UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10KSB/A
August 24, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A

(Amendment No. 1)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 0-20848

UNIVERSAL INSURANCE HOLDINGS, INC.
(Name of small business issuer in its charter)

Delaware	65-0231984
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1110 West Commercial Boulevard, Suite 100 Fort Lauderdale, Florida	33309
(Address of principal executive offices)	(Zip Code)

Company's telephone number, including area code: (954) 958-1200

Securities registered pursuant to Section 12(g) of the Exchange Act:

COMMON STOCK, $.01 PAR VALUE	OTC BULLETIN BOARD
REDEEMABLE COMMON STOCK PURCHASE WARRANTS	OTC BULLETIN BOARD
(Title of each class)	(Name of exchange where registered)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: YES X NO ___

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES ___ NO X

State issuer's revenues for its most recent fiscal year: $65,147,750

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold as of February 1, 2007: $73,146,187

State the number of shares of Common Stock of Universal Insurance Holdings, Inc. outstanding as of March 1, 2007: 38,057,103

Transitional Small Business Disclosure Format: YES ___ NO X

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-KSB/A is an amendment to the Universal Insurance Holdings, Inc. Annual Report on Form 10-KSB for the fiscal year ended December 31, 2006. The purpose of this Form 10-KSB/A is to amend the section entitled "Employment Agreements" in Part III, Item 10. Executive Compensation; the section entitled "Common Stock Owned By Management" in Item 11. Security Ownership of Certain Beneficial Owners and Management Related Stockholder Matters; and Item 13. Exhibits. The changes to Part III, Item 10 consist of a description of the Company's employment agreement with James M. Lynch, the Company's Executive Vice President and Chief Financial Officer. The changes to Part III, Item 11 consist of a reduction in the number shares of Common Stock beneficially owned by Bradley I. Meier, the Company's President and Chief Executive Officer as a result of the termination of proxies pursuant to which Mr. Meier had the right to vote shares held by Mr. Meier's sister and brother. Part III, Item 13 has been revised to include Mr. Lynch's employment agreement as Exhibit 10.7 hereto and to include a reference to the Company's Amended and Restated Bylaws, which are incorporated by reference to the Company's Form 8-K filed on January 11, 2007. This Form 10-KSB/A does not update, modify, or amend any other disclosure to reflect developments since the original filing date or otherwise.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

THE COMPANY

Universal Insurance Holdings, Inc. ("UIH" or the "Company") was originally organized as Universal Heights, Inc. in 1990. The Company changed its name to Universal Insurance Holdings, Inc. on January 12, 2001. In April 1997, the Company organized a subsidiary, Universal Property & Casualty Insurance Company ("UPCIC"), as part of its strategy to take advantage of what management believed to be profitable business and growth opportunities in the marketplace. UPCIC was formed to participate in the transfer of homeowners' insurance policies from the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"). The Company has since evolved into a vertically integrated insurance holding company, which through its various subsidiaries, covers substantially all aspects of insurance underwriting, distribution and claims processing.

The Company was incorporated under the laws of the State of Delaware on November 13, 1990 and its principal executive offices are located at 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309, and its telephone number is (954) 958-1200.

INSURANCE BUSINESS

On October 29, 1997, the Office of Insurance Regulation ("OIR") approved UPCIC's application for a permit to organize as a domestic property and casualty insurance company in the State of Florida. On December 4, 1997, UIH raised approximately $6.7 million in a private placement of common stock with various institutional and other accredited investors. The proceeds of the offering were used to meet the minimum regulatory capitalization requirements ($5.0 million) of the OIR to obtain an insurance company license and for general working capital purposes. UPCIC received a license to engage in underwriting homeowners' insurance in the State of Florida on December 31, 1997. In 1998, UPCIC began operations through the assumption of homeowners' insurance policies issued by the JUA.

The JUA was established in 1992 as a temporary measure to provide insurance coverage for individuals who could not obtain coverage from private carriers because of the impact on the private insurance market of Hurricane Andrew in 1992. Rather than serving as a temporary source of emergency insurance coverage as was originally intended, the JUA became a major provider of original and renewal insurance coverage for Florida residents. In an attempt to reduce the number of policies in the JUA, and thus the exposure of the program to liability, the Florida legislature approved a number of initiatives to depopulate the JUA. The Florida legislature subsequently approved, and the JUA implemented, a Market Challenge/Takeout Bonus Program ("Takeout Program"), which provided additional incentives to private insurance companies to acquire policies from the JUA.

UPCIC's initial business and operations consisted of providing property and casualty coverage through homeowners' insurance policies acquired from the JUA. The insurance business acquired from the JUA provided a base for renewal premiums. The majority of these policies renewed with UPCIC. In an effort to further grow its insurance operations, in 1998, UPCIC also began to solicit business actively in the open market through independent agents. Through renewal

of the JUA business combined with business solicited in the market through independent agents, UPCIC is currently servicing approximately 268,000 homeowners' insurance policies covering homes and condominium units.

The Company's primary product is homeowners' insurance. The Company's criteria for selecting insurance policies includes, but is not limited to, the use of specific policy forms, coverage amounts on buildings and contents and required compliance with local building codes. Also, to improve underwriting and manage risk, the Company utilizes standard industry modeling techniques for hurricane and windstorm exposure. UPCIC's portfolio as of December 31, 2006 includes approximately 262,500 policies with coverage for wind risks and 5,500 policies without wind risks. The average premium for a policy with wind coverage is approximately $1,402 and the average premium for a policy without wind coverage is approximately $657. Approximately 24.3% of the policies are located in Miami-Dade, Broward and Palm Beach counties.

OPERATIONS

All underwriting, rating, policy issuance, reinsurance negotiations and certain administration functions for UPCIC are performed by UPCIC, Universal Risk Advisors, Inc., a wholly owned subsidiary of the Company, and unaffiliated third parties.

Claims handling functions for UPCIC were initially administered by an independent claims adjustment firm licensed in Florida. In 1999, the Company formed Universal Adjusting Corporation, a wholly owned subsidiary, which currently performs claims adjustment for UPCIC. This gives the Company greater command over its loss control and expenditures.

The earnings of UPCIC from policy premiums are supplemented to an extent by the generation of investment income from investment policies adopted by the

Board of Directors of UPCIC. UPCIC's principal investment goals are to maintain safety and liquidity, enhance equity values and achieve an increased rate of return consistent with regulatory requirements.

MANAGEMENT OPERATIONS

The Company has developed into a vertically integrated insurance holding company performing various aspects of insurance underwriting, distribution and claims. Universal Risk Advisors, Inc., the Company's wholly owned Managing General Agent ("MGA"), was incorporated in Florida on July 2, 1998 and became licensed by the OIR on August 17, 1998 and contracted with UPCIC on September 28, 1998. Through the MGA, the Company has underwriting, reinsurance negotiation and claims authority for UPCIC as well as third-party insurance companies. The MGA seeks to generate revenue through policy fee income and other administrative fees from the marketing of UPCIC as well as third-party insurance products through the Company's distribution network. The Company markets and distributes UPCIC's products and services in Florida through a network of approximately 2,400 active independent agents.

