UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
November 10, 2008

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, 2008

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 000-20848

UNIVERSAL INSURANCE HOLDINGS, INC.
(Exact name of small business issuer 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., Suite 100, 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ___ Accelerated filer x Non-accelerated filer ___

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: 39,858,019 shares of common stock, par value $0.01 per share, outstanding on November 5, 2008 (including 906,000 shares held in trust).

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 SUBSIDIARIES as of September 30, 2008 and the related condensed consolidated statements of operations for the nine-month and three-month periods ended September 30, 2008 and 2007 and cash flows for each of the nine-month periods ended September 30, 2008 and 2007. 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/ Blackman Kallick LLP

Chicago, Illinois

November 10, 2008

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	(Unaudited) September 30, 2008	December 31, 2007
Cash and cash equivalents	$ 274,175,693	$ 214,745,606
Investments - fixed maturities - held to maturity, at amortized cost	4,348,590	-
Real estate, net	3,419,432	3,392,827
Prepaid reinsurance premiums	179,016,856	172,672,795
Reinsurance recoverables	49,745,278	46,399,265
Premiums receivable, net	43,520,344	36,194,822
Other receivables	9,184,030	2,310,500
Property and equipment, net	938,262	874,430
Deferred income taxes	15,112,947	14,202,956
Other assets	653,388	400,164

Total assets	$ 580,114,820	$ 491,193,365
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 75,191,456	$ 68,815,500
Unearned premiums	270,764,790	254,741,198
Deferred ceding commission, net	2,375,549	2,122,269
Accounts payable	2,141,253	2,972,147
Reinsurance payable, net	65,504,986	33,888,350
Dividends payable	3,724,218	3,241,145
Other accrued expenses	19,621,579	16,799,307
Other liabilities	14,960,561	11,035,444
Loans payable	-	2,820
Long-term debt	25,000,000	25,000,000
Total liabilities	479,284,392	418,618,180
STOCKHOLDERS' EQUITY:		
Cumulative convertible preferred stock, $.01 par value	1,387	1,387
Authorized shares - 1,000,000		
Issued shares - 138,640		
Outstanding shares - 138,640		
Minimum liquidation preference - $1,419,700		
Common stock, $.01 par value	398,578	393,072
Authorized shares - 55,000,000		
Issued shares - 39,858,019 and 39,307,103		
Outstanding shares - 37,242,172 and 36,012,729		
Treasury shares, at cost - 1,709,847 and 394,374 shares	(7,381,768)	(974,746)
Common stock held in trust, at cost - 906,000 and 2,900,000 shares	(733,860)	(2,349,000)
Additional paid-in capital	32,589,301	24,779,798
Retained earnings	75,956,790	50,724,674
Total stockholders' equity	100,830,428	72,575,185
Total liabilities and stockholders' equity	$ 580,114,820	$ 491,193,365

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 OPERATIONS
(UNAUDITED)

	For the Nine Months Ended September 30,	
	2008	2007
PREMIUMS EARNED AND OTHER REVENUES		

Direct premiums written	$ 394,304,531	$ 381,318,190	$12
Ceded premiums written	(275,284,862)	(271,847,589)	(9
Net premiums written	119,019,669	109,470,601	3
(Increase) decrease in net unearned premium	(9,679,531)	9,492,236	
Premiums earned, net	109,340,138	118,962,837	3
Net investment income	3,628,472	8,241,833	
Commission revenue	20,526,922	15,879,099	
Other revenue	3,658,373	618,546	
Total premiums earned and other revenues	137,153,905	143,702,315	4
OPERATING COSTS AND EXPENSES			
Losses and loss adjustment expenses	53,861,445	37,939,183	2
General and administrative expenses	29,316,796	34,227,989	1
Total operating costs and expenses	83,178,241	72,167,172	3
INCOME BEFORE INCOME TAXES	53,975,664	71,535,143	1
Income taxes, current	22,006,536	31,708,367	
Income taxes, deferred	(909,992)	(3,912,189)	
Income taxes, net	21,096,544	27,796,178	
NET INCOME	$ 32,879,120	$ 43,738,965	$
Basic net income per common share	$ 0.88	$ 1.23	
Weighted average of common shares outstanding - Basic	37,448,000	35,528,000	3
Fully diluted net income per share	$ 0.81	$ 1.06	$
Weighted average of common shares outstanding - Diluted	40,530,000	41,250,000	3
Cash dividend declared per common share	$ 0.20	$ 0.15	$

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIA
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS'
(UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND

Common Shares	Preferred Stock Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-in Capital	Retained Earnings	Sto Held Tru

Balance, December 31, 2007	39,307,103	138,640	$ 393,072	$ 1,387	$ 24,779,798	$ 50,724,674	$ (2,34
Issuance of common shares	1,516,000	-	15,157	-	2,505,370	-	
Release of shares from SGT	-	-	-	-	25,330	-	1,61
Repurchase of common shares	-	-	-	-	-	-	
Retirement of treasury shares	(965,084)	-	(9,651)	-	(4,032,054)	-	
Stock compensation plans	-	-	-	-	3,372,832	-	
Net income	-	-	-	-	-	32,879,120	
Tax benefit on exercise of stock options	-	-	-	-	5,706,780	-	
Amortization of deferred compensation	-	-	-	-	231,245	-	
Declaration of dividends	-	-	-	-	-	(7,647,004)	
Balance, September 30, 2008	39,858,019	138,640	$ 398,578	$ 1,387	$ 32,589,301	$ 75,956,790	$ (73
Balance, December 31, 2006	38,057,103	138,640	$ 380,572	$ 1,387	$ 18,726,387	$ 5,390,392	$(2,34
Issuance of common shares	1,000,000	-	10,000	-	1,750,500	-	
Stock compensation plans	-	-	-	-	1,660,493	-	
Net income	-	-	-	-	-	43,738,965	
Tax benefit on exercise of stock options	-	-	-	-	1,414,221	-	
Deferred compensation	-	-	-	-	(925,000)	-	
Amortization of deferred compensation	-	-	-	-	210,964	-	
Declaration of dividends	-	-	-	-	-	(5,414,372)	
Balance, September 30, 2007	39,057,103	138,640	$ 390,572	$ 1,387	$ 22,837,565	$ 43,714,985	$ (2,34

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 32,879,120	$ 43,738,965
Adjustments to reconcile net income to cash provided by operating activities		
Allowance for doubtful accounts	1,184,144	(40,921)
Amortization and depreciation	352,877	253,979
Amortization of bond premium	20,911	-
Loss on disposal of assets	-	27,630
Amortization of FAS 123R cost of stock options	3,372,831	1,660,489
Amortization of restricted stock grant	231,246	210,964
Deferred taxes	(909,991)	(3,912,188)
Tax benefit on exercise of stock options	(4,677,743)	(1,143,325)
Net change in assets and liabilities relating to operating activities:		
Reinsurance recoverables	(3,346,013)	(40,496,927)
Prepaid reinsurance premiums	(6,344,061)	(42,550,787)
Premiums receivable	(8,509,666)	3,682,718
Other receivables	(1,166,752)	(5,206,355)
Deferred acquisition costs, net	-	2,106,116
Other assets	(253,224)	17,368
Reinsurance payable	31,616,636	43,519,855
Deferred ceding commission, net	253,280	1,506,066
Other liabilities	3,925,117	6,283,429
Accounts payable	(830,894)	6,734,834
Taxes payable	-	13,215,182
Other accrued expenses	2,822,272	1,316,477
Unpaid losses and loss adjustment expenses	6,375,956	3,792,006
Unearned premiums	16,023,592	33,058,551
Net cash provided by operating activities	73,019,638	67,774,126
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(322,252)	(155,375)
Building improvements	(121,062)	(19,513)
Purchase of investments	(4,369,501)	0
Net cash used in investing activities	(4,812,815)	(174,888)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Preferred stock dividend	(37,462)	(37,462)
Issuance of common stock	130,530	835,500
Acquisition of treasury stock	(6,418,257)	(872,926)
Tax benefit on exercise of stock options	4,677,743	1,143,325
Common stock dividend paid	(7,126,470)	(4,418,746)
Repayments of loans payable	(2,820)	(12,375,692)
Net cash used in financing activities	(8,776,736)	(15,726,001)
Net increase in cash and cash equivalents	59,430,087	51,873,237

CASH AND CASH EQUIVALENTS, Beginning of period	214,745,606	232,890,297
CASH AND CASH EQUIVALENTS, End of period	$ 274,175,693	$ 284,763,534
Non cash items		
Dividends accrued	$ 3,724,217	$ 2,861,018

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
SEPTEMBER 30, 2008
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of Universal Insurance Holdings, Inc. ("Company"), its wholly owned property and casualty insurance subsidiary, Universal Property & Casualty Insurance Company ("UPCIC"), and other wholly owned subsidiaries of the Company including the Universal Insurance Holdings, Inc. Stock Grantor Trust. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities. In addition, the accompanying financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they omit or condense certain footnotes and other information normally included in financial statements prepared in conformity with GAAP and thus should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-KSB, as amended, for the year ended December 31, 2007.

The condensed consolidated balance sheet of the Company as of September 30, 2008, the related condensed consolidated statements of operations for the nine-month and three-month periods ended September 30, 2008 and 2007, and condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2008 and 2007 are unaudited. There were no items comprising comprehensive income for the nine-month periods ended September 30, 2008 and 2007. Accordingly, consolidated statements of comprehensive income are not presented. The significant accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-KSB, as amended, for the year ended December 31, 2007, except for the adoption of a new accounting pronouncement as noted below.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accompanying financial statements reflect all adjustments (consisting primarily of normal and recurring accruals and adjustments) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented.

Results of operations for the nine-month period ended September 30, 2008 are not necessarily indicative of the results for the year ending December 31, 2008.

To conform to the 2008 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.

2. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157 which redefines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies where other accounting pronouncements require or permit fair value measurements. SFAS No. 157 is partially effective for fiscal years beginning after November 15, 2007. The effects of adoption were determined by the types of instruments carried at fair value in the Company's financial statements at the time of adoption as well as the method utilized to determine their fair values prior to adoption. Based on the Company's current use of fair value measurements, the adoption of SFAS No. 157 did not have a material effect on the results of operations or financial position of the Company.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 became effective for the Company on January 1, 2008. SFAS 159 has not had a material effect on the Company's financial position, cash flows and results of operations.

In December 2007, FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"), and SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"), to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of SFAS 141R and SFAS 160 are effective as of the beginning of the Company's 2009 fiscal year. The Company is currently evaluating the impact of adopting SFAS 141R and SFAS 160 on its financial statements.

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"), which amends and expands the disclosure requirements of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), to provide an enhanced understanding of an entity's use of derivative instruments, how they are accounted for under SFAS 133 and their effect on the entity's financial position, financial performance and cash flows. The provisions of SFAS 161 are effective as of the beginning of the Company's 2009 fiscal year. The Company is currently evaluating the impact of adopting SFAS 161 on its financial statements.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. SFAS 162 was issued to clarify that the GAAP hierarchy is directed to entities since it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The provisions of SFAS 162 are effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with GAAP." The Company has determined that this statement will not result in a change in current practice.

Also, in May 2008, FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts" ("SFAS 163") - an interpretation of FASB No. 60, "Accounting and Reporting by Insurance Enterprises," which requires an insurance enterprise to recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS 163 also clarifies how FASB No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. The provisions of SFAS 163 are effective as of the beginning of the Company's 2009

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fiscal year. The Company is currently evaluating the impact of adopting SFAS 163 on its financial statements.

3. INSURANCE OPERATIONS

UPCIC commenced its insurance activity in February 1998 by assuming policies from the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"). UPCIC received the unearned premiums of the assumed policies and began servicing such policies. Since then, UPCIC has developed its business by actively soliciting business in the open market through independent agents.

