

UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
May 09, 2016

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, 2016

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)

65-0231984
(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 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

Accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 35,331,319 shares of common stock, par value \$0.01 per share, outstanding on May 2, 2016.

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. and its wholly-owned subsidiaries (the "Company") as of March 31, 2016 and the related condensed consolidated statements of income, comprehensive income, and cash flows for the three-month period ended March 31, 2016 and 2015. 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, 2015 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 February 24, 2016. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2015, 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

May 9, 2016

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	
	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 160,034	\$ 197,014
Restricted cash and cash equivalents	2,635	2,635
Fixed maturities, at fair value	488,725	416,083
Equity securities, at fair value	31,754	42,214
Short-term investments, at fair value	12,505	25,021
Investment real estate, net	8,110	6,117
Prepaid reinsurance premiums	119,927	114,673
Reinsurance recoverable	17,162	22,853
Reinsurance receivable, net	186	353
Premiums receivable, net	54,719	50,980
Other receivables	21,754	4,626
Property and equipment, net	28,070	27,065
Deferred policy acquisition costs, net	61,158	60,019
Income taxes recoverable	5,420	5,420
Deferred income tax asset, net	11,840	13,912
Other assets	4,997	4,563
Total assets	\$ 1,028,996	\$ 993,548
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	\$ 84,975	\$ 98,840
Unearned premiums	449,086	442,366
Advance premium	32,289	24,813
Accounts payable	3,894	378
Reinsurance payable, net	75,446	73,585
Income taxes payable	17,383	—
Other liabilities and accrued expenses	28,549	36,424
Long-term debt	23,077	24,050
Total liabilities	714,699	700,456
Commitments and Contingencies (Note 12)		
STOCKHOLDERS' EQUITY:		

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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	453	455
Authorized shares - 55,000		
Issued shares - 45,315 and 45,525		
Outstanding shares - 34,800 and 35,110		
Treasury shares, at cost - 10,515 and 10,415	(82,676)	(80,802)
Additional paid-in capital	70,280	70,789
Accumulated other comprehensive income (loss), net of taxes	(725)	(4,006)
Retained earnings	326,965	306,656
Total stockholders' equity	314,297	293,092
Total liabilities and stockholders' equity	\$ 1,028,996	\$ 993,548

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 March 31,	
	2016	2015
PREMIUMS EARNED AND OTHER REVENUES		
Direct premiums written	\$227,973	\$211,605
Ceded premiums written	(74,059)	(106,497)
Net premiums written	153,914	105,108
Change in net unearned premium	(1,466)	(10,748)
Premiums earned, net	152,448	94,360
Net investment income (expense)	1,605	862
Net realized gains (losses) on investments	667	171
Commission revenue	4,113	3,168
Policy fees	4,114	3,832
Other revenue	1,499	1,417
Total premiums earned and other revenues	164,446	103,810
OPERATING COSTS AND EXPENSES		
Losses and loss adjustment expenses	66,117	33,590
General and administrative expenses	57,230	32,197
Total operating costs and expenses	123,347	65,787
INCOME BEFORE INCOME TAXES	41,099	38,023
Income tax expense	15,873	15,693
NET INCOME	\$25,226	\$22,330
Basic earnings per common share	\$0.73	\$0.65
Weighted average common shares outstanding - Basic	34,527	34,578
Fully diluted earnings per common share	\$0.71	\$0.62
Weighted average common shares outstanding - Diluted	35,594	36,081
Cash dividend declared per common share	\$0.14	\$0.12

CONDENSED CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income	\$25,226	\$22,330

Other comprehensive income (loss)	3,281	1,197
Comprehensive income (loss)	\$28,507	\$23,527

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)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities	\$43,737	\$60,662
Cash flows from investing activities:		
Proceeds from sale of property and equipment	—	50
Purchases of property and equipment	(1,728)	(7,613)
Payments to acquire a business	—	(1,000)
Purchases of equity securities	(20,178)	(17,056)
Purchases of fixed maturities	(95,889)	(24,965)
Purchases of investment real estate, net	(2,021)	—
Proceeds from sales of equity securities	13,210	15,300
Proceeds from sales of fixed maturities	16,152	12,891
Proceeds from sales of short-term investments	12,500	—
Maturities of fixed maturities	10,504	19,786
Maturities of short-term investments	—	12,500
Net cash provided by (used in) investing activities	(67,450)	9,893
Cash flows from financing activities:		
Preferred stock dividend	(3)	(2)
Common stock dividend	(4,915)	(4,237)
Issuance of common stock	—	503
Purchase of treasury stock	(1,874)	—
Payments related to tax withholding for share-based compensation	(3,897)	(3,673)
Excess tax benefits (shortfall) from share-based compensation	(1,510)	4,136
Repayment of debt	(1,068)	(368)
Net cash provided by (used in) financing activities	(13,267)	(3,641)
Net increase (decrease) in cash and cash equivalents	(36,980)	66,914
Cash and cash equivalents at beginning of period	197,014	115,397
Cash and cash equivalents at end of period	\$160,034	\$182,311
Supplemental cash and non-cash flow disclosures:		
Interest paid	\$196	\$310
Income taxes paid	\$—	\$1,619

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. (“UVE”) is a Delaware corporation incorporated in 1990. UVE 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, Universal Property & Casualty Insurance Company (“UPCIC”) and American Platinum Property and Casualty Insurance Company (“APPCIC”), together 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 currently offered in twelve states as of March 31, 2016, 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 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, policy fees collected from policyholders by our wholly-owned managing general agency subsidiary and payment plan fees charged to policyholders who choose to pay their premiums in installments.