AGENCY OPERATIONS

Universal Florida Insurance Agency was incorporated in Florida on July 2, 1998 and Coastal Homeowners Insurance Specialists, Inc. was incorporated in Florida on July 2, 2001, each as wholly owned subsidiaries of the Company to solicit voluntary business. These entities are a part of the Company's agency operations, which seek to generate income from commissions, premium financing referral fees and the marketing of ancillary services.

DIRECT SALES OPERATIONS

The Company formed subsidiaries that specialize in selling insurance and generating insurance leads via the Internet. Tigerquote.com Insurance & Financial Services Group, Inc. ("Tigerquote.com") and Tigerquote.com Insurance Solutions, Inc. were incorporated in Delaware on June 6, 1999 and August 23, 1999, respectively. Tigerquote.com is an Internet insurance lead generating network while Tigerquote.com Insurance Solutions, Inc. is a network of Internet insurance agencies. These entities seek to generate income from the selling of leads and commissions on policies written. To date, insurance agencies have been established in 22 states. Separate legal entities have been formed for each state and are governed by the respective states' departments of insurance. None of the agencies are currently active as the Company changed its focus to sell

leads to other companies and independent agents. During 2006, the Company decided to discontinue its direct sales operations and focus on its core operations.

In the Consolidated Statements of Operations and Consolidated Statements of Cash Flows, the Company has separately disclosed results relating to its discontinued operations, which in prior periods had not been separately disclosed. The disclosure for discontinued operations relates to the operating segment previously reported as the Company's on-line commerce segment.

OTHER OPERATIONS

Universal Inspection Corporation was incorporated in Florida on January 3, 2000 as a subsidiary of UIH. Universal Inspection Corporation performs property inspections for homeowners' policies underwritten by UPCIC.

During 2001, the Company formed Tiger Home Services, Inc., which furnished pool services to homeowners until the operation was sold during the second quarter of 2005.

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 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 and further penetrating the Florida market by establishing relationships with additional independent agents in order to expand its distribution network. 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 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 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. In addition, UPCIC protects itself against the risk of catastrophic loss by obtaining reinsurance coverage up to approximately the "100 year Probable Maximum Loss" ("PML"). UPCIC's reinsurance program consists of excess of loss, quota share and catastrophe reinsurance for multiple hurricanes. However, UPCIC may not buy enough reinsurance to cover multiple storms going forward or be able to timely obtain reinsurance. During 2004, Florida experienced four windstorm catastrophes (Hurricanes Charley, Frances, Ivan and Jeanne), which resulted in losses. As a result of these storms, the Company currently estimates it incurred $182,666,020 in losses prior to reinsurance and $22,497,312 net of reinsurance. During 2005, Florida experienced three windstorm catastrophes (Hurricanes Dennis, Katrina and Wilma), which resulted in losses. As a result of these storms, the Company currently estimates it incurred $93,125,571 in losses prior to reinsurance and $4,139,304 net of reinsurance. During 2006, UPCIC did not incur any losses due to catastrophic events.

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 that currently transfer the risk of loss in excess of $1,875,000 for the first and second events and $3,500,000 for the third event up to approximately the 100 year PML as of the beginning of hurricane season on June 1 of each year. This amount may change in the future.

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. In light of the four windstorm catastrophes Florida experienced in 2004, and three windstorm catastrophes Florida experienced in 2005, an increase in catastrophe reinsurance costs for the current year renewal is 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. 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. In addition, while ceding premiums to reinsurers reduces the Company's risk of exposure in the event of catastrophic losses, it also reduces the Company's potential for greater profits should such catastrophic events fail to occur. The Company believes that the extent of its 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. In the case of UPCIC, this uncertainty is compounded by UPCIC's limited historical claims experience. 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, 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. UPCIC's profitability and financial condition could be adversely affected to the extent that its liabilities are inadequate.

UPCIC is directly liable for loss and loss adjustment expenses ("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 the Company's payment of that loss. As required by insurance regulations and accounting rules, the Company 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, the Company establishes a liability for the estimated amount of the Company'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 ("IBNR"). The Company utilizes independent actuaries to help establish its liability for unpaid losses and LAE. The Company 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, the Company 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 become 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 the Company, the homeowners' liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim to the Company 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 the Company's liability for unpaid losses and LAE will be adequate to cover actual losses. If the Company's liability for unpaid losses and LAE proves to be inadequate, the Company will be required to increase the liability with a corresponding reduction in the Company'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 the Company's business, results of operations and financial condition.

The following table sets forth a reconciliation of beginning and ending liability for unpaid losses and LAE as shown in the Company's consolidated financial statements for the periods indicated.

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	Year Ended December 31, 2006	Year Ended December 31, 2005
	(Dollars in Thousands)	
Balance at beginning of year	$ 67,000	$ 57,872
Less reinsurance recoverable	(60,859)	(56,292)
Net balance at beginning of year	6,141	1,580
Incurred related to:		
Current year	9,247	7,049
Prior years	15,694	2,549
Total incurred	24,941	9,598
Paid related to:		
Current year	4,454	3,822
Prior years	9,433	1,215
Total paid	13,887	5,037
Net balance at end of year	17,195	6,141
Plus reinsurance recoverable	32,369	60,859
Balance at end of year	$ 49,564	$ 67,000

The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2006 were increased in the current year by $15,693,957 for claims that had occurred on or before the prior year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2005 were increased during 2005 by $2,549,050 for claims that had occurred on or before the previous year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. There can be no assurance that the Company's unpaid losses and LAE will not develop redundancies or deficiencies and possibly differ materially from the Company's unpaid losses and LAE as of December 31, 2006. In the future, if the unpaid losses and LAE develop redundancies or deficiencies, such redundancy or deficiency would have a favorable or adverse impact, respectively, on future results of operations.

Based upon consultations with the Company's independent actuarial consultants and their statement of opinion on losses and LAE, the Company believes that the liability for unpaid losses and LAE is currently adequate to cover all claims and related expenses which may arise from incidents reported and IBNR.

The following table presents total unpaid loss and LAE, net, and the corresponding reinsurance recoverables shown in the Company's consolidated financial statements for the periods indicated.

	Years Ended December 31, 2006	December 31, 2005
	(Dollars in Thousands)	
Unpaid Loss and LAE, net	$ 6,814	$ 2,130
IBNR loss and LAE, net	10,381	4,011
Total unpaid loss and LAE, net	$ 17,195	$ 6,141
Reinsurance recoverable on unpaid loss and LAE	$ 15,418	$ 47,302
Reinsurance recoverable on IBNR loss and LAE	16,951	13,557
Total reinsurance recoverable on unpaid loss and LAE	$ 32,369	$ 60,859

The following table presents the liability for unpaid losses and LAE for the Company since inception. The top line of the table shows the estimated net liabilities for unpaid losses and LAE at the balance sheet date for each of the periods indicated. These figures represent the estimated amount of unpaid losses and LAE for claims arising in all prior years that were unpaid at the balance

sheet date, including losses that had been incurred but not yet reported. The portion of the table labeled "Cumulative paid as of" shows the net cumulative payments for losses and LAE made in succeeding years for losses incurred prior to the balance sheet date. The lower portion of the table shows the re-estimated amount of the previously recorded liability based on experience as of the end of each succeeding year.

