note in fixed maturities. To obtain the approval of our application to write policies in Massachusetts, we purchased a Massachusetts municipal bond with a par value of \$1,000 and assigned a tranche with a \$100 par value to the state regulatory authority during 2010. At June 30, 2011, the book value of the assigned tranche was \$104 and the fair value was \$102.

The table below summarizes our fixed maturities at June 30, 2011, by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of those obligations.

	June 30, 2011	
	Cost or Amortized Cost	Fair Value
Due in one year or less	\$44,873	\$44,830
Due after one year through five years	38,368	38,621

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Due after five years through ten years	30,785	30,917
Due after ten years	13,053	13,082
Total	\$127,079	\$127,450

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2011

The following table summarizes our net investment income by major investment category:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Fixed maturities	\$608	\$905	\$1,102	\$1,868
Equity securities	40	44	76	92
Cash, cash equivalents and short-term investments	52	19	56	56
Net investment income	\$700	\$968	\$1,234	\$2,016
Investment expenses	(32)	(27)	(92)	(100)
Net investment income, less investment expenses	\$668	\$941	\$1,142	\$1,916

The following table presents an aging of our unrealized investment losses by investment class:

	Less Than Twelve Months			Twelve Months or More		
	Number of Securities*	Gross Unrealized Losses	Fair Value	Number of Securities*	Gross Unrealized Losses	Fair Value
June 30, 2011						
U.S. government and agency securities	5	\$79	\$21,584	—	\$—	\$—
States, municipalities and political subdivisions	2	48	1,978	3	40	2,880
Corporate securities	13	119	14,602	—	—	—
Redeemable preferred stocks	—	—	—	6	22	787
Total fixed maturities	20	246	38,164	9	62	3,667
Common stocks	6	9	118	2	48	191
Nonredeemable preferred stocks	—	—	—	4	29	576
Total equity securities	6	9	118	6	77	767
Total	26	\$255	\$38,282	15	\$139	\$4,434
December 31, 2010						
U.S. government and agency securities	7	\$65	\$9,611	—	\$—	\$—
States, municipalities and political subdivisions	13	336	11,951	—	—	—
Corporate securities	—	—	—	—	—	—
Redeemable preferred stocks	—	—	—	6	47	763
Total fixed maturities	20	401	21,562	6	47	763
Common stocks	19	17	810	4	43	423
Nonredeemable preferred stocks	—	—	—	4	38	567
Total equity securities	19	17	810	8	81	990
Total	39	\$418	\$22,372	14	\$128	\$1,753

* This amount represents the actual number of discrete securities, not the number of shares of those securities. The number is not presented in thousands.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2011

During the three- and six-month periods ended June 30, 2011 and 2010, respectively, we did not incur any other-than-temporary impairment (OTTI) charges. We have never recorded an OTTI charge on our debt-security investments.

During our second quarter 2011 evaluations of our securities for impairment, we determined that none of our investments in debt and equity securities that reflected an unrealized loss position were other-than-temporarily impaired. The issuers of our debt securities continue to make interest payments on a timely basis and have not suffered any credit rating reductions. We do not intend to sell nor is it likely that we would be required to sell the debt securities before we recover our amortized cost basis. All the issuers of the equity securities we own had near-term prospects that indicated we could recover our cost basis, and that we also have the ability and the intent to hold these securities until their value equals or exceeds their cost.

The following table presents the fair value measurements of our financial instruments by level at June 30, 2011:

June 30, 2011	Total	Level 1	Level 2	Level 3
U.S. government and agency securities	\$62,898	\$33,958	\$28,940	\$—
States, municipalities and political subdivisions	14,412	—	14,412	—
Corporate securities	49,353	—	49,353	—
Redeemable preferred stocks	787	787	—	—
Total fixed maturities	127,450	34,745	92,705	—
Common stocks	3,197	3,197	—	—
Nonredeemable preferred stocks	576	576	—	—
Total equity securities	3,773	3,773	—	—
Other long-term investments	300	300	—	—
Total investments	\$131,523	\$38,818	\$92,705	\$—
December 31, 2010				
U.S. government and agency securities	\$32,895	\$—	\$32,895	\$—
States, municipalities and political subdivisions	12,979	—	12,979	—
Corporate securities	4,047	—	4,047	—
Redeemable preferred stocks	762	762	—	—
Total fixed maturities	50,683	762	49,921	—
Common stocks	3,048	3,048	—	—
Nonredeemable preferred stocks	567	567	—	—
Total equity securities	3,615	3,615	—	—
Other long-term investments	300	300	—	—
Total investments	\$54,598	\$4,677	\$49,921	\$—

For our investments in U.S. government securities that do not have prices in active markets, agency securities, state and municipal governments, and corporate bonds, we obtain the fair values from Synovus Trust Company, NA, which uses a third-party valuation service. In our case, the valuation service calculates prices for our investments in the aforementioned security types on a month-end basis by using several matrix-pricing methodologies that incorporate inputs from various sources. The model the valuation service uses to price U.S. government securities and securities of states and municipalities incorporates inputs from active market makers and inter-dealer brokers. To price corporate bonds and agency securities, the valuation service calculates non-call yield spreads on all issuers, uses option-adjusted

yield spreads to account for any early redemption features, then adds final spreads to the U.S. Treasury curve at 3 p.m. (ET) as of quarter end. A special cash-discounting yield/price routine then calculates the prices. Since the inputs the valuation service uses in their calculations are not quoted prices in active markets, but are observable inputs, they represent Level 2 inputs.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2011

5)EARNINGS PER SHARE

We have 7,077,375 warrants outstanding; each warrant can be exercised for one share of common stock. For the three- and six-month periods ended June 30, 2011 and 2010, the warrants were anti-dilutive.