Unearned premiums represent amounts that UPCIC would be required to refund policyholders if their policies were canceled. UPCIC determines unearned premiums by calculating the pro-rata amount that would be due to the policyholders at a given point in time based upon the premiums due for the full policy term. At September 30, 2008, UPCIC was servicing approximately 451,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $270,764,790 and in-force premiums of approximately $519,300,000. At December 31, 2007, UPCIC was servicing 374,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $254,741,198 and in-force premiums of approximately $504,500,000.

Premiums earned are included in earnings on a pro-rata basis over the terms of the policies. UPCIC does not have policies that provide for retroactive premium adjustments.

Policy acquisition costs, consisting of commissions and other costs that vary with and are directly related to the production of business, net of ceding commissions, are deferred and amortized over the terms of the policies, but only to the extent that unearned premiums are sufficient to cover all related costs and expenses. Deferred policy acquisition costs are reviewed to determine if they are recoverable from unearned premiums and, if not, are charged to expense. As of September 30, 2008 and September 30, 2007, respectively, no amounts of deferred policy acquisition costs were charged to expense as a result of the recoverability testing. As of September 30, 2008 and December 31, 2007, deferred ceding commissions exceeded deferred policy acquisition costs and were recorded as net liabilities in the amounts of $2,375,549 and $2,122,269, respectively.

An allowance for doubtful accounts is established when it becomes evident that collection is doubtful. The Company estimates its allowance for doubtful accounts by calculating the aggregate amount by which balances due from policyholders exceed unearned premium on a policy-level basis. As of September 30, 2008 and December 31, 2007, UPCIC had recorded allowances for doubtful accounts in the amounts of $2,016,804 and $832,660, respectively. The aggregate increase in the allowance is primarily due to an increase in past due installment payments from policyholders which the Company believes is attributable to the general economic downturn. The Company intends to monitor payment cycles and adjust the allowance for doubtful accounts accordingly.

Loss and loss adjustment expenses ("LAE"), less related reinsurance, are recorded as claims are incurred. The provision for unpaid loss and LAE includes: (1) the accumulation of individual case estimates for loss and LAE reported, but not paid prior to the close of the accounting period; (2) estimates for incurred but unreported claims based on past experience modified for current trends; and (3) estimates of expenses for investigating and adjusting claims based on past experience.

Management has implemented several rate changes to strengthen UPCIC's financial condition. On UPCIC's Homeowner's Program ("HO"), premium rate increases averaging 9.9% and 13.2% statewide were approved by the Florida Office of Insurance Regulation ("OIR") and implemented with effective dates in May 2006 and October 2006, respectively. On UPCIC's Dwelling Fire Program ("DP"), premium

rate increases averaging 11.2% and 30.6% statewide were also approved by the OIR and implemented with effective dates in May 2006 and September 2006, respectively. However, a rate filing mandated by the Florida Legislature in 2007 due to a new law presumed to reduce insurers' reinsurance costs resulted in rate decreases averaging 11.1% statewide (HO) and 2.3% statewide (DP) was approved by the OIR and integrated into UPCIC's rates on June 1, 2007. This had an adverse effect on UPCIC's premium volume. The effect of these rate decreases on existing policies and the corresponding premium decreases in direct written premium were completed on May 31, 2008. In addition, UPCIC implemented premium discounts resulting from wind mitigation efforts by policyholders. Such discounts were mandated by the Florida Legislature and became effective June 1, 2007 for new business, and August 1, 2007 for renewal business. Additionally, a rate decrease of 4.1% statewide (HO) and a rate decrease of 0.2% statewide (DP) were approved by the OIR and implemented with effective dates in January 2008 for the HO program and March 2008 for the DP program. The effect of these rate decreases is reflected in UPCIC's book of business and the full impact of the premium decreases on direct premiums written should be realized by January 2009 for the HO program and March 2009 for the DP program.

UPCIC uses proprietary systems for policy issuance and administration. This has enhanced UPCIC's operating results through its ability to improve and better control underwriting and loss adjusting activities. In addition, UPCIC monitors the geographic and coverage mix of the property insurance it writes, which is a key determinant in the amount and pricing of reinsurance procured by UPCIC. Management believes these processes, and results attributable to them, will continue to allow UPCIC to operate profitably. However, there can be no assurance of the ultimate success of the Company's plans, or that the Company will be able to maintain profitability.

4. REINSURANCE

In the normal course of business, UPCIC seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance contracts. Reinsurance premiums, losses and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance ceding commissions received are deferred and netted against policy acquisition costs and amortized over the effective period of the related insurance policies.

UPCIC limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers, either on an automatic basis under general reinsurance contracts known as "treaties" or by negotiation on substantial individual risks. The reinsurance arrangements are intended to provide UPCIC with the ability to maintain its exposure to loss within its capital resources. Such reinsurance includes quota share, excess of loss and catastrophe forms of reinsurance. While ceding premiums to reinsurers reduces UPCIC's risk of exposure in the event of catastrophic losses, it also reduces UPCIC's potential for greater profits should such catastrophic events fail to occur. The Company submits the UPCIC reinsurance program for regulatory review to the OIR.

In light of the four windstorm catastrophes Florida experienced in 2004, and three windstorm catastrophes Florida experienced in 2005, there was a significant increase in the cost of catastrophe reinsurance coverage commencing with the June 1, 2006 renewal which the Company had planned and factored into its policy pricing. Effective June 1, 2006, UPCIC reduced the rate of cession on its quota share reinsurance. Quota share reinsurance is used primarily to increase UPCIC's underwriting capacity and to reduce exposure to losses. Quota share reinsurance refers to a form of reinsurance under which the reinsurer participates in a specified percentage of the premiums and losses on all reinsured policies in a given class of business. As a result of this reduction of UPCIC's quota share reinsurance from 80% to 50%, UPCIC has retained and

earned more premiums it writes, but has also retained more related losses. UPCIC's increased exposure to potential losses could have a material adverse effect on the business, financial condition and results of operations of UPCIC and the Company. UPCIC did not experience any catastrophic events during the nine-month periods ended September 30, 2008 and 2007.

Effective June 1, 2008, UPCIC entered into a quota share reinsurance treaty and excess per risk agreements with various reinsurers. Under the quota share treaty, through May 31, 2009, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk with a ceding commission payable to UPCIC equal to 31% of ceded gross written premiums. In addition, the quota share treaty has a limitation for any one occurrence of 55% of gross premiums earned, not to exceed $150,000,000 (of which UPCIC's net liability in a first event scenario is $70,000,000, in a second event scenario is $14,800,000 and in a third event scenario is $15,000,000) and a limitation from losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services ("PCS") office of 164% of gross premiums earned, not to exceed $450,000,000.

Effective June 1, 2008 through May 31, 2009, UPCIC entered into a multiple line excess per risk agreement with various reinsurers. Under the multiple line excess per risk agreement, UPCIC obtained coverage of $1,300,000 in excess of $500,000 ultimate net loss for each risk and each property loss, and $1,000,000 in excess of $300,000 for each casualty loss. A $7,800,000 aggregate limit applies to the term of this agreement. Additionally under this agreement, no property claim shall be made until UPCIC has retained the first $1,300,000 of potential recovery.

Effective June 1, 2008 through May 31, 2009, UPCIC entered into a property per risk excess agreement covering ex-wind only policies. Under the property per risk excess agreement, UPCIC obtained coverage of $300,000 in excess of $200,000 for each property loss. A $2,100,000 aggregate limit applies to the term of this agreement.

Effective June 1, 2008 through May 31, 2009, under an excess catastrophe contract, UPCIC obtained catastrophe coverage of $399,000,000 in excess of $150,000,000 covering certain loss occurrences including hurricanes. This contract contains a provision for one reinstatement in the event coverage is exhausted; additional premium is calculated pro rata as to amount and 100% as to time. Effective June 1, 2008 through May 31, 2009, UPCIC purchased a reinstatement premium protection contract which reimburses UPCIC for its cost to reinstate the catastrophe coverage of the first $274,000,000 (part of $399,000,000) in excess of $150,000,000. Effective June 1, 2008, UPCIC also obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of UPCIC's net retention through three catastrophe events including hurricanes. UPCIC also obtained coverage from the Florida Hurricane Catastrophe Fund ("FHCF"). The approximate coverage initially was estimated to be 90% of $1,340,000,000 in excess of $290,000,000. Also at June 1, 2008, the FHCF made available, and UPCIC obtained, $10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive Program offered by the FHCF (the "ICBUI Program"), such as UPCIC. This particular layer of coverage is $10,000,000 in excess of $29,600,000. On October 31, 2008, the Florida State Board of Administration ("SBA") published its most recent estimate of the FHCF's loss reimbursement capacity. The SBA estimated that the FHCF's total loss reimbursement capacity over the next six to twelve months is between $11.786 billion and $13.286 billion. This is significantly less than the estimate in effect when UPCIC made its FHCF coverage selections for the 2008-2009 contract year. By law, the FHCF's obligation to reimburse insurers is limited to its actual claims-paying capacity. In addition, the cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's claims-paying capacity.

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The total cost of UPCIC's underlying catastrophe private reinsurance program effective June 1, 2008 through May 31, 2009 is $86,795,000 of which UPCIC's cost is 50%, or $43,397,500, and the quota share reinsurers' cost is the remaining 50%. In addition, UPCIC purchases reinstatement premium protection as described above which amounts to $12,266,483. The cost of subsequent event catastrophe reinsurance is $12,180,000. The estimated premium UPCIC plans to cede to the FHCF for the 2008 hurricane season is $57,870,530 of which UPCIC's cost is 50%, or $28,935,265, and the quota share reinsurers' cost is the remaining 50%. UPCIC is also participating in the additional coverage option for Limited Apportionment Companies or companies that participated in the ICBUI Program, the premium for which is $5,000,000, of which UPCIC's cost is 50%, or $2,500,000, and the quota share reinsurers' cost is the remaining 50%.

Effective July 1, 2008 through May 31, 2009, under an excess catastrophe contract, UPCIC obtained an additional $90,000,000 of catastrophe coverage via a new top layer of 90% of $100,000,000 in excess of $549,000,000 covering certain loss occurrences including hurricanes. The contract contains a provision for one reinstatement in the event coverage is exhausted; additional premium is calculated pro rata as to amount and 100% as to time. The total cost of this new top layer is $7,200,000 of which UPCIC's cost is 50%, or $3,600,000, and the quota share reinsurers' cost is the remaining 50%.

Also effective July 1, 2008 through May 31, 2009, UPCIC secured an additional

$80,000,000 of third event catastrophe coverage via a new layer of 80% of $100,000,000. The total cost of this new layer is $4,000,000 of which UPCIC's cost is 50%, or $2,000,000, and the quota share reinsurers' cost is the remaining 50%.

Effective June 1, 2008 through December 31, 2008, the Company obtained $60,000,000 of coverage via a catastrophe risk-linked transaction product in the event UPCIC's catastrophe coverage is exhausted or UPCIC is unable to successfully collect from the FHCF for losses involving the Temporary Increase in Coverage Limits. The total cost of the Company's risk-linked transaction product is $10,260,000.

UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on UPCIC's and the Company's business, financial condition and results of operations. At the start of the hurricane season on June 1, 2008, UPCIC has coverage to approximately the 133-year Probable Maximum Loss (PML). With the additional catastrophic coverage via the new top layer effective July 1, 2008, UPCIC would have had coverage to approximately the 145-year PML. For the 2007 hurricane season, UPCIC had coverage to approximately the 150-year PML. PML is a general concept applied in the insurance industry for defining high loss scenarios that should be considered when underwriting insurance risk. Catastrophe models produce loss estimates that are qualified in terms of dollars and probabilities. Probability of exceedance or the probability that the actual loss level will exceed a particular threshold is a standard catastrophe model output. For example, the 100-year PML represents a 1.00% Annual Probability of Exceedance (the 133-year PML represents a 0.752% Annual Probability of Exceedance and the 145-year PML represents a 0.690% Annual Probability of Exceedance). It is estimated that the 100-year PML is likely to be equaled or exceeded in one year out of 100 on average, or 1 percent of the time. It is the 99th percentile of the annual loss distribution.