Years Ended December 31,

	2006	2005	2004	2003	2002	2001
				(Dollars in Thousands)		
Balance Sheet liability	$17,195	$6,141	$1,580	$1,351	$1,591	$2,893
Cumulative paid as of:						
One year later	-	12,897	1,216	950	667	3,660
Two years later	-	-	11,514	1,153	992	3,667
Three years later	-	-	-	1,330	1,115	3,899
Four years later	-	-	-	-	1,260	3,998
Five years later	-	-	-	-	-	4,082
Six years later	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-
Balance Sheet liability	17,195	6,141	1,580	1,351	1,591	2,893
One year later	-	25,312	4,129	1,480	1,249	4,237
Two years later	-	-	22,727	1,297	1,369	3,974
Three years later	-	-	-	1,482	1,229	4,158
Four years later	-	-	-	-	1,377	4,096
Five years later	-	-	-	-	-	4,147
Six years later	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-
Cumulative redundancy (deficiency)	-	(19,171)	(21,147)	(131)	214	(1,254)

The cumulative redundancy or deficiency represents the aggregate change in the estimates over all prior years. A deficiency indicates that the latest estimate of the liability for losses and LAE is higher than the liability that was originally estimated and a redundancy indicates that such estimate is lower. It should be emphasized that the table presents a run-off of balance sheet liability for the periods indicated rather than accident or policy loss development for those periods. Therefore, each amount in the table includes the cumulative effects of changes in liability for all prior periods. Conditions and trends that have affected liabilities in the past may not necessarily occur in the future.

Underwriting results of insurance companies are frequently measured by their combined ratios. However, investment income, federal income taxes and other non-underwriting income or expense are not reflected in the combined ratio. The profitability of property and casualty insurance companies depends on income from underwriting, investment and service operations. Underwriting results are considered profitable when the combined ratio is under 100% and unprofitable when the combined ratio is over 100%.

The following table sets forth the statutory loss ratios, expense ratios and combined ratios for the periods indicated for UPCIC. The ratios, net of reinsurance and inclusive of loss adjustment expenses, are shown in the table below and are computed based upon Statutory Accounting Principles. The expense ratio includes management fees and commissions paid to the Company in the amount of $16,645,351 in 2006 and $5,536,002 in 2005.

	Years Ended December 31, 2006	December 31, 2005
Loss Ratio	54%	73%

Expense Ratio	19	13
Combined Ratio	73%	86%

In order to reduce losses and thereby reduce the loss ratio and the combined ratio, the Company has taken several steps. These steps include implementing rate increases for new and renewal business, restructuring the homeowners' coverage offered, restructuring the catastrophic reinsurance coverage to reduce cost, and working to reduce general and administrative expenses.

GOVERNMENT REGULATION

Florida insurance companies 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 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 National Association of Insurance Commissioners from time to time consider proposals that may affect, among other things, regulatory assessments and reserve requirements. UPCIC 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.

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 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. Increased competition from other insurance companies 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.

EMPLOYEES

As of March 1, 2007, the Company had 118 full-time employees. None of the Company's employees is represented by a labor union. The Company also utilized the services of several temporary employees during the year to assist with the increased workload related to the hurricanes Florida had experienced. The Company has an employment agreement with Bradley I. Meier, President and Chief Executive Officer of the Company and Sean P. Downes, Senior Vice President and Chief Operating Officer of the Company. See "Executive Compensation--Employment Agreements."

ITEM 2. DESCRIPTION OF PROPERTY

On July 31, 2004, the Company purchased a modern building located in Fort Lauderdale, Florida that became its home office on July 1, 2005. The Company believes that the new building is suitable for its intended use and adequate to meet the Company's current needs. The building is 100% utilized by the Company. There is no mortgage or lease arrangement. The building is adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in certain lawsuits. In the opinion of management, except as described below, none of these lawsuits (1) involve claims for damages exceeding 10% of the current assets of the Company, (2) involve matters that are not routine litigation incidental to the claims aspect of its business, (3) involve bankruptcy, receivership or similar proceedings, (4) involve material Federal, state, or local environmental laws, (5) potentially involve more than $100,000 in sanctions and a governmental authority is a party, or (6) are material proceedings to which any director, officer, affiliate of the Company, beneficial owner of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company.

On February 7, 2005, Marty Steinberg as a court appointed receiver for the entities consisting of Lancer Management Group LLC, Lancer Management Group II LLC, Lancer Offshore Inc., Omnifund Ltd., LSPV Inc., LSPV LLC, Alpha Omega Group Inc. and G.H. Associates LLC (collectively the "Lancer Entities") filed suit against Alfred Taubman, Anthony Cullen, British American Racing, Centrack International, Inc., Kuwait & Middle East Financial Investment Co., Liberty International Asset Management, Macroview Investments Limited, Opus Portfolio Ltd., Reva Stocker, Roger Dodger, LLC, Signet Management Limited, Thornhill Group Inc. Trust, World Class Boxing and the Company (collectively the "Defendants") in the United States District Court for the Southern District of Florida. The Company received the notice of suit by mail on September 8, 2005. The suit alleged that the Lancer Entities fraudulently transferred funds to the Defendants and that the transfers unduly enriched the Defendants. The receiver asked the Company to pay $658,108. The Company had no record of the alleged transfers and vigorously defended the suit. The lawsuit has since been dismissed with prejudice by the receiver.

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

There were no matters submitted to a vote of the Company's shareholders during the fourth quarter ended December 31, 2006.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock is quoted on the OTC Bulletin Board under the symbol UVIH. The following table sets forth prices of the Common Stock, as reported by the OTC Bulletin Board. The following data reflects inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

For year ended December 31, 2005	High	Low
First Quarter	$ 0.08	$ 0.04
Second Quarter	0.09	0.05
Third Quarter	0.07	0.04
Fourth Quarter	0.95	0.05

For year ended December 31, 2006	High	Low
First Quarter	$ 1.40	$0.85
Second Quarter	1.65	0.93
Third Quarter	2.46	1.12
Fourth Quarter	3.97	2.31

At March 1, 2007, transfer agent records indicate 45 shareholders of record of the Company's Common Stock. There were approximately 425 beneficial owners of its Common Stock. In addition, there were 3 shareholders of the Company's Series A and Series M Preferred Stock ("Preferred Stock").

During 2005 and 2006, respectively, the Company declared and paid aggregate dividends of $49,950 on the Company's Series A Preferred Stock and Series M Preferred Stock.

Applicable provisions of the Delaware General Corporation Law may affect the ability of the Company to declare and pay dividends on its Common Stock. In particular, pursuant to the Delaware General Corporation Law, a company may pay dividends out of its surplus, as defined, or out of its net profits, for the fiscal year in which the dividend is declared and/or the preceding year. Surplus is defined in the Delaware General Corporation Law to be the excess of net assets of the company over capital. Capital is defined to be the aggregate par value of shares issued. Moreover, the ability of the Company to pay dividends, if and when declared by its Board of Directors, may be restricted by regulatory limits on the amount of dividends, which UPCIC is permitted to pay the Company. Section 628.371 of the Florida Statutes sets forth limitations, based on net income and statutory capital, on the amount of dividends that UPCIC may pay to the Company without approval from the Department.