During 2010 we had 350,000 unit purchase options outstanding; each unit consisted of a share of common stock and a warrant to purchase a share of common stock. On October 4, 2010, the unit purchase option expired.

6)REINSURANCE

We follow industry practice of reinsuring a portion of our risks. Reinsurance involves transferring, or “ceding”, all or a portion of the risk exposure on policies we write to another insurer, known as a reinsurer. To the extent that our reinsurers are unable to meet the obligations they assume under our reinsurance agreements, we remain liable for the entire insured loss.

Our catastrophe reinsurance agreements provide us coverage against severe weather events. We entered into excess-of-loss agreements with several private reinsurers and with the Florida Hurricane Catastrophe Fund. The private agreements provide coverage against severe weather events such as hurricanes, tropical storms and tornadoes. The agreement with the FHCF only provides coverage against storms that the National Hurricane Center designates as a hurricane at landfall.

For the policy year beginning June 1, 2011, we have a private catastrophe reinsurance agreement structured into layers. The coverage provided by one layer picks up, or “attaches”, at the point where coverage under the previous layer ends. Our agreement with the FHCF divides our coverage into three layers: the Limited-Appportionment Company layer, the Mandatory layer and the Temporary-Increase-in-Coverage-Limit layer.

For a single hurricane catastrophe, we have chosen to pay, or “retain”, the first \$15,000 of catastrophe losses before our reinsurance contracts provide coverage. For a second catastrophe, we would also retain the first \$15,000 of catastrophe losses. Our agreements will reimburse us as much as \$500,400 for the first event.

For a single non-hurricane catastrophe, we would retain the first \$25,000 of catastrophe losses. For a second non-hurricane catastrophe, we would also retain the first \$25,000 of catastrophe losses. Our agreements will reimburse us as much as \$129,000 for the first event.

With regard to all of our reinsurance agreements, we retain aggregate catastrophe losses, from all events, exceeding our reinsurance coverage.

Our agreement with the FHCF allows for one reinstatement of coverage provided by the LAC layer should losses resulting from one hurricane exhaust that coverage, while our agreement with the private reinsurers allows for one reinstatement of coverage on all the private layers should losses resulting from one or more severe weather events exhaust that coverage. The FHCF LAC layer provides for reinstatement of coverage at no additional premium; however, our private agreement requires us to pay 100% additional premium to reinstate the coverage it provides. To protect us in the event a reinstatement of coverage under our private agreement becomes necessary, we purchased a reinsurance premium protection policy. Our RPP policy reimburses us 100% of the amount of any reinstatement premium that we would have to pay to reinstate coverage on the first private layer and 70% on the second private

layer. Our agreement with the FHCF does not provide for reinstatement of the coverage provided by the Mandatory or TICL layers.

Our non-catastrophe reinsurance agreement provides excess-of-loss coverage for losses arising out of property business up to \$1,700 in excess of \$1,000 per risk. Should a loss recovery, or series of loss recoveries, exhaust the coverage provided under the agreement for losses arising out of property business, one reinstatement of the \$1,700 of coverage limit is included at 50% additional premium. The agreement, including reinstatements, provides aggregate coverage of \$3,400 for losses arising out of property business, while any single occurrence is limited to \$1,700. The agreement also provides coverage for losses arising out of a combination of property and casualty business up to \$2,200 in excess of \$1,000 per occurrence, subject to a maximum recovery on any one loss occurrence, regardless of the number of risks involved for property or the number or type of insureds for casualty, of \$2,200.

UNITED INSURANCE HOLDINGS CORP.

Notes to Unaudited Condensed Consolidated Financial Statements

June 30, 2011

For the Garage program that we discontinued as of May 31, 2009, we entered into quota share reinsurance agreements for policy years prior to the 2009-2010 policy year, but we did not enter into a new quota share agreement after July 31, 2009. We

recognized commission revenue on our previous quota share agreements totaling \$883 for the three-month period ended June 30, 2010, and \$913 for the six-month period ended June 30, 2010.

We write flood insurance under an agreement with the National Flood Insurance Program. We cede 100% of the premiums written and the related risk of loss. We earn commissions for the issuance of flood policies based upon a fixed percentage of net written premiums and the processing of flood claims based upon a fixed percentage of incurred losses, and we can earn additional commissions by meeting certain growth targets for the number of in-force policies. We recognized commission revenue from our flood program of \$112 and \$86 for the three-month periods ended June 30, 2011 and 2010, respectively, and \$193 and \$320 for the six-month periods ended June 30, 2011 and 2010, respectively.

We amortize our prepaid reinsurance premiums over the annual agreement period, and we record that amortization in Ceded Premiums Earned on our unaudited Condensed Consolidated Statements of Income. The table below summarizes the amounts of our ceded premiums written under the various types of agreements, as well as the amortization of prepaid reinsurance premiums:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Excess-of-loss	\$(84,699)	\$(83,188)	\$(83,746)	\$(82,945)
Quota share	(169)	(47)	(281)	(38)
Flood	(3,035)	(2,400)	(5,114)	(4,177)
Ceded premiums written	\$(87,903)	\$(85,635)	\$(89,141)	\$(87,160)