The reinsurance arrangements had the following effect on certain items in the accompanying consolidated financial statements:

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Adjust Expen
Direct	$394,304,531	$378,280,937	$107,105,622	$381,318,190	$348,259,639	$73,524
Ceded	(275,284,862)	(268,940,799)	(53,244,177)	(271,847,589)	(229,296,802)	(35,585
Net	$119,019,669	$109,340,138	$ 53,861,445	$109,470,601	$118,962,837	$37,939

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Adjust Expen

Direct	$124,718,631	$128,626,371	$46,907,087	$118,754,920	$127,235,717	$24,824
Ceded	(91,295,102)	(90,543,483)	(23,287,670)	(86,699,581)	(90,916,255)	(11,751
Net	$ 33,423,529	$ 38,082,888	$23,619,417	$ 32,055,339	$ 36,319,462	$13,072

OTHER AMOUNTS:

	September 30, 2008
Prepaid reinsurance premiums	$179,016,856
Reinsurance recoverable on unpaid losses and loss adjustment expenses	$38,819,548
Reinsurance recoverable on paid losses	10,925,730
Reinsurance recoverables	$49,745,278
Reinsurance payable, net	$65,504,986

Reinsurance payable, as of September 30, 2008, has been reduced by $5,591,765, which represents ceding commissions due from reinsurers and $42,618,923 which represents inuring premiums receivable. The Company has determined that a right of offset, as defined in FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," exists between the Company and its reinsurers, under its quota share reinsurance treaties.

UPCIC's reinsurance contracts do not relieve UPCIC from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to UPCIC; consequently, allowances are established for amounts deemed uncollectible. No allowance is deemed necessary at September 30, 2008. UPCIC evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. UPCIC currently has reinsurance contracts with various reinsurers located throughout the United States and internationally. UPCIC believes that ceding risks to reinsurers whom it considers to be financially sound combined with the distribution of reinsurance contracts to an array of reinsurers adequately minimizes UPCIC's risk from any potential operating difficulties of its reinsurers. However, UPCIC is required by law to purchase certain reimbursement coverage from the FHCF and has purchased other

optional FHCF reimbursement coverage.

UPCIC may also be subject to assessments by Citizens Property Insurance Corporation ("Citizens"), Florida's state-run insurer of last resort, and the FHCF as a result of operating deficiencies related to windstorm catastrophes. In addition, UPCIC is subject to assessments by the Florida Insurance Guaranty Association ("FIGA"). FIGA services pending claims by Florida policyholders of member insurance companies which become insolvent and are ordered liquidated. FIGA's membership is composed of all Florida licensed direct writers of property or casualty insurance. Under Florida's current statutes and regulations, insurers may recoup the amount of their assessments from policyholders, or in some cases collect the amount of the assessments from policyholders as surcharges for the benefit of the assessing entity.

On June 12, 2006, the OIR ordered an emergency FHCF assessment of 1% of direct premiums written for policies with effective dates beginning January 1, 2007, which UPCIC is currently collecting from policyholders, as the assessment is to policyholders, not UPCIC. This assessment was a result of catastrophe losses Florida experienced in 2004 and 2005. The assessments collected from policyholders are remitted to FHCF quarterly.

On September 14, 2006, the Board of Governors of Citizens authorized the levying of a regular assessment on assessable insurers to recoup the 2005 Plan Year Deficit incurred in the High Risk Account. The assessment is based upon UPCIC's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the plan year in which the deficit occurred. UPCIC's participation in this assessment totaled $263,650. Pursuant to Florida law, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to Citizens. As a result, UPCIC recorded this assessment as an expense during the year ended December 31, 2006 and began implementing the recoupment in connection with this assessment in 2007. The Company expects that recoupment of this assessment will be completed in 2009.

During its meeting on December 14, 2006, the FIGA Board determined the need for an emergency assessment upon its member companies. The FIGA Board decided on an emergency assessment on member companies of 2% of the Florida net direct premiums for the calendar year 2005. Based on the 2005 net direct premiums of $11.2 billion, this assessment would generate approximately $225 million. UPCIC's participation in this assessment totaled $1,772,861. Pursuant to Florida law, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to FIGA. As a result, UPCIC recorded this assessment as an expense during the year ended December 31, 2006 and began implementing the recoupment in connection with this assessment in 2007. The Company expects that recoupment of this assessment will be completed in 2009.

On January 11, 2007, the OIR ordered an emergency Citizens assessment of 1.4% of certain direct written premiums for policies with effective dates beginning July 1, 2007. This assessment was a result of catastrophic losses the State of Florida experienced in 2005. This assessment will be in effect for 10 years. UPCIC assesses this surcharge to policyholders at the policy effective date and remits to Citizens the assessments collected on a monthly basis.

During its meeting on October 11, 2007, the FIGA Board determined the need for an assessment upon its member companies, which the OIR approved on October 29, 2007. The FIGA Board decided on an assessment on member companies of 2% of the Florida net direct premiums for the calendar year 2006. Based on the 2006 net direct premiums of $15.8 billion, this assessment would generate approximately $315 million. UPCIC's participation in this assessment totaled $7,435,090. Pursuant to Florida law, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to FIGA. As a result, UPCIC recorded this assessment as an expense during the year ended December 31, 2007 and has begun implementing the recoupment in connection with this assessment in 2008.

5. EARNINGS PER SHARE

Earnings per share ("EPS") amounts are calculated in accordance with SFAS No. 128, "Earnings per Share." Basic EPS is based on the weighted average number of shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution that could occur if securities to issue common stock were exercised.

A reconciliation of shares used in calculating basic and diluted EPS for the nine-month and three-month periods ended September 30, 2008 and 2007, respectively, follows:

	Nine Months Ended	
	September 30, 2008	September 30, 2007
Number of shares used in calculating basic EPS	37,448,000	35,528,000
Effect of assumed conversion of common stock equivalents	3,082,000	5,722,000
Number of shares used in calculating diluted EPS	40,530,000	41,250,000

	Three Months Ended	
	September 30, 2008	September 30, 2007
Number of shares used in calculating basic EPS	37,500,000	35,763,000
Effect of assumed conversion of common stock equivalents	2,426,000	5,787,000
Number of shares used in calculating diluted EPS	39,926,000	41,550,000

Options to purchase 2,314,304 and 530,376 shares of common stock for the nine-month periods ended September 30, 2008 and 2007, respectively, and options to purchase 3,040,000 and 1,386,685 shares of common stock for the three-month periods ended September 30, 2008 and 2007, respectively, were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market prices during the relevant periods.

6. STOCK-BASED COMPENSATION PLANS AND WARRANTS

Effective January, 2006, the Company adopted SFAS No. 123 (R), "Share-Based Payments," and began recognizing compensation expense in its Consolidated Statements of Operations for its stock option grants based on the fair value of the awards. Under SFAS No.123 (R), the compensation expense for the stock compensation plans that has been charged against income before income taxes was \$3,372,832 and \$1,660,493 for the nine-month periods ended September 30, 2008 and 2007, respectively, with a corresponding deferred income tax benefit of \$1,301,070 and \$640,536, respectively. As of September 30, 2008 the total unrecognized compensation cost related to nonvested share-based compensation granted under the stock compensation plans was \$1,758,597. The cost is expected to be recognized over a weighted average period of 0.67 year.

On May 16, 2008, the Company granted options to purchase an aggregate of 1,440,000 shares of common stock to the Company's directors, executive officers and management. All of the options granted on May 16, 2008 vest on May 16, 2009, have an exercise price of \$3.90 per share, and expire on May 16, 2013. The options granted to Bradley I. Meier, the Company's President and Chief Executive Officer, and to Sean P. Downes, the Company's Chief Operating Officer and Senior Vice President, are only exercisable on such date or dates as the fair market value (as defined in their respective option agreements) of the Company's common

stock is and has been at least one hundred fifty percent (150%) of the exercise price for the previous twenty (20) consecutive trading days.

Cash received from option exercises under all stock compensation plans for the nine-month periods ended September 30, 2008 and 2007 was $130,530 and $0, respectively. The actual tax benefit realized for tax deductions from option exercises of share-based compensation was $5,706,780 and $1,414,223 for the nine-month periods ended September 30, 2008 and 2007, respectively.

At September 30, 2008 and 2007, there were options outstanding to purchase 5,600,000 and 7,105,000 shares of common stock, respectively, with intrinsic values of $6,357,300 and $34,253,700, respectively, weighted average remaining contract terms of 3.00 and 3.47 years, respectively, and weighted average exercise prices of $3.30 and $2.32, respectively. Of the total options outstanding, options to purchase 2,410,000 and 3,780,000 shares of common stock, respectively, were currently exercisable with intrinsic values of $2,122,300 and $22,605,700, respectively, weighted average remaining contract terms of 3.26 and 3.46 years, respectively, and weighted average exercise prices of $4.58 and $1.16, respectively.

During the nine-month period ended September 30, 2008, options to purchase 1,440,000 shares of common stock were granted, and during the same period in 2007, options to purchase 2,010,000 shares of common stock were granted. Options to purchase 2,910,000 and 750,000 shares of common stock were exercised during the nine-month periods ended September 30, 2008 and 2007, respectively. Options to purchase 35,000 shares of common stock expired during the nine-month period ended September 30, 2008.

At September 30, 2008, there were no warrants outstanding to purchase shares of common stock. At September 30, 2007, there were warrants outstanding and exercisable to purchase 850,000 shares of common stock. Warrants to purchase 600,000 shares of common stock were exercised during the nine-month period ended September 30, 2008, while none were exercised during the same period in 2007.

The Company estimated the fair value of all stock options awards as of the grant date by applying the Black-Scholes-Merton option pricing model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate. Under SFAS 123(R), forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. The forfeiture rate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate. Under SFAS 123 and APB 25, the Company elected to account for forfeitures when awards were actually forfeited and reflect the forfeitures as a cumulative adjustment to the pro forma expense.

In accordance with SFAS 123(R), fair values of options granted prior to adoption and determined for purposes of disclosure under SFAS 123 have not been changed. The fair value of options granted prior to adoption of SFAS 123(R) was estimated assuming the following: weighted average expected life of five years, dividend yield of 0.0 percent, risk-free interest rate of 6.5 percent, and expected volatility as calculated at the date of grant. There were 1,440,000 options granted during the nine-month period ended September 30, 2008. The fair value of options granted during the nine-month period ended September 30, 2008 was estimated assuming the following: weighted average expected life of 2.59 years, dividend yield of 4.0 percent, risk-free interest rate of 2.55 percent, and expected volatility of 80.7 percent. There were 2,010,000 options granted during the nine-month period ended September 30, 2007. The fair value of options during the nine-month period ended September 30, 2007 was estimated assuming the following: weighted average expected life of 2.45 years, dividend yield of 4.0 percent, risk-free interest rate of 4.86 percent, and expected volatility of 70.0 percent.

7. RELATED PARTY TRANSACTIONS

All underwriting, rating, policy issuance, reinsurance negotiations and administration functions for UPCIC are performed by UPCIC, Universal Risk Advisors, Inc., a wholly owned subsidiary of the Company, Blue Atlantic Reinsurance Corporation, a wholly-owned subsidiary of the Company ("Blue Atlantic"), and unaffiliated third parties. Claims adjusting functions are performed by Universal Adjusting Corporation (a wholly owned subsidiary of the Company), Blue Atlantic, and affiliated and unaffiliated third parties.

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida, performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Chief Operating Officer and Senior Vice President of UPCIC. During the nine-month periods ended September 30, 2008 and 2007, the Company expensed claims adjusting fees of $200,000 and $615,237, respectively, to Downes and Associates.