On October 24, 2006, the Company declared a dividend of $.05 per share on its outstanding Common Stock of the Company to be paid on April 9, 2007 to the shareholders of record of the Company at the close of business on March 19, 2007. The dividend payable amount of $1,902,855 for this dividend is accrued in the December 31, 2006 balance sheet. At December 31, 2006, the Company recorded a dividend payable in the amount of $1,902,855 for this dividend and a net reduction to retained earnings in the amount of $1,747,423, which represents the total dividend net of the dividends on the shares held in treasury stock and in the Stock Grantor Trust described in Note 11 - Stockholders' Equity. During the fourth quarter, the Company paid a dividend of $0.05 per share that was accrued at the end of third quarter. The aggregate amount of the dividend was $1,747,423. During the third quarter, the Company paid a dividend of $0.04 per share of outstanding Common Stock that was accrued at the end of the second quarter. The aggregate amount of the dividend was $1,393,938. During the second quarter, the Company paid a dividend of $0.04 per share of outstanding Common Stock that was accrued at the end of first quarter. The aggregate amount of the dividend was $1,364,506.

On March 15, 2007, the Company declared a dividend of $.07 per share on its outstanding Common Stock of the Company to be paid on August 10, 2007 to the shareholders of record of the Company at the close of business on July 20, 2007. The dividend payable amount is $2,446,392.

STOCK ISSUANCES

In February 2006, the Company issued 325,000 shares of restricted Common Stock at a price of $.05 per share to a private investor pursuant to the exercise of warrants to purchase restricted Common Stock. In April 2006, the Company issued 200,000 shares of Common Stock at a price of $.05 per share to a vendor pursuant to the exercise of warrants to purchase restricted Common Stock. Also in April 2006, the Company issued 200,000 shares of restricted Common Stock at a price of $.04 per share to Sean P. Downes, COO of the Company, pursuant to Mr. Downes' exercise of stock options and 123,077 shares of restricted Common Stock at a price of $.93 per share pursuant to Mr. Downes' election to receive such shares in lieu of accrued vacation. Also in April 2006, the Company issued 10,000 shares of restricted Common Stock at a price of $.50 per share to Reed J. Slogoff, a director of the Company, pursuant to the exercise of options to purchase restricted Common Stock. In May 2006, the Company issued 400,000 shares of restricted Common Stock to one employee at $1.23 per share and 25,000 to a second employee at $1.30 per share in conjunction with employment agreements. Also in May 2006, the Company issued 10,000 shares of restricted Common Stock at a price of $.50 per share to an employee of the Company pursuant to the exercise of options to purchase restricted Common Stock. In June 2006, the Company issued 25,000 shares of restricted Common Stock at a price of $1.52 per share to each of the then outside directors of the Company (Norman M. Meier, Reed Slogoff, and Joel Wilentz) and 200,000 shares of restricted Common Stock at a price of $1.52 per share to Sean P. Downes, COO of the Company, as a bonus. Also in June 2006, the Company issued James M. Lynch, CFO of the Company, 25,807 shares of Common Stock at a price of $1.65 per share as a bonus. 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 OTC Bulletin Board and the shares were issued in private transactions pursuant Section 4(2) of the Securities Act of 1933, as amended.

EQUITY COMPENSATION PLANS

See Item 11, "Security Ownership of Certain Beneficial Owners and Management - Equity Compensation Plan Information," for a discussion of shares of Common Stock issued under the Company's equity compensation plans.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

A NUMBER OF STATEMENTS CONTAINED IN THIS REPORT ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 THAT INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN THE APPLICABLE STATEMENTS. THESE RISKS AND UNCERTAINTIES INCLUDE BUT ARE NOT LIMITED TO THE COSTS AND THE UNCERTAINTIES ASSOCIATED WITH THE RISK FACTORS SET FORTH IN ITEM 1 ABOVE. INVESTORS ARE CAUTIONED THAT THESE FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE OR RESULTS.

OVERVIEW

UPCIC's application to become a Florida licensed property and casualty insurance company was filed with the OIR on May 14, 1997 and approved on October 29, 1997. UPCIC's proposal to begin operations through the acquisition of homeowners' insurance policies issued by the JUA was approved by the JUA on May 21, 1997, subject to certain minimum capitalization and other requirements. One of the requirements imposed by the OIR was to limit the number of policies UPCIC could assume from the JUA to 30,000.

The OIR requires applicants to have a minimum capitalization of $5.0 million to be eligible to operate as an insurance company in the State of Florida. Upon being issued an insurance license, companies must maintain capitalization of at least $4.0 million. If an insurance company's capitalization falls below $4.0 million, then the company will be deemed out of compliance with OIR requirements, which could result in revocation of the participant's license to operate as an insurance company in the State of Florida.

The Company has continued to implement its plan to become a financial services company and, through its wholly-owned insurance subsidiaries, has sought to position itself to take advantage of what management believes to be profitable business and growth opportunities in the marketplace.

The Company entered into an agreement with the JUA whereby during 1998, UPCIC assumed approximately 30,000 policies from the JUA. In addition, UPCIC received bonus incentive funds from the JUA for assuming the policies. The bonus funds were maintained in an escrow account for three years. These bonus payments were not included in the Company's assets until receipt at the end of the three-year period. UPCIC could not cancel the policies from the JUA for this three-year period at which point UPCIC received the bonus funds. The Company will not be receiving any additional bonus payments.

The Company expects that premiums from policy renewals and new business will be sufficient to meet the Company's working capital requirements beyond the next twelve months.

The policies obtained from the JUA provided the opportunity for UPCIC to solicit future renewal premiums. The majority of the policies obtained from the JUA renewed with UPCIC. In an effort to further grow its insurance operations, in 1998 the Company began to solicit business actively in the open market. Through renewal of JUA business combined with business solicited in the market through independent agents, UPCIC is currently servicing approximately 268,000 homeowners' insurance policies. To improve underwriting and manage risk, the Company utilizes standard industry modeling techniques for hurricane and windstorm exposure. To diversify UPCIC's product lines, UPCIC underwrites inland marine policies. Management may consider underwriting other types of policies in the future. Any such program will require OIR approval. See Item 1, COMPETITION under "Factors Affecting Operation Results and Market Price of Stock" for a discussion of the material conditions and uncertainties that may affect UPCIC's ability to obtain additional policies.

CRITICAL ACCOUNTING POLICIES

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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 periods. The Company's primary areas of estimate are described below.

RECOGNITION OF PREMIUM REVENUES. Property and liability premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS.

INSURANCE LIABILITIES. Claims and claim adjustment expenses are provided for as claims are incurred. The provision for unpaid claims and claim adjustment expenses includes: (1) the accumulation of individual case estimates for claims and claim adjustment expenses reported prior to the close of the accounting period; (2) estimates for unreported claims based on industry data; and (3) estimates of expenses for investigating and adjusting claims based on the experience of the Company and the industry.

Inherent in the estimates of ultimate claims are expected trends in claim severity, frequency and other factors that may vary as claims are settled. The amount of uncertainty in the estimates for casualty coverage is significantly affected by such factors as the amount of claims experience relative to the development period, knowledge of the actual facts and circumstances and the amount of insurance risk retained. In the case of UPCIC, this uncertainty is compounded by UPCIC's limited history of claims experience. In addition, UPCIC's policyholders are currently concentrated in South Florida, which is periodically subject to adverse weather conditions such as hurricanes and tropical storms. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

DEFERRED POLICY ACQUISITION COSTS/DEFERRED CEDING COMMISSIONS. Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they are related. Determination of costs other than commissions that vary with and are primarily related to the production of new and renewal business requires estimates to allocate certain operating expenses. As of December 31, 2006, deferred policy acquisition costs were $34,082,701 and deferred ceding commissions were $31,976,585. Deferred policy acquisition costs were reduced by deferred ceding commissions and shown net on the Consolidated Balance Sheet in the amount of $2,106,116.