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 (“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, 2015, filed with the SEC on February 24, 2016. The condensed consolidated balance sheet at December 31, 2015, 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 the 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 UVE 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

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2015. 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 cost or amortized cost and fair value of securities available for sale as of the dates presented (in thousands):

	March 31, 2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities:				
U.S. government obligations and agencies	\$131,110	\$ 904	\$ (91)	\$131,923
Corporate bonds	157,358	1,410	(445)	158,323
Mortgage-backed and asset-backed securities	183,108	794	(380)	183,522
Redeemable preferred stock	9,518	444	(11)	9,951
Other	5,000	6	—	5,006
Equity Securities:				
Common stock	215	—	(96)	119
Mutual funds	35,340	11	(3,716)	31,635
Short-term investments	12,504	1	—	12,505
Total	\$534,153	\$ 3,570	\$ (4,739)	\$532,984

	December 31, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Maturities:				
U.S. government obligations and agencies	\$126,209	\$ —	\$ (867)	\$125,342
Corporate bonds	126,421	137	(1,041)	125,517
Mortgage-backed and asset-backed securities	151,328	97	(1,265)	150,160
Redeemable preferred stock	9,665	429	(29)	10,065
Other	5,000	—	(1)	4,999
Equity Securities:				
Common stock	10,991	15	(244)	10,762
Mutual funds	35,221	5	(3,774)	31,452
Short-term investments	25,011	10	—	25,021
Total	\$489,846	\$ 693	\$ (7,221)	\$483,318

The following table provides the credit quality of investment securities with contractual maturities or the issuer of such securities as of the dates presented (in thousands):

Comparable Ratings	March 31, 2016		December 31, 2015	
	Fair Value	% of Total Fair Value	Fair Value	% of Total Fair Value
AAA	\$105,619	21.1 %	\$103,097	23.4 %
AA	250,589	50.0 %	189,600	43.0 %
A	67,894	13.5 %	83,850	19.0 %
BBB	72,580	14.5 %	41,408	9.4 %
BB+ and Below	1,537	0.3 %	4,261	1.0 %
No Rating Available	3,011	0.6 %	18,888	4.2 %
Total	\$501,230	100.0 %	\$441,104	100.0 %

The tables above include comparable credit quality ratings by Standard and Poor's Rating Services, Inc., Moody's Investors Service, Inc. and Fitch Ratings, Inc.

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

	March 31, 2016		December 31, 2015	
	Cost or Amortized		Cost or Amortized	
	Cost	Fair Value	Cost	Fair Value
Mortgage-backed securities:				
Agency	\$83,623	\$83,897	\$74,353	\$73,854
Non-agency	17,411	17,383	10,430	10,183
Asset-backed securities:				
Auto loan receivables	39,247	39,360	29,883	29,712
Credit card receivables	34,706	34,763	32,225	31,985
Other receivables	8,121	8,119	4,437	4,426
Total	\$183,108	\$183,522	\$151,328	\$150,160

The following table summarizes the fair value and gross unrealized losses on securities available for sale, 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):

	March 31, 2016				December 31, 2015	
	Less Than 12 Months		12 Months or Longer		Less Than 12 Months	
	Number	Unrealized	Number	Unrealized	Number	Unrealized
	of	Fair	of	Fair	of	Fair
	Issue	Value	Issue	Value	Issue	Value
		Losses		Losses		Losses
Fixed maturities:						
U.S. government obligations and agencies	2	\$28,934	\$ (26)	2	\$3,506	\$ (64)
Corporate bonds	28	24,139	(304)	7	7,826	(145)
Mortgage-backed and asset-backed securities	17	32,977	(198)	5	12,486	(118)
Redeemable preferred stock	5	2,149	(9)	2	257	(5)
Other						
Equity securities:						
Common stock	1	67	(13)	2	119	(96)
Mutual funds	5	34,819	(751)	1	8,436	(3,010)
Short-term investments	—	—	—	—	—	—
Total	58	\$123,085	\$ (1,301)	19	\$32,630	\$ (3,438)

	December 31, 2015			
	Less Than 12 Months		12 Months or Longer	
	Number	Unrealized	Number	Unrealized
	of	Fair	of	Fair
	Issue	Value	Issue	Value
		Losses		Losses