The Company acquired all of the outstanding common stock of Atlas Florida Financial Corporation ("Atlas"), which owned all of the outstanding common stock of Sterling Premium Finance Company, Inc. ("Sterling"), from the Company's Chief Executive Officer and Chief Operating Officer for $50,000, which approximated Sterling's book value. On March 6, 2008, the Company received approval of this acquisition from the OIR. Sterling has been renamed Atlas Premium Finance Company and commenced offering premium finance services in November 2007.

8. STOCK AND WARRANTS ISSUANCES

On January 2, 2008, the Company issued 518,919 shares of common stock at a price of $1.00 per share, to a private investor, pursuant to the exercise, on a "cashless" basis, of warrants to purchase common stock.

During the nine-month period ended September 30, 2008, the Company issued shares of restricted common stock pursuant to the exercise of stock options as follows:

Date	Number of Shares Issued	Price per Share	Name	Relation to Company
01/02/2008	15,000	$0.90	Harris Siskind	Former Director
01/07/2008	9,254	$0.50	Irwin Kellner	Former Director
01/07/2008	16,716	$1.10	Irwin Kellner	Former Director
01/07/2008	8,955	$0.70	Irwin Kellner	Former Director
01/07/2008	75,672	$1.63	Irwin Kellner	Former Director
01/11/2008	10,445	$1.10	Sean P. Downes	SVP and COO
01/11/2008	66,316	$0.50	Sean P. Downes	SVP and COO
01/11/2008	93,208	$3.80	Sean P. Downes	SVP and COO
01/11/2008	14,359	$1.10	James M. Lynch	EVP and CFO
01/11/2008	9,861	$0.70	James M. Lynch	EVP and CFO
01/11/2008	67,970	$0.50	James M. Lynch	EVP and CFO
01/11/2008	7,785	$3.80	James M. Lynch	EVP and CFO
01/11/2008	23,135	$0.50	Employee	Employee

01/11/2008	6,574	$0.70	Employee	Employee
01/11/2008	31,195	$1.00	Employee	Employee
01/11/2008	3,064	$1.10	Employee	Employee
03/18/2008	31,000	$1.63	Reed J. Slogoff	Director
Total Shares	490,509			

On April 3, 2000, the Company established the Universal Insurance Holdings, Inc. Stock Grantor Trust ("SGT") to fund its obligations arising from its various stock option agreements. The Company funded the SGT with 2,900,000 shares of the Company's common stock. On both April 11, 2008 and May 7, 2008, the Company's Board of Directors' Compensation Committee, by unanimous written consent, released shares from the SGT to satisfy Company obligations to issue stock options.

During the nine-month period ended September 30, 2008, the Company released from the SGT shares of restricted common stock pursuant to the exercise of stock options as follows:

Date	Number of Shares Issued	Price per Share	Name	Relation to Company
04/08/2008	627,422	$0.06	Bradley I. Meier	President and CEO
04/08/2008	104,009	$1.63	Bradley I. Meier	President and CEO
05/01/2008	54,342	$1.63	Joel M. Wilentz	Director
05/01/2008	37,495	$1.63	Reed J. Slogoff	Director
05/01/2008	32,977	$1.10	Norman M. Meier	Director
05/01/2008	172,671	$1.63	Norman M. Meier	Director
Total Shares	1,028,916			

The aggregate number of shares of the Company's common stock released from the SGT was 1,994,000. Of that total, 1,028,916 shares of common stock were issued to those individuals exercising stock options and 965,084 shares of common stock were retained by the Company as treasury shares. The shares retained by the Company were in payment for the exercise price of certain options and the satisfaction of statutory tax liability associated with such exercise.

Unless otherwise specified, such as in the case of the exercise of stock options or warrants, the per share prices were determined using the closing price of the Company's common stock as quoted on the NYSE Alternext ("Alternext"), formerly known as the American Stock Exchange, and the shares were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended.

During the nine-month period ended September 30, 2008, the aggregate number of stock options and warrants exercised was 3,510,000 (1,516,000 newly issued and 1,994,000 released from the SGT). Of that total, 2,038,342 shares of common stock were issued to those individuals exercising stock options and warrants and 1,471,658 shares of common stock were retained by the Company as treasury shares. The shares retained by the Company were in payment for the exercise price of certain options and the satisfaction of statutory tax liability associated with such exercise.

During the nine-month period ended September 30, 2008, the Company retired 965,084 shares of its common stock held as treasury stock at a cost of $4,041,705.

9. PROVISION FOR INCOME TAX EXPENSE

Federal and state income taxes decreased 24.1% to $21,096,544 for the nine-month period ended September 30, 2008 from $27,796,178 for the nine-month period ended September 30, 2007. Federal and state income taxes were 39.1% of pretax income for the nine-month period ended September 30, 2008, and 38.9% for the nine-month period ended September 30, 2007. The decrease in income tax expense is primarily due to lower income before income taxes.

10. LOANS PAYABLE

On November 9, 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration ("SBA") under the ICBUI Program. Under the ICBUI Program, which was implemented by the Florida Legislature to encourage

insurance companies to write additional residential insurance coverage in Florida, the SBA matched UPCIC's funds of $25.0 million that were earmarked for participation in the program. The surplus note brings the current capital and surplus of UPCIC to approximately $89.2 million. The $25.0 million is invested in a U.S. treasury money market account.

The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, UPCIC is required to pay interest only, although principal payments can be made during this period. Any payment of principal or interest by UPCIC on the surplus note must be approved by the Commissioner of the OIR.

In May 2008, the Florida Legislature passed a law providing participants in the Program an opportunity to amend the terms of their surplus notes based on law changes. The new law contains methods for calculating compliance with the writing ratio requirements that might be more favorable to UPCIC than current law and the terms of the existing surplus note. On November 6, 2008, UPCIC and the SBA executed an addendum to the surplus note ("the addendum") that reflects these law changes. The terms of the addendum are effective July 1, 2008. In addition to other less significant changes, the addendum modifies the definitions of Minimum Required Surplus, Minimum Writing Ratio, Surplus, and Gross Written Premium, respectively, as defined in the original surplus note.

Prior to the execution of the addendum, UPCIC was in compliance with each of the loan's covenants as implemented by rules promulgated by the SBA. UPCIC currently remains in compliance with each of the loan's covenants as implemented by rules promulgated by the SBA. An event of default will occur under the surplus note, as amended, if UPCIC: (i) defaults in the payment of the surplus note; (ii) drops below a net written premium to surplus of 1:1 for three consecutive quarters beginning January 1, 2010 and drops below a gross written premium to surplus ratio of 3:1 for three consecutive quarters beginning January 1, 2010; (iii) fails to submit quarterly filings to the OIR; (iv) fails to maintain at least $50 million of surplus during the term of the surplus note, except for certain situations; (v) misuses proceeds of the surplus note; (vi) makes any misrepresentations in the application for the program; (vii) pays any dividend when principal or interest payments are past due under the surplus note; or (viii) fails to maintain a level of surplus sufficient to cover in excess of UPCIC's 1-in-100 year probable maximum loss as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology as certified by the OIR annually.

The original surplus note provided for increases in interest rates for failure to meet the Minimum Writing Ratio. Under the terms of the surplus note agreement, at December 31, 2007, the interest rate on the note was increased by 450 basis points. As of March 31, 2008 and June 30, 2008, respectively, the additional interest rate on the note was decreased from 450 basis points to 25 basis points. Under the terms of the surplus note, as amended, the net written premium to surplus requirement and gross written premium to surplus requirement have been modified. As of September 30, 2008, UPCIC's net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC was not subject to increases in interest rates.

To meet its matching obligation under the ICBUI Program, on November 3, 2006, the Company entered into a Secured Promissory Note with Benfield Greig (Holdings), Inc. in the aggregate principal amount of $12 million. Interest on the note accrued at the rate of 12.75% per annum. The outstanding principal was due in six monthly installments of $1.5 million and a final seventh monthly installment of the remaining balance plus all accrued interest under the terms of the note starting on January 31, 2007 and ending on July 31, 2007. In connection with the loan, the Company and its subsidiaries appointed Benfield Inc. as their reinsurance intermediary for all of their reinsurance placements for the contract year beginning on June 1, 2007. The Company made all payments in a timely manner and paid the final installment on July 18, 2007. Under the terms of the Secured Promissory Note, Benfield Greig (Holdings), Inc. agreed to

refund a portion of the interest paid on the note if the Company fulfilled all its material obligations under the related broker agreements. On July 27, 2007, the Company received a refund of interest from Benfield Greig (Holdings), Inc. in the amount of $280,500 that reduced the effective interest rate on the note to 8.25% per annum.

11. COMPANY STOCK REPURCHASE

On June 25, 2008, the Company's Board of Directors authorized the Company to repurchase up to $3,000,000 of its shares of outstanding common stock. Under the repurchase program, management was authorized to repurchase shares through December 31, 2008, with block trades permitted, in open market purchases or in privately negotiated transactions at prevailing market prices in compliance with applicable securities laws and other legal requirements. To facilitate repurchases, the Company made purchases pursuant to a Rule 10b5-1 plan, which allowed the Company to repurchase its shares during periods when it otherwise might have been prevented from doing so under insider trading laws. In total, the Company repurchased 808,900 shares under its repurchase plan at an aggregate cost of $2,999,788. On August 26, 2008, the Company announced the completion of the repurchase program.

12. SUBSEQUENT EVENT

On November 5, 2008, the Company's Board of Directors declared a dividend of $0.20 per share on its outstanding common stock. The dividend is to be paid on December 17, 2008 to the shareholders of record of the Company at the close of business on December 2, 2008. The Company expects to pay an aggregate dividend of approximately $7.4 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis by management of the Company's consolidated financial condition and results of operations should be read in conjunction with the Company's Condensed Consolidated Financial Statements and Notes thereto.

FORWARD-LOOKING STATEMENTS

Certain statements made by the Company's management may be considered to be "forward-looking statements" within the meaning of the Private Securities Reform Litigation Act of 1995. Forward-looking statements are based on various factors and assumptions that include known and unknown risks and uncertainties. The words "believe," "expect," "anticipate," and "project," and similar expressions, identify forward-looking statements, which speak only as of the date the statement was made. Such statements may include, but not be limited to, projections of revenues, income or loss, expenses, plans, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future results could differ materially from those described in forward-looking statements as a result of the risks set forth in the following discussion and in

the section below entitled "Factors Affecting Operation Results and Market Price of Stock," among others.

OVERVIEW

The Company is a vertically integrated insurance holding company. The Company, through its subsidiaries, is currently engaged in insurance underwriting, distribution and claims. UPCIC generates revenue from the collection and investment of premiums. The Company's agency operations, which include Universal Florida Insurance Agency and Coastal Homeowners Insurance Specialists, Inc., generate income from commissions. Universal Risk Advisors, Inc., the Company's managing general agent, generates revenue through policy fee income and other administrative fees from the marketing of UPCIC's and third-party insurance products through the Company's distribution network and UPCIC. In addition, the Company has formed an independent claims adjusting company, Universal Adjusting Corporation, which adjusts UPCIC claims, and an inspection company, Universal Inspection Corporation, which performs property inspections for homeowners' policies underwritten by UPCIC.

Blue Atlantic was incorporated in Florida on November 9, 2007 as a wholly owned subsidiary of the Company to be a reinsurance intermediary broker. Blue Atlantic became licensed by the Florida Department of Financial Services as a reinsurance intermediary broker on January 4, 2008.

The Company acquired all of the outstanding common stock of Atlas, which owned all of the outstanding common stock of Sterling, from the Company's Chief Executive Officer and Chief Operating Officer for $50,000, which approximated Sterling's book value. On March 6, 2008 the Company received approval of this acquisition from the OIR. Sterling was renamed Atlas Premium Finance Company and commenced offering premium finance services in November 2007.

UPCIC has applied to write homeowners' insurance policies in five additional states besides the State of Florida. Those states are Texas, Hawaii, Georgia, South Carolina and North Carolina. On July 16, 2008, August 18, 2008, and September 30, 2008, UPCIC was licensed to transact insurance business within the States of South Carolina, Hawaii, and North Carolina, respectively. The State of North Carolina Department of Insurance has restricted UPCIC to writing no more than $12.0 million of direct premiums in each of the first two full calendar years after which such restriction may be lifted.