PROVISION FOR PREMIUM DEFICIENCY. It is the Company's policy to evaluate and recognize losses on insurance contracts when estimated future claims and maintenance costs under a group of existing contracts will exceed anticipated future premiums and investment income. The determination of the provision for premium deficiency requires estimation of the costs of losses, catastrophic reinsurance and policy maintenance to be incurred and investment income to be earned over the remaining policy period. The Company has determined that a provision for premium deficiency was not warranted as of December 31, 2006.

REINSURANCE. In the normal course of business, the Company seeks to reduce the risk of 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. While ceding premiums to reinsurers reduces the Company's risk of exposure in the event of catastrophic losses, it also reduces the Company's potential for greater profits should such catastrophic events fail to occur. The Company believes that the extent of its reinsurance is typical of a company of its size in the homeowners insurance industry. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreement and consistent with the establishment of the liability of the Company. The Company's reinsurance policies do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. No such allowance was deemed necessary as of December 31, 2006.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements during 2006.

RELATED PARTIES

All underwriting, rating, policy issuance, reinsurance negotiations and certain administration functions for UPCIC are performed by UPCIC, Universal Risk Advisors and unaffiliated third parties. Claims adjusting functions are performed by Universal Adjusting Corporation, a wholly owned subsidiary of the Company 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, COO and Senior Vice President of the Company. During 2006 and 2005, the Company expensed claims adjusting fees of $829,208 and $1,075,188, respectively, to Downes and Associates.

During 2005, Sean P. Downes filed a claim on his homeowners' policy issued by UPCIC as a result of damage incurred during Hurricane Wilma. UPCIC handled the claim in the ordinary course of its business and made a loss payment to Mr. Downes in the amount of $214,409.

In July 2004, the Company borrowed monies from a private investor in the amount of $175,000 for working capital. In August 2005, this individual's son, Michael P. Moran, became UPCIC's Vice President of Claims. The loan was paid off in January 2006.

RESULTS OF OPERATIONS

FOR YEAR ENDED DECEMBER 31, 2006 AND FOR YEAR ENDED DECEMBER 31, 2005.

The fiscal year ended December 31, 2006 marked a significant improvement in the Company's operating results over recent past fiscal years. This improvement was primarily attributable to volume and rate increases, restructuring the homeowners' coverage offered, restructuring the Company's reinsurance coverage and working to control general and administrative expenses. In addition, Florida did not experience any windstorm catastrophes during 2006.

Gross premiums written increased 319.1% to $371,754,514 for the year ended December 31, 2006 from $88,701,123 for the year ended December 31, 2005. The increase in gross premiums written is primarily attributable to an increase in new business as well as premium rate increases. The increase in new business is partly attributable to the recent Florida windstorm catastrophes, which have provided an opportunity in the otherwise competitive marketplace as certain companies are not accepting new business, as well as marketing initiatives the Company has undertaken.

Net premiums written increased 552.7% to $141,035,805 for the year ended December 31, 2006 from $21,606,878 for the year ended December 31, 2005. The increase in net premiums written reflects the impact of reinsurance, since $230,718,709 or 62.1% of premiums written were ceded to reinsurers for the year ended December 31, 2006 as compared to $67,094,245 or 75.6% for the year ended December 31, 2005. The increase in net premiums written is attributable to an increase in new business, premium rate increases and changes to the Company's reinsurance program. Under the Company's quota share reinsurance treaty, the Company elected to cede 80% of gross written premiums, losses and loss adjustment expenses during the first five months of 2005 for all policies with coverage for wind risk versus 55% of policies with coverage for wind risk during the subsequent six months of 2005 and 80% of policies with coverage for wind risk during the remaining month of 2005. The Company continued to cede 80% of policies with coverage for wind risk during the first five months of 2006 versus 50% of policies with coverage for wind risk during the remaining seven months of 2006. The Company believes that the extent of its reinsurance is typical of a company of its size in the homeowners' insurance industry.

Net premiums earned increased 242.1% to $54,135,952 for the year ended December 31, 2006 from $15,825,982 for the year ended December 31, 2005. The increase in net premiums earned is attributable to an increase in new business, premium rate increases and changes in the reinsurance program noted above.

Commission revenue increased 166.0% to $6,714,511 for the year ended December 31, 2006 from $2,523,861 for the year ended December 31, 2005. Commission income is comprised mainly of the Managing General Agent's policy fee income on all new and renewal insurance policies and commissions generated from agency operations. The increase is primarily due to increased policy fee income attributable to an increase in new and renewal business.

Investment income consists of net investment income and net realized gains (losses). Investment income increased 484.4% to $3,986,414 for the year ended December 31, 2006 from $682,085 for the year ended December 31, 2005. The increase is primarily due to higher investment balances during 2006.

Other revenue decreased 4.4% to $310,873 for the year ended December 31, 2006 from $325,272 for the year ended December 31, 2005. Other revenue is comprised of fee revenue from direct sales and service revenue from other operations. The decrease is primarily attributable to the fact that there was less activity in the direct sales and service operations in 2006.

Losses and loss adjustment expenses ("LAE"), net incurred increased 159.9% to $24,940,879 for the year ended December 31, 2006 from $9,597,984 for the year ended December 31, 2005 as compared to net premiums earned which increased 242.1% to $54,135,952 for the year ended December 31, 2006 from $15,825,982 for the year ended December 31, 2005. Losses and LAE, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. Losses and LAE, net are influenced by loss severity and frequency. Losses and LAE, net increased due to an increase in insured exposures and changes to the Company's reinsurance program discussed above. The Company's direct loss ratio for the year ended December 31, 2006 was 36.8% compared to 148.4% for the year ended December 31, 2005. The Company's direct loss ratio decreased principally due to the lower frequency and severity of claims in 2006. During 2006, the Company did not experience any catastrophic events. During 2005, Florida experienced three windstorm catastrophes (Hurricanes Dennis, Katrina and Wilma), which resulted in losses. As a result of these storms, the Company currently estimates it incurred $93,125,571 in losses prior to reinsurance and $4,139,304 net of reinsurance. Except for catastrophe claims, the Company believes that the severity and frequency of claims remained relatively stable for the periods under comparison. The Company's net loss ratio for the year ended December 31, 2006 was 46.1% compared to 60.6% for the year ended December 31, 2005. The net loss ratio decreased due to the decrease in net losses incurred and premium rate increases.

Catastrophes are an inherent risk of the property-liability insurance business, particularly in the geographic area where the Company does business, which may contribute to material year-to-year fluctuations in UPCIC's results of operations and financial position. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. While management believes its catastrophe management strategies will reduce the severity of future losses, UPCIC continues to be exposed to similar or greater catastrophes as those experienced in prior years.