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	Fair			Fair		
	Issues	Value	Losses	Issues	Value	Losses
Fixed maturities:						
U.S. government obligations and agencies	10	\$121,912	\$ (690)	2	\$3,429	\$ (177)
Corporate bonds	101	90,717	(927)	6	4,789	(114)
Mortgage-backed and asset-backed securities	51	118,743	(974)	6	13,902	(291)
Redeemable preferred stock	5	764	(29)	—	—	—
Other	1	4,999	(1)	—	—	
Equity securities:						
Common stock	3	8,690	(148)	2	93	(96)
Mutual funds	3	13,192	(374)	1	7,867	(3,400)
Total	174	\$359,017	\$ (3,143)	17	\$30,080	\$ (4,078)

At March 31, 2016, the Company held fixed maturity, equity securities and short-term investments that were in an unrealized loss position as presented in the table above. For fixed maturity securities with significant declines in value, the Company performs 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 fixed maturity, equity securities and short-term investments, the Company considers whether it has the intent and ability to hold the 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 upon management's intent and

ability to hold the securities until recovery and its credit analysis of the individual issuers of the securities, management has no reason to believe the unrealized losses for securities available for sale at March 31, 2016 are other than temporary.

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

	March 31, 2016	
	Cost or	Fair
	Amortized Cost	Value
Due in one year or less	\$34,979	\$34,960
Due after one year through five years	266,958	268,810
Due after five years through ten years	3,006	3,055
Due after ten years	3,990	4,084
Mortgage-backed and asset-backed securities	183,108	183,522
Perpetual maturity securities	6,557	6,799
Total	\$498,598	\$501,230

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay with or without penalty.

The following table provides certain information related to securities available for sale during the periods presented (in thousands):

	Three Months Ended	
	March 31,	
	2016	2015
Sales proceeds (fair value)	\$60,167	\$40,595
Gross realized gains	\$685	\$186
Gross realized losses	\$(18)	\$(15)

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	
	March 31,	
	2016	2015
Fixed maturities	\$1,831	\$1,184

Equity securities	203	57
Short-term investments	115	38
Other (1)	73	66
Total investment income	2,222	1,345
Less: Investment expenses (2)	(617)	(483)
Net investment (expense) income	\$1,605	\$862

(1) Includes interest earned on cash and cash equivalents and restricted cash and cash equivalents. Also includes investment income earned on real estate investments.

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

Investment Real Estate

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

	March 31, 2016	December 31, 2015
Investment real estate	\$8,242	\$ 6,220
Less: Accumulated depreciation	(132)	(103)
Investment real estate, net	\$8,110	\$ 6,117

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 program consists of catastrophe excess of loss reinsurance, subject to the terms and conditions of the applicable agreements. The Company is responsible for insured losses related to catastrophes and other events in excess of coverage provided by its reinsurance program. The Company remains responsible for the settlement of insured losses irrespective of the failure of any of its reinsurers to make payments otherwise due to the Company.

The Company eliminated the quota share ceded by UPCIC to its reinsurers beginning with the reinsurance program effective June 1, 2015. Under the quota share contracts that were effective June 1, 2014 through May 31, 2015, the quota share ceded by UPCIC to its reinsurers was 30%. By eliminating the quota share, the Company expects to increase its profitability by retaining all premiums. The elimination of the quota share also decreases the amount of losses and loss adjustment expenses ("LAE") that may be ceded by UPCIC and effectively increases the amount of risk retained by UPCIC and the Company. The elimination of the quota share also eliminates ceding commissions earned from the Company's quota share reinsurer during the contract term and eliminates deferred ceding commissions, netted against deferred policy acquisition costs.

Amounts recoverable from reinsurers are estimated in a manner consistent with the terms of the respective reinsurance contracts. 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 respective reinsurance contracts. Ceding commissions received in connection with quota share reinsurance are deferred and netted against deferred policy acquisition costs and amortized over the effective period of the related insurance policies.

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.

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

Reinsurer	Ratings as of March 31, 2016			Due from as of	
	AM Best Company	Rating Services	Investors Service, Inc.	March 31, 2016	December 31, 2015
Florida Hurricane Catastrophe Fund	n/a	n/a	n/a	16,834	42,086
Odyssey Reinsurance Company	A	A-	A3	13,393	18,742
Total (1)				\$30,227	\$ 60,828

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

n/a No rating available, because this state trust fund, which is under the direction of the Florida State Board of Administration, is not rated.

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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 March 31, 2016			2015			
	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
Direct	\$227,973	\$221,252	\$ 66,148	\$211,605	\$196,671	\$ 49,290
Ceded	(74,059)	(68,804)	(31)	(106,497)	(102,311)	(15,700)
Net	\$153,914	\$152,448	\$ 66,117	\$105,108	\$94,360	\$ 33,590

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

March	December
31,	31,