UPCIC filed a request with the National Flood Insurance Program ("NFIP") to become authorized to write and service NFIP's Write Your Own Program ("WYO Program") flood insurance policies. The WYO Program began in 1983 and is a cooperative undertaking of the insurance industry and the Federal Emergency Management Agency (FEMA). The WYO Program allows participating property and casualty insurance companies to write and service NFIP's Standard Flood Insurance Policy in their own names. The companies receive an expense allowance for policies written and claims processed while the federal government retains responsibility for underwriting losses. The WYO Program operates as part of NFIP. The Company will not be able to begin writing WYO Program policies until NFIP initiates its new policy administration and reporting system, which is currently under development and testing, and the Company demonstrates that it complies with the new requirements.

The Company filed an application with OIR on June 23, 2008 to open a second property and casualty subsidiary, Infinity Property and Casualty Insurance Company ("Infinity"), in the State of Florida. The Company intends for this new subsidiary to write homeowners, multi peril and inland marine coverage on homes valued in excess of $1.0 million. UPCIC does not offer limits and coverage to those risks. Additionally, the Company intends for the new subsidiary to write excess flood insurance on homes valued in excess of $250,000. On October 1, 2008, the Company signed a consent order agreeing to the terms and conditions for the issuance of a certificate of authority to Infinity. Final approval and issuance of the certificate of authority will be granted at such time as the OIR

is satisfied Infinity has complied with all provisions of the consent order and has received related documentation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management has reassessed the critical accounting policies as disclosed in the Company's 2007 Annual Report on Form 10-KSB, as amended, and determined that no changes, additions or deletions are needed to the policies as disclosed. Also there were no significant changes in the Company's estimates associated with those policies.

The Company's financial statements are combined with those of its subsidiaries and are presented on a consolidated basis in accordance with GAAP. UPCIC makes estimates and assumptions that can have a significant effect on amounts and disclosures reported in the Company's financial statements. The most significant estimate relates to the reserves for property and casualty insurance unpaid losses and loss adjustment expenses. While the Company believes the estimates are appropriate, the ultimate amounts may differ from the estimates provided. The Company reviews these estimates on, at least, a quarterly basis and reflects any adjustment considered necessary in its current results of operations.

ANALYSIS OF FINANCIAL CONDITION - AS OF SEPTEMBER 30, 2008 COMPARED TO DECEMBER 31, 2007

The source of liquidity for possible claim payments consists of the collection of net premiums after deductions for expenses, reinsurance recoverables and short-term loans. The Company held cash and cash equivalents at September 30, 2008 and December 31, 2007 of $274,175,693 and $214,745,606, respectively. As of September 30, 2008, the Company held US Treasury bonds at a book value of $4,348,590 and a market value of $4,364,794. The US Treasury bonds have gross unrealized gains of $16,204 and no gross unrealized losses. It is the Company's intent to hold the bonds to maturity, which will occur at various dates in a one to five year period. As of December 31, 2007, the Company held no bonds. The Company has not had, nor does it currently have, any exposure to sub-prime related holdings.

The Company believes that premiums will be sufficient to meet the Company's working capital requirements for at least the next twelve months. The Company's policy is to invest amounts considered to be in excess of current working capital requirements. At September 30, 2008 and December 31, 2007, the Company's investments were comprised of $16,542,142 and $176,350,298, respectively, in cash, $257,633,551 and $38,395,308, respectively, in short-term investments, $4,348,590 and $0, respectively, in bonds, and $3,419,432 and $3,392,827, respectively, in real estate consisting of a building purchased by UPCIC that the Company is currently using as its home office. The Company has transferred excess funds to U.S. Treasury money market funds from cash accounts to more conservatively limit its exposure to the volatility in the current banking environment.

The Company's Property and Equipment, net of accumulated depreciation, increased to $938,262 as of September 30, 2008 from $874,430 as of December 31, 2007. The increase was primarily due to the acquisition of automobiles and furniture and fixtures.

As of September 30, 2008, the Company had a liability for Accounts Payable of $2,141,253 as compared to $2,972,147 as of year-end 2007. The net decrease in Accounts Payable is primarily due to a lower liability to vendors as of September 30, 2008.

The Company's liability for Reinsurance Payable increased $31,616,636 to $65,504,986 during the nine-month period ended September 30, 2008 from $33,888,350 as of year-end 2007, primarily due to the timing of settlements with reinsurers.

As of September 30, 2008 and December 31, 2007, respectively, the Company had overpayments of $5,325,406 and $460,225, which are included in Other Receivables, due to estimated income tax installment payments exceeding the Company's provision for Federal and state income taxes. The net increase in the recoverable balance consisted primarily of the current year provision for income taxes in the amount of $22,006,536, the tax benefit on the exercise of stock options in the amount of $5,706,780 and estimated income tax installment payments of $20,474,740.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2007

Net income decreased 24.8% to $32,879,120 for the nine-month period ended September 30, 2008 from $43,738,965 for the nine-month period ended September 30, 2007. The Company's earnings per diluted share were $0.81 for the 2008 period versus $1.06 in the same period last year. Even though there was an increase in the number of homeowners' and dwelling fire insurance policies serviced by the Company and increases in gross premiums written and earned during the nine-month period ending September 30, 2008, the Company experienced a decrease in net income during this period due primarily to increases in ceded premiums earned and losses and loss adjustment expenses incurred as described below.

In January 2007, the Florida Legislature passed a law designed to reduce residential catastrophe reinsurance costs and requiring insurance companies to offer corresponding rate reductions to policyholders. The new law expanded the amount of reinsurance available from the FHCF, which is a state-run entity providing hurricane reinsurance to residential insurers at premiums less than the private reinsurance market. The Legislature intended for the new law to reduce residential insurers' reinsurance costs by allowing them to directly replace some of their private market reinsurance with less costly FHCF reinsurance. In addition, prices in the private reinsurance market have fallen as reinsurers have had capital displaced by the expanded FHCF.

UPCIC purchased the maximum additional coverage available to the Company under the expanded FHCF, allowing UPCIC to maximize its cost savings from the new law. UPCIC's mid-2007 rate reductions therefore reflected actual reductions in UPCIC's operating costs. In addition, UPCIC's private reinsurance costs in 2007 and its costs in 2008 are lower than were included in its rates prior to the 2007 legislation.

Florida's Legislature also has implemented strategies to improve the ability of residential structures to withstand hurricanes. New construction must meet stronger building codes, and existing homes are eligible for an inspection program that allows homeowners to determine how their homes may be upgraded to mitigate storm damage. An increasing number of insureds are likely to qualify for insurance premium discounts as new homes are built and existing homes are retrofitted. These premium discounts result from homes' reduced vulnerability to hurricane losses due to the mitigation efforts, which UPCIC takes into account in its underwriting and profitability models.

Gross premiums written increased 3.4% to $394,304,531 during the nine-month period ending September 30, 2008 from $381,318,190 in the same period of 2007. As of September 30, 2008 and December 31, 2007, UPCIC was servicing approximately 451,000 and 374,000, respectively, homeowners' and dwelling fire insurance policies with in-force premiums of approximately $519,300,000 and $504,500,000, respectively.

Net premiums earned decreased 8.1% to $109,340,138 for the nine-month period ended September 30, 2008 from $118,962,837 for the nine-month period ended September 30, 2007. The decrease is due to an increase in direct premiums earned (net of previously discussed rate decreases and implementation of wind mitigation credits) and a proportionally higher increase in ceded premiums earned related to changes in the reinsurance program as described in Note 4 - Reinsurance to the Company's unaudited condensed consolidated financial statements in Part I, Item 1 above.

Net investment income decreased 56.0% to $3,628,472 for the nine-month period ended September 30, 2008 from $8,241,833 for the nine-month period ended September 30, 2007. The decrease is primarily due to a lower interest rate environment during the nine-month period ended September 30, 2008.

Commission revenue increased 29.3% to $20,526,922 for the nine-month period ended September 30, 2008 from $15,879,099 for the nine-month period ended September 30, 2007. Commission revenue is comprised principally of the managing general agent's policy fee income and service fee income on all new and renewal insurance policies, reinsurance commission sharing agreements, and commissions generated from agency operations. The increase is primarily attributable to an increase in reinsurance commission sharing of approximately $2.5 million, and an increase in managing general agent's policy fee income of approximately $2.1 million.

Other revenue increased 491.4% to $3,658,373 for the nine-month period ended September 30, 2008 from $618,546 for the nine-month period ended September 30, 2007. The increase is primarily due to fees earned on new payment plans offered to policyholders by UPCIC. UPCIC was not offering such payment plans during the 2007 period.

Net losses and LAE increased 42.0% to $53,861,445 for the nine-month period ended September 30, 2008 from $37,939,183 for the nine-month period ended

September 30, 2007. The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 49.3% and 31.9% during the nine-month periods ended September 30, 2008 and 2007, respectively, and were comprised of the following components:

	Nine months ended September 30, 2008		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$107,105,622	$53,244,177	$53,861,445
Premiums earned	$378,280,937	$268,940,799	$109,340,138
Loss & LAE ratios	28.3%	19.8%	49.3%

	Nine months ended September 30, 2007		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$73,524,183	$35,585,000	$37,939,183
Premiums earned	$348,259,639	$229,296,802	$118,962,837
Loss & LAE ratios	21.1%	15.5%	31.9%

The direct loss and LAE ratio for the nine-month period ended September 30, 2008 was 28.3% compared to 21.1% for the nine-month period ended September 30, 2007. The increase in the direct loss and LAE ratio is attributable to the increase in direct loss and LAE incurred outpacing the increase in direct earned premium in the 2008 period.

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Although total direct premiums earned increased 8.6% in the nine-month 2008 period compared to the same period in 2007, the average premium per policy decreased significantly due to the previously described rate decreases and wind mitigation credits. As of September 30, 2008, UPCIC was servicing approximately 451,000 homeowners' and dwelling fire insurance policies with in-force premiums of approximately $519,300,000, or an average of $1,151 per policy. The comparable average in-force premium per policy as of September 30, 2007 was $1,441. Consequently, the direct loss and LAE ratio increased for the 2008 period. However, except for incurred losses and LAE of approximately $5.3 million, or 1.4% of direct earned premium, related to Tropical Storm Fay in the third quarter of 2008, the Company's loss experience did not vary significantly during the 2008 period compared to the 2007 period.

The ceded loss and LAE ratio for the nine-month period ended September 30, 2008 was 19.8% compared to 15.5% for the nine-month period ended September 30, 2007. The ceded loss and LAE ratio was influenced by greater direct incurred loss and LAE ceded under the Company's quota share reinsurance treaty and higher total reinsurance costs in the 2008 period compared to the 2007 period. Although reinsurance costs have decreased, total reinsurance costs are higher as UPCIC purchased additional coverage in 2008.

Catastrophes are an inherent risk of the property-liability insurance business which may contribute to material year-to-year fluctuations in UPCIC's and the Company's results of operations and financial position. During the nine-month periods ended September 30, 2008 and 2007, respectively, neither UPCIC nor the Company experienced any catastrophic events. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position of UPCIC and the Company. While management believes UPCIC's and the Company's catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses, including catastrophic losses that may exceed the limits of the Company's reinsurance program.

General and administrative expenses decreased 14.3% to $29,316,796 for the nine-month period ended September 30, 2008 from $34,227,989 for the nine-month period ended September 30, 2007. The decrease in general and administrative expenses was due to several factors, including an increase in ceding commissions due to greater ceded earned premiums, an increase in insurance expense, a decrease in assessment expense due to increased collections of assessments from policyholders, and a decrease in executive incentive compensation.