The reserve for direct unpaid losses and LAE at December 31, 2006 is $49,564,514. Based upon consultations with the Company's independent actuarial consultants and their statement of opinion on losses and LAE, the Company believes that the liability for unpaid losses and LAE is adequate to cover all claims and related expenses which may arise from incidents reported. The range of direct loss reserve estimates as determined by the Company's independent actuarial consultants is a low of $37,274,555 and a high of $59,959,974. The key assumption used to arrive at management's best estimate of loss reserves in relation to the actuary's range and the specific factors that led to management's best estimate is that the liability is based on management's estimate of the ultimate cost of settling each loss and an amount for losses incurred but not reported. However, if losses exceed direct loss reserve estimates there could be a material adverse effect on the Company's financial statements. Also, if there are regulatory initiatives, legislative enactments or case law precedents, which change the basis for policy coverage, in any of these events, there could be an effect on direct loss reserve estimates having a material adverse effect on the Company's financial statements.

As a result of the Company's review of its liability for losses and loss adjustment expenses, which includes a re-evaluation of the adequacy of reserve levels for prior year claims, the Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2006 were increased in the current year by $15,693,957 for claims that had occurred on or before the prior year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2005 were increased during 2005 by $2,549,050 for claims that had occurred on or before the previous year balance sheet date. This unfavorable loss emergence resulted principally from settling homeowners' losses established in the prior year for amounts that were more than expected. There can be no assurance concerning future adjustments of reserves, positive or negative, for claims through December 31, 2006.

General and administrative expenses increased 279.8% to $13,485,562 for the year ended December 31, 2006 from $3,551,117 for the year ended December 31, 2005. General and administrative expenses have increased primarily due to a decrease in ceding commissions associated with changing policy retention from 20% to 50% at June 1, 2006.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of cash flow are premium revenues, commission income and investment income.

For the year ended December 31, 2006, cash flows provided by operating activities were $153,384,209. 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 and cash equivalents of which $1,500,000 is held by the State of Florida Department of Financial Services for the benefit of UPCIC's policyholders. Cash flows from investing activities are primarily comprised of purchases of building improvements and other capital expenditures. Cash flows used in financing activities primarily relate to Company borrowings and payment of dividends to shareholders.

During 2003, the Company purchased software for $520,000. Management believes the software will assist it in reducing overall management expenses versus the previous outside vendor agreement. The final installment payment on the software of $150,000 was paid in March 2005. In addition, the Company has outstanding loans in the amount of $119,186 to finance several vehicles and a boat, all acquired for business use and marketing of the Company's products, and in the amount of $1,032,901 for working capital needs. The amounts will become due during the years 2006 through 2011.

In July 2004 the Company borrowed monies from a vendor and two private investors in the amounts of $175,000, $150,000 and $100,000 for working capital. The terms of the notes evidencing such loans require interest payments at a rate of 10% through January 2005 with equal monthly payments of principal plus interest thereafter until January 2006, the maturity date of the notes. The notes were paid off in January 2006. In connection with the loans, in July 2004, the Company granted to the vendor and two private investors warrants to purchase 175,000, 150,000 and 100,000, shares of restricted Common Stock each at an exercise price of $.05 per share. The warrants vested over the payment terms and each expires in July 2009. These transactions were approved by the Company's Board of Directors.

In June 2005, the Company borrowed monies from two private investors and issued two promissory notes for the aggregate principal sum of $1,000,000 payable in five monthly installments of $200,000. Payment on one note commenced on June 30, 2006 and commenced on the other note on November 30, 2006. The loan amount subsequently was contributed to UPCIC as additional paid-in-capital. In conjunction with the notes, the Company granted a warrant to one of the investors to purchase 200,000 shares of restricted Common Stock at an exercise price of $.05 per share, expiring in June 2010. These transactions were approved by the Company's Board of Directors. The aggregate remaining principal balance on the promissory notes is $300,000.

On November 9, 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration under Florida's Insurance Capital Build-Up Incentive Program. Under the program, which was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the State Board of Administration 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 $62 million. Under Florida law, the current surplus will allow UPCIC to write up to approximately $600 million in gross written premiums in the 2007 calendar year.

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 Florida Insurance Regulation.

An event of default will occur under the surplus note if UPCIC: (i) defaults in the payment of the surplus note; (ii) fails to meet at least a 2:1 ratio of net premium to surplus ("Minimum Writing Ratio") requirement by June 1, 2007; (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; or (vii) pays any dividend when principal or interest payments are past due under the surplus note. As of December 31, 2006, the Company is in compliance with each of the aforementioned loan covenants.

If UPCIC fails to increase its writing ratio for two consecutive quarters prior to June 1, 2007, fails to obtain the 2:1 Minimum Writing Ratio by June 1, 2007, or drops below the 2:1 Minimum Writing Ratio once it is obtained for two consecutive quarters, the interest rate on the surplus note will increase during such deficiency by 25 basis points if the resulting writing ratio is between 1.5:1 and 2:1 and the interest rate will increase by 450 basis points if the writing ratio is below 1.5:1. If the writing ratio remains below 1.5:1 for three consecutive quarters after June 1, 2007, UPCIC must repay a portion of the surplus note so that the Minimum Writing Ratio will be obtained for the following quarter. The Company expects to maintain the 2:1 Minimum Writing Ratio throughout the term of the surplus note.

To meet its matching obligation under the Insurance Capital Build-Up Incentive 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 will accrue at the market rate of 12.75% per annum. The outstanding principal is 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 year beginning on June 1, 2007. As of March 30, 2007, all amounts due on the Note have been paid.

The following table represents the Company's total contractual obligations for which cash flows are fixed or determinable.

	Total	2007	2008	2009	2010	2011	Ther
			(Thousands of dollars)				
Contractual obligations							
Long-term debt	$ 25,058	$ -	$ 15	$ 14	$ 1,008	$ 1,051	$ 22
Loans payable	12,324	12,324	-	-	-	-	
Operating leases	396	227	137	32	-	-	
Total contractual obligations	$ 37,778	$12,551	$ 152	$ 46	$ 1,008	$ 1,051	$ 22

The balance of cash and cash equivalents as of December 31, 2006 was $232,890,297. Most of this amount is available to pay claims in the event of a catastrophic event pending reimbursement for any aggregate amount in excess of $1,875,000 up to the 100 year PML which would be currently covered by reinsurers. Catastrophic reinsurance is recoverable upon presentation to the reinsurer of evidence of claim payment.

Accounting principles generally accepted in the United States of America differ in some respects from reporting practices prescribed or permitted by the Florida Office of Insurance Regulation. 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. The Company is also required to adhere to prescribed premium-to-capital surplus ratios. The Company is in compliance with these requirements.

The maximum amount of dividends, which can be paid by Florida insurance companies without prior approval of the Florida Commissioner, 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 10.0% of statutory unassigned capital surplus as of the preceding year end. During 2005 and 2006, UPCIC did not pay dividends to the Company.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary assets of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of the general levels of inflation. Interest rates do not necessarily move in the same direction or with the same magnitude as the cost of paying losses and LAE.

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.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of the Company are annexed to this report and are referenced as pages F-1 to F-26.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. 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 the end of the period covered by this report 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 Securities and Exchange Commissions 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.

ITEM 8B. OTHER INFORMATION

On January 11, 2007, the Company applied for listing of its Common Stock on the American Stock Exchange LLC ("AMEX"). AMEX is currently reviewing the Company's listing application, and although no assurances can be given, the Company believes it will be able to meet the listing requirements. The Company meets the definition of "controlled company" set forth in Section 801(a) of the AMEX Company Guide in that greater than fifty percent (50%) of the voting power of the Company's Common Stock is held by Bradley I. Meier.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The directors and executive officers of the Company as of December 31, 2006 are as follows:

Name	Age	Position
Bradley I. Meier	39	President, Chief Executive Officer and Director

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Name	Age	Position
Norman M. Meier	68	Director, Secretary
Reed J. Slogoff	38	Director
Joel M. Wilentz, M.D.	73	Director
James M. Lynch	52	Executive Vice President and Chief Financial Officer
Sean P. Downes	37	Senior Vice President, Chief Operating Officer and Director

BRADLEY I. MEIER has been President, Chief Executive Officer and a Director of the Company since its inception in November 1990. He has served as President of UPCIC, a wholly-owned subsidiary of the Company, since its formation in April 1997. In 1990, Mr. Meier graduated from the Wharton School of Business with a B.S. in Economics.

NORMAN M. MEIER has been a Director of the Company since July 1992. From December 1986 until November 1999, Mr. Meier was President, Chief Executive Officer and a Director of Columbia Laboratories, Inc., a publicly-traded corporation in the pharmaceuticals business. From 1971 to 1977, Mr. Meier was Vice President of Sales and Marketing for Key Pharmaceuticals. From 1977 until 1986, Mr. Meier served as a consultant to Key Pharmaceuticals.

REED J. SLOGOFF has been a Director of the Company since March 1997. Mr. Slogoff is currently a principal with Pearl Properties Commercial Management, LLC, a commercial real estate investment and management firm based in Philadelphia, Pennsylvania. Mr. Slogoff was formerly with Entercom Communications Corp., a publicly traded radio broadcasting company and was previously a member of the corporate and real estate group of the law firm of Dilworth, Paxson, LLP. Mr. Slogoff received a B.A. with Honors from the University of Pennsylvania in 1990, and a J.D. from the University of Miami School of Law in 1993.

JOEL M. WILENTZ, M.D. has been a Director of the Company since March 1997. Dr. Wilentz is one of the founding members of Dermatology Associates in Florida, founded in 1970. He is a former member of the boards of the Neurological Injury Compensation Associate for Florida and the Broward County Florida Medical Association. He is a member of the board of directors of the American Arm of the Israeli Emergency Medical Service for the southeastern United States, of which he is also a past President. Dr. Wilentz is a past member of the Board of Overseers of the Nova Southeastern University School of Pharmacy.

JAMES M. LYNCH CPA, CPCU has been Executive Vice President and Chief Financial Officer of the Company since August 1998. Before joining the Company in August 1998, Mr. Lynch was Chief Financial Officer of Florida Administrators, Inc., an organization specializing in property and casualty insurance. Prior to working at Florida Administrators, Inc., Mr. Lynch held the position of Senior Vice President of Finance and Comptroller of Trust Group, Inc., which also specialized in property and casualty insurance. Before his position at Trust Group, Mr. Lynch was a Manager with the accounting and auditing firm of Coopers & Lybrand, which later became PricewaterhouseCoopers LLC.

SEAN P. DOWNES has been Senior Vice President, Chief Operating Officer and a Director of the Company since January 2005. He has served as Chief Operating Officer and a Director of UPCIC since July 2003. Mr. Downes was Chief Operating Officer of Universal Adjusting Corporation from July 1999 to July 2003. During that time Mr. Downes created the Company's claims operation. Before joining the Company in July 1999, Mr. Downes was Vice President of Downes and Associates, a multi-line insurance adjustment corporation.

Effective January 9, 2007, the Board of Directors of the Company appointed Ozzie A. Schindler to the Board of Directors. Mr. Schindler will serve on the Company's Audit Committee. Mr. Schindler is a partner with the law firm of Greenberg Traurig and specializes in international tax, trusts and succession and planning. He has an LL.M. in Taxation from New York University School of Law and graduated with honors from the University of Florida School of Law. Mr. Schindler graduated with high honors from the University of Florida Fisher School of Accounting. He is admitted to both the Florida and New York bars.

Norman M. Meier and Bradley I. Meier are father and son, respectively. There are no other family relationships among the Company's executive officers and directors. Eric Meier who is the brother of Bradley I. Meier, also works for a subsidiary of the Company.

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All directors hold office until the next annual meeting of stockholders and the election and qualification of their successors. Currently, the Company does not have a procedure by which shareholders may recommend nominees to the Company's Board of Directors. Officers are elected annually by the Board of Directors and serve at the discretion of the Board.

The Company has entered into indemnification agreements with its executive officers and directors pursuant to which the Company has agreed to indemnify such individuals, to the fullest extent permitted by law, for claims made against them in connection with their positions as officers, directors or agents of the Company.

AUDIT COMMITTEE

The Company has a separately designated Audit Committee, whose members during 2005 and 2006 were Bradley I. Meier and Reed J. Slogoff. In order to have an Audit Committee composed entirely of independent directors, Mr. Meier voluntarily resigned from the Audit Committee on January 9, 2007, and the Board of Directors unanimously appointed Ozzie A. Schindler and Joel M. Wilentz to the Audit Committee. Mr. Slogoff remained on the Audit Committee. Each member of the Audit Committee has been determined by the Board of Directors to be independent under the applicable rules of the Securities and Exchange Commission ("SEC") and the National Association of Securities Dealers. The Company's Board of Directors has determined that Ozzie A. Schindler is an "audit committee financial expert" as defined by Item 401(e) of Regulation S-B promulgated by the SEC.

CODE OF BUSINESS CONDUCT AND ETHICS

The Company adopted a Code of Business Conduct and Ethics on January 9, 2007 that is applicable to all directors, officers and employees of the Company. The code is publicly available at the Company's headquarters in Fort Lauderdale, Florida. Upon completion of the build-out of the Company's website, the code will be posted there. A copy of the Company's Code of Business Conduct and Ethics may be obtained free of charge by written request to James M. Lynch, 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, FL 33309.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors, executive officers, and persons who own more than 10% of the Company's Common Stock to file initial reports of ownership and reports of changes in ownership with the SEC. Directors, executive officers and greater than 10% shareholders (collectively, "Reporting Persons") are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Sean P. Downes failed to file a Form 4 in connection with an acquisition of the Common Stock in fiscal year 2006, but subsequently filed a Form 5 on February 1, 2007 reflecting this transaction. Except for Mr. Downes' transaction, and based solely on review of the copies of such forms provided to the Company and written representations by the Reporting Persons, the Company believes that, for the year ended December 31, 2006, all Section 16(a) filing requirements applicable to the Reporting Persons were met.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the compensation paid to or earned by the Company's President and Chief Executive Officer and the Company's two other most highly compensated executive officers (collectively, the "Named Executive Officers") during each of the Company's last two fiscal years.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Non-Equity Incentive Plan Compensation	Total
Bradley I. Meier, President & CEO	2006	$830,324	$ -	$ -	$1,075,310(1)	$1,905,634
	2005	$527,365	$ -	$21,500	$191,556	$740,421
James M. Lynch, EVP & CFO	2006	$251,250	$90,000	$42,582	$ -	$383,832
	2005	$279,525	$3,846	$3,000	$ -	$286,371
Sean P. Downes, SVP & COO	2006	$537,678	$ -	$418,462	$843,982(2)	$1,800,122
	2005	$366,923	$ -	$35,000	$181,167	$583,090

(1) As of March 30, 2007, $591,811 of which had not been paid and is subject to shareholder approval.