Federal and state income taxes decreased 24.1% to $21,096,544 for the nine-month period ended September 30, 2008 from $27,796,178 for the nine-month period ended September 30, 2007. Federal and state income taxes were 39.1% of pretax income for the nine-month period ended September 30, 2008, and 38.9% for the nine-month period ended September 30, 2007. The decrease is primarily due to lower income before income taxes.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2007

Net income decreased 46.6% to $7,372,654 for the three-month period ended September 30, 2008 from $13,810,702 for the three-month period ended September 30, 2007. The Company's earnings per diluted share were $0.19 for the 2008 period versus $0.33 in the same period last year. Even though there was an increase in the number of homeowners' and dwelling fire insurance policies serviced by the Company and gross premiums written and earned during the three-month period ending September 30, 2008, the Company experienced a decrease in net income during this period due primarily to increases in ceded premiums earned and losses and loss adjustment expenses incurred as described below.

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In January 2007, the Florida Legislature passed a law designed to reduce residential catastrophe reinsurance costs and requiring insurance companies to offer corresponding rate reductions to policyholders. The new law expanded the amount of reinsurance available from the FHCF, which is a state-run entity providing hurricane reinsurance to residential insurers at premiums less than the private reinsurance market. The Legislature intended for the new law to reduce residential insurers' reinsurance costs by allowing them to directly replace some of their private market reinsurance with less costly FHCF reinsurance. In addition, prices in the private reinsurance market have fallen as reinsurers have had capital displaced by the expanded FHCF.

UPCIC purchased the maximum additional coverage available to the Company under the expanded FHCF, allowing UPCIC to maximize its cost savings from the new law. UPCIC's mid-2007 rate reductions therefore reflected actual reductions in UPCIC's operating costs. In addition, UPCIC's private reinsurance costs in 2007 and its costs in 2008 are lower than were included in its rates prior to the 2007 legislation.

Florida's Legislature also has implemented strategies to improve the ability of residential structures to withstand hurricanes. New construction must meet stronger building codes, and existing homes are eligible for an inspection program that allows homeowners to determine how their homes may be upgraded to mitigate storm damage. An increasing number of insureds are likely to qualify for insurance premium discounts as new homes are built and existing homes are retrofitted. These premium discounts result from homes' reduced vulnerability to hurricane losses due to the mitigation efforts, which UPCIC takes into account in its underwriting and profitability models.

Gross premiums written increased 5.0% to $124,718,631 in the third quarter of 2008 from $118,754,920 in the same period of 2007. As of September 30, 2008 and December 31, 2007, UPCIC was servicing approximately 451,000 and 374,000, respectively, homeowners' and dwelling fire insurance policies with in-force premiums of approximately $519,300,000 and $504,500,000, respectively.

Net premiums earned increased 4.9% to $38,082,888 for the three-month period ended September 30, 2008 from $36,319,462 for the three-month period ended September 30, 2007. The increase is due to an increase in direct premiums earned (net of previously discussed rate decreases and implementation of wind mitigation credits).

Net investment income decreased 59.9% to $1,109,770 for the three-month period ended September 30, 2008 from $2,766,754 for the three-month period ended September 30, 2007. The decrease is primarily due to a lower interest rate environment during the three-month period ended September 30, 2008.

Commission revenue increased 9.4% to $6,677,703 for the three-month period ended September 30, 2008 from $6,105,510 for the three-month period ended September 30, 2007. Commission revenue is comprised principally of the managing general agent's policy fee income and service fee income on all new and renewal insurance policies, reinsurance commission sharing agreements, and commissions generated from agency operations. For the three-month period ended September 30, 2008, reinsurance commission sharing was approximately $3.7 million and managing general agent's policy fee income was approximately $3.0 million.

Other revenue increased 156.7% to $1,304,663 for the three-month period ended September 30, 2008 from $508,313 for the three-month period ended September 30, 2007. The increase is primarily due to fees earned on new payment plans offered to policyholders by UPCIC. UPCIC was not offering such payment plans during the 2007 period.

Net losses and LAE increased 80.7% to $23,619,417 for the three-month period ended September 30, 2008 from $13,072,906 for the three-month period ended September 30, 2007. The net loss and LAE ratios, or net losses and LAE as a

percentage of net earned premiums, were 62.0% and 36.0% during the three-month periods ended September 30, 2008 and 2007, respectively, and were comprised of the following components:

	Three months ended September 30, 2008		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$46,907,087	$23,287,670	$23,619,417
Premiums earned	$128,626,371	$90,543,483	$38,082,888
Loss & LAE ratios	36.5%	25.7%	62.0%

	Three months ended September 30, 2007		
	Direct	Ceded	Net

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Loss and loss adjustment expenses	$24,824,146	$11,751,240	$13,072,906
Premiums earned	$127,235,717	$90,916,255	$36,319,462
Loss & LAE ratios	19.5%	12.9%	36.0%

The direct loss and LAE ratio for the three-month period ended September 30, 2008 was 36.5% compared to 19.5% for the three-month period ended September 30, 2007. The increase in the direct loss and LAE ratio is attributable to the increase in direct loss and LAE incurred outpacing the increase in direct earned premium in the 2008 period.

Total direct premiums earned increased 1.1% in the three-month 2008 period compared to the same period in 2007. However, the average premium per policy decreased significantly due to the previously described rate decreases and wind mitigation credits. As of September 30, 2008, UPCIC was servicing approximately 451,000 homeowners' and dwelling fire insurance policies with in-force premiums of approximately $519,300,000, or an average of $1,151 per policy. The comparable average in-force premium per policy as of September 30, 2007 was $1,441. Consequently, the direct loss and LAE ratio increased significantly for the 2008 period. However, except for incurred losses and LAE of approximately $5.3 million, or 4.1% of direct earned premium, related to Tropical Storm Fay in the third quarter of 2008, the Company's loss experience did not vary significantly during the 2008 period compared to the 2007 period.

The ceded loss and LAE ratio for the three-month period ended September 30, 2008 was 25.7% compared to 12.9% for the three-month period ended September 30, 2007. The ceded loss and LAE ratio was influenced by greater direct incurred loss and LAE ceded under the Company's quota share reinsurance treaty and higher total reinsurance costs in the 2008 period compared to the 2007 period. Although reinsurance costs have decreased, total reinsurance costs are higher as UPCIC purchased additional coverage in 2008.

Catastrophes are an inherent risk of the property-liability insurance business which may contribute to material year-to-year fluctuations in UPCIC's and the Company's results of operations and financial position. During the three-month periods ended September 30, 2008 and 2007, respectively, neither UPCIC nor the Company experienced any catastrophic events. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position of UPCIC and the Company. While management believes UPCIC's and the Company's catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses, including catastrophic losses that may exceed the limits of the Company's reinsurance program.

General and administrative expenses decreased 8.4% to $11,832,474 for the three-month period ended September 30, 2008 from $12,923,516 for the three-month period ended September 30, 2007. The decrease in general and administrative expenses was due to several factors, including an increase in ceding commissions due to greater ceded earned premiums, an increase in insurance expense, and a decrease in assessment expense due to increased collections of assessments from policyholders.

Federal and state income taxes decreased 26.2% to $4,350,479 for the three-month period ended September 30, 2008 from $5,892,915 for the three-month period ended September 30, 2007. Federal and state income taxes were 37.1% of pre-tax income for the three-month period ended September 30, 2008, and 29.9% for the three-month period ended September 30, 2007. The decrease is primarily due to lower pre-tax income for the three-month period ended September 30, 2008 than for the same period in 2007, and certain expenses that were not allowed as a tax deductible expense for the three-month period ended September 30, 2007. The disallowance had the effect of increasing taxable income and, therefore, income taxes, during the 2007 period. There were no similar expenses disallowed for income tax purposes for the three-month period ended September 30, 2008.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

The Company's primary sources of cash flow are the receipt of premiums, commissions, policy fees, investment income, reinsurance recoverables and short-term loans.

For the nine-month periods ended September 30, 2008 and 2007, cash flows provided by operating activities were $73,019,638 and $67,774,126, respectively. Cash flows from operating activities are expected to be positive in both the short term and reasonably foreseeable future. In addition, the Company's investment portfolio is highly liquid as it consists entirely of cash, bonds and money market accounts.

The Company believes that its current capital resources are sufficient to support current operations and expected growth for at least twelve months.

On June 25, 2008, the Company's Board of Directors authorized the Company to repurchase up to $3,000,000 of its shares of outstanding common stock. Under the repurchase program, management was authorized to repurchase shares through December 31, 2008, with block trades permitted, in open market purchases or in privately negotiated transactions at prevailing market prices in compliance with applicable securities laws and other legal requirements. To facilitate repurchases, the Company made purchases pursuant to a Rule 10b5-1 plan, which allowed the Company to repurchase its shares during periods when it otherwise might have been prevented from doing so under insider trading laws. In total, the Company repurchased 808,900 shares under its repurchase plan at an aggregate cost of $2,999,788. On August 26, 2008, the Company announced the completion of the repurchase program.

COMPANY BORROWINGS

On November 9, 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration ("SBA") under the ICBUI Program. Under the ICBUI Program, which was implemented by the Florida Legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the SBA matched UPCIC's funds of $25.0 million that were earmarked for participation in the program. The surplus note brings the current capital and surplus of UPCIC to approximately $89.2 million. The $25.0 million is invested in a U.S. treasury money market account.

The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, UPCIC is required to pay interest only, although principal payments can be made during this period. Any payment of principal or interest by UPCIC on the surplus note must be approved by the Commissioner of the OIR.

In May 2008, the Florida Legislature passed a law providing participants in the Program an opportunity to amend the terms of their surplus notes based on law changes. The new law contains methods for calculating compliance with the writing ratio requirements that might be more favorable to UPCIC than current law and the terms of the existing surplus note. On November 6, 2008, UPCIC and the SBA executed an addendum to the surplus note ("the addendum") that reflects these law changes. The terms of the addendum are effective July 1, 2008. In addition to other less significant changes, the addendum modifies the definitions of Minimum Required Surplus, Minimum Writing Ratio, Surplus, and Gross Written Premium, respectively, as defined in the original surplus note.

Prior to the execution of the addendum, UPCIC was in compliance with each of the loan's covenants as implemented by rules promulgated by the SBA. UPCIC currently remains in compliance with each of the loan's covenants as implemented by rules promulgated by the SBA. An event of default will occur under the surplus note, as amended, if UPCIC: (i) defaults in the payment of the surplus note; (ii) drops below a net written premium to surplus of 1:1 for three consecutive quarters beginning January 1, 2010 and drops below a gross written premium to surplus ratio of 3:1 for three consecutive quarters beginning January 1, 2010; (iii) fails to submit quarterly filings to the OIR; (iv) fails to maintain at least $50 million of surplus during the term of the surplus note, except for certain situations; (v) misuses proceeds of the surplus note; (vi) makes any misrepresentations in the application for the program; (vii) pays any dividend when principal or interest payments are past due under the surplus note; or (viii) fails to maintain a level of surplus sufficient to cover in excess of UPCIC's 1-in-100 year probable maximum loss as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology as certified by the OIR annually.

The original surplus note provided for increases in interest rates for failure to meet the Minimum Writing Ratio. Under the terms of the surplus note agreement, at December 31, 2007, the interest rate on the note was increased by 450 basis points. As of March 31, 2008 and June 30, 2008, respectively, the additional interest rate on the note was decreased from 450 basis points to 25 basis points. Under the terms of the surplus note, as amended, the net written premium to surplus requirement and gross written premium to surplus requirement have been modified. As of September 30, 2008, UPCIC's net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC was not subject to increases in interest rates.

To meet its matching obligation under the ICBUI Program, on November 3, 2006, the Company entered into a Secured Promissory Note with Benfield Greig (Holdings), Inc. in the aggregate principal amount of $12 million. Interest on the note accrued at the rate of 12.75% per annum. The outstanding principal was due in six monthly installments of $1.5 million and a final seventh monthly installment of the remaining balance plus all accrued interest under the terms of the note starting on January 31, 2007 and ending on July 31, 2007. In connection with the loan, the Company and its subsidiaries appointed Benfield Inc. as their reinsurance intermediary for all of their reinsurance placements for the contract year beginning on June 1, 2007. The Company made all payments in a timely manner and paid the final installment on July 18, 2007. Under the terms of the Secured Promissory Note, Benfield Greig (Holdings), Inc. agreed to refund a portion of the interest paid on the note if the Company fulfilled all its material obligations under the related broker agreements. On July 27, 2007, the Company received a refund of interest from Benfield Greig (Holdings), Inc. in the amount of $280,500 that reduced the effective interest rate on the note to 8.25% per annum.

There can be no assurance that the above described transactions will be sufficient to ensure UPCIC's future compliance with Florida insurance laws and regulations, or that the Company will be able to maintain profitability. Failure by UPCIC to maintain the required level of statutory capital and surplus could result in the suspension of UPCIC's authority to write new or renewal business, other regulatory actions or ultimately, in the revocation of UPCIC's certificate of authority by the OIR.

AVAILABLE CASH

The Company held cash and cash equivalents at September 30, 2008 of $274,175,693. Of that amount, $251,330,244 was held by UPCIC, most of which is available to pay claims or relates to policyholder surplus. Accordingly, cash and cash equivalents in UPCIC are not available to buy back Company stock or pay Company dividends. A portion of those claims paid by the Company would be recoverable through the Company's catastrophic reinsurance upon presentation to the reinsurer of evidence of claim payment. As of December 31, 2007, the Company held cash and cash equivalents of $214,745,606.

GAAP differs in some respects from reporting practices prescribed or permitted by the OIR. To retain its certificate of authority, the Florida insurance laws and regulations require that UPCIC maintain capital and surplus equal to the statutory minimum capital and surplus requirement defined in the Florida Insurance Code as the greater of 10% of the insurer's total liabilities or $4,000,000. UPCIC's statutory capital and surplus was $89,171,907 at September 30, 2008 and exceeded the minimum capital and surplus requirements. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios.

The maximum amount of dividends, which can be paid by Florida insurance companies without prior approval of the Commissioner of the OIR, is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by UPCIC to the Company without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or statutory unassigned surplus as of the preceding year end. Statutory unassigned surplus at December 31, 2007 was $35,580,159. During the nine-month period ended September 30, 2008, UPCIC declared and paid aggregate dividends to the Company of $23,000,000.

UPCIC is required annually to comply with the National Association of Insurance Commissioners' ("NAIC") Risk-Based Capital ("RBC") requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC's RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2007, based on calculations using the appropriate NAIC RBC formula, UPCIC's reported total adjusted capital was in excess of the requirements.

CASH DIVIDENDS

On April 8, 2008, the Company paid a dividend that was accrued at December 31, 2007, of $0.09 per share on its outstanding common stock. The aggregate amount of the dividend was $3,329,204. On January 23, 2008, the Company's Board of Directors declared a dividend of $0.10 per share on its outstanding common stock. The dividend was paid on August 7, 2008 to stockholders of record as of July 9, 2008 in the aggregate amount of $3,791,617. On August 15, 2008, the Company's Board of Directors declared a dividend of $0.10 per share on its outstanding common stock. The dividend was paid on October 30, 2008 to stockholders of record as of October 2, 2008 in the aggregate amount of $3,724,217.

On November 5, 2008, the Company's Board of Directors declared a dividend of $0.20 per share on its outstanding common stock. The dividend is to be paid on December 17, 2008 to the shareholders of record of the Company at the close of business on December 2, 2008. The Company expects to pay an aggregate dividend of approximately $7.4 million.

IMPACT OF INFLATION

Property and casualty insurance premiums are established before the Company knows the amount of loss and LAE and the extent to which inflation may affect such expenses. Consequently, the Company attempts to anticipate the future impact of inflation when establishing rate levels. While the Company attempts to charge adequate rates, the Company may be limited in raising its premium levels for competitive and regulatory reasons. Inflation also affects the market value of the Company's investment portfolio and the investment rate of return. Any future economic changes which result in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred loss and LAE and thereby materially adversely affect future liability requirements.

OFF-BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements during the nine-month periods ended September 30, 2008 and 2007, respectively.

CONTRACTUAL OBLIGATIONS

There have been no material changes during the period covered by this Report, outside of the ordinary course of the Company's business, to the contractual obligations specified in the table of contractual obligations included in the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Form 10-KSB, as amended for the fiscal year ended December 31, 2007.

FACTORS AFFECTING OPERATION RESULTS AND MARKET PRICE OF STOCK

The Company and its subsidiaries operate in a rapidly changing environment that involves a number of uncertainties, some of which are beyond the Company's control. This report contains, in addition to historical information, forward looking statements that involve risks and uncertainties. The words "expect," "estimate," "anticipate," "believe," "intend," "plan" and similar expressions and variations thereof are intended to identify forward-looking statements. The Company's actual results could differ materially from those set forth in or implied by any forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those uncertainties discussed below as well as those discussed elsewhere in this report.

NATURE OF THE COMPANY'S BUSINESS

Factors affecting the sectors of the insurance industry in which the Company operates may subject the Company to significant fluctuations in operating results. These factors include competition, catastrophe losses and general economic conditions including interest rate changes, as well as legislative initiatives, the regulatory environment, the frequency of litigation, the size of judgments, severe weather conditions, climate changes or cycles, the role of federal or state government in the insurance market, judicial or other authoritative interpretations of laws and policies, and the availability and cost of reinsurance. Specifically, the homeowners' insurance market, which comprises the bulk of the Company's current operations, is influenced by many factors, including state and federal laws, market conditions for homeowners' insurance and residential plans. Additionally, an economic downturn could result in fewer home sales and less demand for new homeowners seeking insurance.

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical patterns of soft markets followed by hard markets. Although an individual insurance company's financial performance is dependent on its own specific business characteristics, the profitability of most property and casualty insurance companies tends to follow this cyclical market pattern.

The Company believes that a substantial portion of its future growth will depend on its ability, among other things, to successfully implement its business strategy, including expanding the Company's product offering by underwriting and marketing additional insurance products and programs through its distribution network, further penetrating the Florida market by establishing relationships with additional independent agents in order to expand its distribution network and to further disperse its geographic risk and expanding into other geographical areas outside the State of Florida. Any future growth is contingent on various factors, including the availability of adequate capital, the Company's ability to hire and train additional personnel, regulatory requirements, the competitive environment, and rating agency considerations. There is no assurance that the Company will be successful in expanding its business, that the existing infrastructure will be able to support additional expansion or that any new business will be profitable. Moreover, as the Company expands its insurance products and programs and the Company's mix of business changes, there can be no assurance that the Company will be able to maintain or improve its profit margins or other operating results. There can also be no assurance that the Company will be able to obtain the required regulatory approvals to offer additional insurance products. UPCIC also is required to maintain minimum surplus to support its underwriting program. The surplus requirement affects UPCIC's potential growth.

MANAGEMENT OF EXPOSURE TO CATASTROPHIC LOSSES

UPCIC is exposed to potentially numerous insured losses arising out of single or multiple occurrences, such as natural catastrophes. As with all property and casualty insurers, UPCIC expects to and will incur some losses related to catastrophes and will price its policies accordingly. UPCIC's exposure to catastrophic losses arises principally out of hurricanes and windstorms. Through the use of standard industry modeling techniques that are susceptible to change, UPCIC manages its exposure to such losses on an ongoing basis from an underwriting perspective. UPCIC also protects itself against the risk of catastrophic loss by obtaining reinsurance coverage as of the beginning of hurricane season on June 1 of each year. UPCIC's reinsurance program consists of excess of loss, quota share and catastrophe reinsurance for multiple hurricanes. UPCIC's catastrophe reinsurance program currently covers three events, subject to the terms and limitations of the reinsurance contracts. However, UPCIC may not buy enough reinsurance to cover multiple storms going forward or be able to timely obtain reinsurance. In addition, UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, and such losses could have a material adverse effect on the business, financial condition and results of operations of UPCIC and the Company.

RELIANCE ON THIRD PARTIES AND REINSURERS

UPCIC is dependent upon third parties to perform certain functions including, but not limited to the purchase of reinsurance and risk management analysis.

UPCIC also relies on reinsurers to limit the amount of risk retained under its policies and to increase its ability to write additional risks. UPCIC's intention is to limit its exposure and therefore protect its capital, even in the event of catastrophic occurrences, through reinsurance agreements. For the 2007 hurricane season, UPCIC's reinsurance agreements transferred the risk of loss in excess of $45,000,000 for the first event and $9,300,000 for the second and third events up to approximately the 150-year PML as of the beginning of hurricane season on June 1. These amounts may change in the future. At the start of hurricane season on June 1, 2008, UPCIC has coverage to approximately the

133-year PML. With the additional catastrophe coverage via the new top layer effective July 1, 2008, UPCIC would have had coverage to approximately the 145-year PML. UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on the Company's business, financial condition and results of operations should catastrophe losses exceed these amounts.

REINSURANCE

The property and casualty reinsurance industry is subject to the same market conditions as the direct property and casualty insurance market, and there can be no assurance that reinsurance will be available to UPCIC to the same extent and at the same cost as currently in place for UPCIC. Future increases in catastrophe reinsurance costs are possible and could adversely affect UPCIC's results. Reinsurance does not legally discharge an insurer from its primary liability for the full amount of the risks it insures, although it does make the reinsurer liable to the primary insurer. Therefore, UPCIC is subject to credit risk with respect to its reinsurers. In addition, UPCIC obtains a significant portion of its reinsurance coverage from the FHCF. There is no guaranty the FHCF will be able to honor its obligations. On October 31, 2008, the Florida State Board of Administration ("SBA") published its most recent estimate of the FHCF's loss reimbursement capacity. The SBA estimated that the FHCF's total loss reimbursement capacity over the next six to twelve months is between $11.786 billion and $13.286 billion. This is significantly less than the estimate in effect when UPCIC made its FHCF coverage selections for the 2008-2009 contract year. By law, the FHCF's obligation to reimburse insurers is limited to its actual claims-paying capacity. In addition, the cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's claims-paying capacity.

Management evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. A reinsurer's insolvency or inability to make payments under a reinsurance treaty could have a material adverse effect on the financial condition and profitability of UPCIC and the Company. While ceding premiums to reinsurers reduces UPCIC's risk of exposure in the event of catastrophic losses, it also reduces UPCIC's potential for greater profits should such catastrophic events fail to occur. The Company believes that the extent of UPCIC's reinsurance is typical of a company of its size in the homeowners' insurance industry.

ADEQUACY OF LIABILITIES FOR LOSSES

The liabilities for losses and loss adjustment expenses periodically established by UPCIC are estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses. The estimates necessarily will be based on certain assumptions related to the ultimate cost to settle such claims. There is an inherent degree of uncertainty involved in the establishment of liabilities for losses and loss adjustment expenses and there may be substantial differences between actual losses and UPCIC's liabilities estimates. UPCIC relies on industry data, as well as the expertise and experience of independent actuaries in an effort to establish accurate estimates and adequate liabilities. Furthermore, factors such as storms and weather conditions, climate change and patterns, inflation, claim settlement patterns, legislative activity and litigation trends may have an impact on UPCIC's future loss experience. Accordingly, there can be no assurance that UPCIC's liabilities will be adequate to cover ultimate loss developments. The profitability and financial condition of UPCIC and the Company could be adversely affected to the extent that its liabilities are inadequate.

UPCIC is directly liable for loss and LAE payments under the terms of the insurance policies that it writes. In many cases, several years may elapse between the occurrence of an insured loss and UPCIC's payment of that loss. As required by insurance regulations and accounting rules, UPCIC reflects its liability for the ultimate payment of all incurred losses and LAE by establishing a liability for those unpaid losses and LAE for both reported and unreported claims, which represent estimates of future amounts needed to pay claims and related expenses.

When a claim involving a probable loss is reported, UPCIC establishes a liability for the estimated amount of UPCIC's ultimate loss and LAE payments. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions.

All newly reported claims received are set up with an initial average liability. That claim is then evaluated and the liability is adjusted upward or downward according to the facts and damages of that particular claim.

In addition, management provides for a liability on an aggregate basis to provide for losses incurred but not reported. UPCIC utilizes independent actuaries to help establish its liability for unpaid losses and LAE. UPCIC does not discount the liability for unpaid losses and LAE for financial statement purposes.

The estimates of the liability for unpaid losses and LAE are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, UPCIC reviews historical data and considers various factors, including known and anticipated legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data becomes available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for unpaid losses and LAE. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

Among the classes of insurance underwritten by UPCIC, the homeowners' liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim to UPCIC and the final settlement than do homeowners' property claims. Liability claims often involve third parties filing suit and the ensuing litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time with the vast majority of these claims resulting in an adjustment without litigation.

There can be no assurance that UPCIC's liability for unpaid losses and LAE will be adequate to cover actual losses. If UPCIC's liability for unpaid losses and LAE proves to be inadequate, UPCIC will be required to increase the liability with a corresponding reduction in UPCIC's net income in the period in which the deficiency is identified. Future loss experience substantially in excess of established liability for unpaid losses and LAE could have a material adverse effect on UPCIC's and the Company's business, results of operations and financial condition.

GOVERNMENT REGULATION

Florida insurance companies, such as UPCIC, are subject to regulation and supervision by the OIR. The OIR has broad regulatory, supervisory and administrative powers. Such powers relate, among other things, to the granting and revocation of licenses to transact business; the licensing of agents (through the Florida Department of Financial Services); the standards of solvency to be met and maintained; the nature of, and limitations on, investments; approval of policy forms and rates; review of reinsurance contracts; periodic examination of the affairs of insurance companies; and the

form and content of required financial statements. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of investors.

In addition, the Florida Legislature and the NAIC from time to time consider proposals that may affect, among other things, regulatory assessments and reserve requirements. The Company cannot predict the effect that any proposed or future legislation or regulatory or administrative initiatives may have on the financial condition or operations of UPCIC or the Company.

UPCIC will become subject to other states' laws and regulations as it seeks authority to transact business in states other than Florida. In addition, UPCIC may be affected by proposals for increased regulatory involvement by the federal government.

LEGISLATIVE INITIATIVES

The State of Florida operates Citizens to provide insurance to Florida homeowners in high-risk areas and others without private insurance options. As of September 30, 2008, there were 1,192,122 Citizens policies in force. In May 2007, the State of Florida passed legislation that freezes property insurance rates for Citizens customers at December 2006 levels through December 31, 2008 and permits insurance customers to opt into Citizens when the price of a private policy is 15% more than the Citizens rate, compared to the previous opt-in threshold of 25%. In May 2008, the Florida Legislature extended a freeze on Citizens rates through January 2010. These initiatives, together with any future initiatives that seek to further relax eligibility requirements or reduce premium rates for Citizens customers, could adversely affect the ability of UPCIC and the Company to do business profitably. In addition, the Florida Legislature in 2007 expanded the capacity of the FHCF, with the intent of reducing the cost of reinsurance otherwise purchased by residential property insurers. If the expanded FHCF coverage expires or if the law providing for the expanded coverage is otherwise modified, or if UPCIC purchases additional private market reinsurance due to reduced estimates of the FHCF's claims-paying capacity, the cost of UPCIC's reinsurance program may increase, which could affect UPCIC's profitability until such time as UPCIC can obtain approval of appropriate rate changes. State and federal legislation relating to insurance is affected by a number of political and economic factors that are beyond the control of UPCIC and the Company, and the Florida Legislature and the NAIC from time to time consider proposals that may affect, among other things, regulatory assessments and reserve requirements. The Company cannot predict the effect that any proposed or future legislation or regulatory or administrative initiatives may have on the financial condition or operations of UPCIC or the Company.

PRODUCT PRICING

The rates charged by UPCIC generally are subject to regulatory review and approval before they may be implemented. UPCIC periodically submits its rate revisions to regulators as required by law or deemed by the Company and UPCIC to be necessary or appropriate for UPCIC's business. UPCIC prepares these filings based on objective data relating to its business and on judgment exercised by its management or employees and by retained professionals. There is no assurance that the objective data incorporated in UPCIC's filings based on its past experience will be reflective of UPCIC's future business. In addition, there is no assurance that UPCIC's business will develop consistently with the judgments reflected in its filings. The Company and UPCIC likewise cannot be assured that regulatory authorities will evaluate UPCIC's data and judgments in the same manner as UPCIC. UPCIC's filings also might be affected by political or regulatory factors outside of UPCIC's control, which might result in disapproval of UPCIC's filings or in negotiated compromises resulting in approved rates that differ from rates initial filed by UPCIC or that the Company and UPCIC otherwise would consider more appropriate for its business.

DEPENDENCE ON KEY INDIVIDUALS

UPCIC's operations depend in large part on the efforts of Bradley I. Meier, who serves as President of UPCIC. Mr. Meier has also served as President, Chief Executive Officer and Director of the Company since its inception in November 1990. In addition, UPCIC's operations have become materially dependent on the efforts of Sean P. Downes, who serves as Chief Operating Officer of UPCIC. Mr. Downes has also served as Chief Operating Officer, Senior Vice President and Director of the Company since January 2005 and as a Director of UPCIC since May 2003. The loss of the services provided by Mr. Meier or Mr. Downes could have a material adverse effect on UPCIC's and the Company's financial condition and results of operations.

COMPETITION

The insurance industry is highly competitive and many companies currently write homeowners' property and casualty insurance. Additionally, the Company and its subsidiaries must compete with companies that have greater capital resources and longer operating histories as well as start-up companies. Increased competition from other private insurance companies as well as Citizens could adversely affect the Company's ability to do business profitably. Although the Company's pricing is inevitably influenced to some degree by that of its competitors, management of the Company believes that it is generally not in the Company's best interest to compete solely on price, choosing instead to compete on the basis of underwriting criteria, its distribution network and high quality service to its agents and insureds.

FINANCIAL STABILITY RATING

Financial stability ratings are an important factor in establishing the competitive position of insurance companies and may impact an insurance company's sales. Demotech, Inc. maintains a letter scale financial stability rating system ranging from A** (A double prime) to L (licensed by state regulatory authorities). Demotech, Inc. has assigned UPCIC a financial stability rating of A, which is two rating levels below the highest level assigned by Demotech, Inc. According to Demotech, Inc., A ratings are assigned to insurers that have "exceptional ability to maintain liquidity of invested assets, quality reinsurance, acceptable financial leverage and realistic pricing while simultaneously establishing loss and loss adjustment expense reserves at reasonable levels." With a financial stability rating of A, the Company expects that UPCIC's property insurance policies will be acceptable to the secondary mortgage marketplace and mortgage lenders. The rating of UPCIC is subject to at least annual review by, and may be revised downward by, or revoked at, the sole discretion of, Demotech, Inc.

UPCIC's failure to maintain a commercially acceptable financial stability rating could have a material adverse effect on the Company's ability to retain and attract policyholders and agents. Many of the Company's competitors have ratings higher than that of UPCIC. A downgrade in the financial stability rating of UPCIC could have an adverse impact on its ability to effectively compete with other insurers with higher ratings. Additionally, a withdrawal of the rating could cause UPCIC's insurance policies to no longer be acceptable to the secondary marketplace and mortgage lenders, which could cause a material adverse effect of the Company's results of operations and financial position.

Demotech, Inc. bases its ratings on factors that concern policyholders and not upon factors concerning investor protection. Such ratings are subject to change and are not recommendations to buy, sell or hold securities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk generally represents the risk of gain or loss that may result from the potential change in the fair value of the Company's investment portfolio as a result of fluctuations in prices, interest rates and, to a lesser extent, the Company's debt obligations. Other than the Company's purchase of several US Treasury bonds during the nine-month period ended September 30, 2008, the Company has maintained approximately the same investment mix from December 31, 2007 to September 30, 2008. As previously described in "Company Borrowings," the Company's surplus note accrues interest at an adjustable rate based on the 10-year Constant Maturity Treasury rate.

There have been no material changes to the Company's quantitative and qualitative market risk exposures from December 31, 2007, as described in the Company's Form 10-KSB, as amended, through September 30, 2008.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of September 30, 2008 to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There was no change in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Neither the Company nor any of its subsidiaries had any reportable legal proceedings during the nine-months ended September 30, 2008. Certain claims and complaints have been filed or are pending against the Company or one or more of its subsidiaries with respect to various matters. In the opinion of management, none of these lawsuits is material, and they are adequately provided for or covered by insurance or, if not so covered, are without any or have little merit or involve such amounts that if disposed of unfavorably would not have a

material adverse effect on the Company or any of its subsidiaries.

ITEM 1A. RISK FACTORS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the nine-month period ended September 30, 2008, the aggregate number of stock options and warrants exercised was 3,510,000. Of that total, 2,038,342 shares of common stock were issued to those individuals exercising stock options and warrants and 1,471,658 shares of common stock were retained by the Company as treasury stock, respectively. The shares retained by the Company were in payment for the exercise price of certain options and the satisfaction of statutory tax liability associated with such exercise. Unless otherwise specified, such as in the case of the exercise of stock options or warrants, the per share prices were determined using the closing price of the Company's common stock as quoted on Alternext and the shares were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On June 25, 2008, the Company's Board of Directors authorized the Company to repurchase up to $3,000,000 of its shares of outstanding common stock. Under the repurchase program, management is authorized to repurchase shares through December 31, 2008, with block trades permitted, in open market purchases or in privately negotiated transactions at prevailing market prices in compliance with applicable securities laws and other legal requirements. To facilitate repurchases, the Company made purchases pursuant to a Rule 10b5-1 plan, which allowed the Company to repurchase its shares during periods when it otherwise might have been prevented from doing so under insider trading laws. In total, the Company repurchased 808,900 shares under its repurchase plan at an aggregate cost of $2,999,788. On August 26, 2008, the Company announced the completion of the repurchase program. During the three-month period ended September 30, 2008, the Company repurchased 789,300 shares at a cost of $2,928,671 as follows:

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Approximate (Dollar Value) Shares that m Yet Be Purcha Under the Plan Programs
July 1-31, 2008	375,900	$3.70	375,900	$ 1,537,

August 1-31, 2008	413,400	$3.72	413,400	
September 1-30, 2008	-	-	-	
Total	789,300	$3.71	789,300	$

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the three-month period ended September 30, 2008, the Company's stockholders did not vote on any matters.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit
3.1	Registrant's Restated Amended and Restated Certificate of Incorporation (1)
3.2	Certificate of Designation for Series A Convertible Preferred Stock dated October 11, 1994 (2)
3.3	Certificate of Designations, Preferences, and Rights of Series M Convertible Preferred Stock dated August 13, 1997 (3)
3.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated October 19, 1998 (2)
3.5	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 18, 2000 (2)
3.6	Certificate of Amendment of Certificate of Designations of the Series A Convertible Preferred Stock dated October 29, 2001 (2)
3.7	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 7, 2005 (4)
3.8	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated May 18, 2007 (4)
3.9	Amended and Restated Bylaws (5)
11.1	Statement Regarding Computation of Per Share Income
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 33-51546) declared effective on December 14, 1992
(2) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2002
(3) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB/A for the year ended April 30, 1997
(4) Incorporated by reference to the Registrant's Quarterly Report on Form 10-QSB for period ended June 30, 2007
(5) Incorporated by reference to the Registrant's Current Report on Form 8-K dated January 8, 2007

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SIGNATURES

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

UNIVERSAL INSURANCE HOLDINGS, INC.

Date: November 10, 2008

/s/ Bradley I. Meier

Bradley I. Meier, President and Chief Executive Officer

/s/ James M. Lynch

James M. Lynch, Chief Financial Officer

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