(2) As of March 30, 2007, $443,859 of which had not yet been paid and is subject to shareholder approval.

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EMPLOYMENT AGREEMENTS

The Company's employment agreement with Mr. Meier is dated as of August 11, 1999. The Company and Mr. Meier have amended the employment agreement, with the most recent amendment dated March 21, 2007 (the employment agreement and the amendments are collectively referred to as the "Meier Agreement"). Under the terms of the Meier Agreement, Mr. Meier will serve as the Company's President and Chief Executive Officer. Mr. Meier received a base salary of $830,324 in 2006, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Meier Agreement, Mr. Meier is entitled to an annual performance bonus equal to three percent (3%) of the pretax income of the Company up to $5 million, and four percent (4%) of the pretax income of the Company in excess of $5 million; provided, however, that any such bonus is contingent upon the Company's shareholders approving such bonus formula. Should the Company's shareholders fail to approve the formula, Mr. Meier forfeits his right to the bonus. Mr. Meier is also eligible for other benefits customarily provided by the Company to its executive employees, and the Meier Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Meier Agreement), the Company shall pay Mr. Meier an amount equal to 48 months base salary, plus two times any bonus paid for the preceding fiscal year. Further, in the event of a Change in Control, all options held by Mr. Meier vest and become immediately exercisable. Also, in the event that the Company terminates the Meier Agreement, the Company shall pay Mr. Meier 48 months total compensation. The Meier Agreement expires on December 31, 2008; however, the agreement is automatically extended each year thereafter unless the Company or Mr. Meier provides written notice that the agreement is being terminated 60 days in advance of the anniversary date of the Meier Agreement.

The Company's employment agreement with Mr. Downes is dated as of January 1, 2005 and provides that Mr. Downes will serve as Chief Operating Officer and Senior Vice President of the Company. The Company and Mr. Downes have amended the employment agreement, with the most recent amendment dated March 21, 2007 (the employment agreement and the amendments are collectively referred to as the "Downes Agreement"). Mr. Downes received a base salary of $527,678 in 2006, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Downes Agreement, Mr. Downes is entitled to an annual performance bonus equal to three percent (3%) of the pre-tax profits of the Company; provided, however, that any such bonus is contingent upon the Company's shareholders approving such bonus formula. Should the Company's shareholders fail to approve the formula, Mr. Downes forfeits his right to the bonus. Under the Downes Agreement, the Company may grant Mr. Downes options or warrants to purchase the Company's Common Stock. Mr. Downes is also eligible for other benefits customarily provided by the Company to its executive employees and the Downes Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Downes Agreement), the Company shall pay Mr. Downes an amount equal to 12 months base salary, plus the annual bonus paid for the preceding fiscal year. Further, in the event of a Change in Control, all options held by Mr. Downes vest and become immediately exercisable. The Downes Agreement expires on December 31, 2008 unless extended in writing by the Company. During the year ended December 31, 2006, Mr. Downes converted bonus and accrued vacation into 323,077 shares of Common Stock. The shares were issued to Mr. Downes in private transactions performed in accordance with the terms of the Downes Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On October 11, 2006, the Company entered into an employment agreement (the "Lynch Agreement") with James M. Lynch, who has served as the Company's Executive Vice President and Chief Financial Officer since August 1998. Under the terms of the Lynch Agreement, Mr. Lynch will continue to serve in such capacity. Mr. Meier received a base salary of $300,000 in 2006, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Lynch Agreement, Mr. Lynch is entitled to an annual performance bonus determined at the discretion of the Board of Directors of the Company; provided, however, that such bonus shall be no less than $50,000. Mr. Lynch is also eligible for other benefits customarily provided by the Company to its executive employees. The Lynch Agreement contains noncompete and nondisclosure provisions. If Mr. Lynch's employment is terminated (i) by the Company or a succeeding entity without Cause (as defined in the Lynch Agreement) or (ii) by Mr. Lynch for Good Reason (as defined in the Lynch Agreement) within one year following a Change in Control of the Company (as defined in the Lynch Agreement), then the Company shall pay Mr. Lynch an amount equal to the greater of Mr. Lynch's current base salary (x) through December 31, 2009 or (y) for period of twelve (12) months, and Mr. Lynch will also be entitled to receive payment for COBRA premiums. The Lynch Agreement expires on December 31, 2009.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth information regarding outstanding equity awards held by each Named Executive Officer at fiscal year ended December 31, 2006.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

OPTIONS AWARDS

Name	Number of Securities Underlying Unexercised Options Exercisable	Option Exercise Price	Option Expiration Date
Bradley Meier	1,500,000	$1.06	01/15/2010 (1)
Bradley Meier	250,000	$1.06	01/15/2010 (1)
Bradley Meier	250,000	$1.63	05/07/2008
Bradley Meier	150,000	$1.10	01/26/2010
Bradley Meier	20,000	$0.70	12/12/2010
Bradley Meier	325,000	$0.70	12/12/2010
Bradley Meier	150,000	$0.60	12/21/2011
Bradley Meier	1,000,000	$0.06	03/04/2014
James Lynch	50,000	$1.87	08/03/2008
James Lynch	25,000	$1.10	01/26/2010
James Lynch	15,000	$0.70	12/12/2010
James Lynch	100,000	$0.50	12/21/2011
Sean Downes	15,000	$1.10	01/26/2010
Sean Downes	100,000	$0.50	12/21/2011

(1) Expires on earlier of January 15, 2010 or a Change in Control of the Company, as defined in the Option Agreement.

DIRECTOR COMPENSATION

The following table sets forth the total compensation paid to non-employee members of the Board of Directors during the fiscal year ended December 31, 2006.

DIRECTOR COMPENSATION

Name	Fees Earned or Paid In Cash	Stock Awards	Total
Joel Wilentz	$45,000	$38,000	$83,000
Norman Meier	$45,000	$38,000	$83,000
Reed Slogoff	$45,000	$38,000	$83,000

In addition, the Company periodically reimburses the non-employee members of the Board of Directors for reasonable expenses incurred in attending meetings of the Board of Directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information with respect to all of the Company's equity compensation plans in effect as of fiscal year ended December 31, 2006.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options warrants and rights	Number of securi remaining availab issuance under eq compensation plan (excluding securi reflected in firs
Equity compensation plans approved by security holders	7,295,000	$0.89	N/A
Equity compensation plans not approved by security holders	-	-	-
Total	7,295,000	$0.89	N/A

Descriptions of the plans are contained in Note 11 to the Consolidated Financial Statements.

SERIES M PREFERRED STOCK OWNED BY MANAGEMENT

As of March 1, 2007, directors and named executive officers, individually and as a group, beneficially owned Series M Preferred Stock as follows:

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Bradley I. Meier*(2)	48,890	48.0%
Norman M. Meier*(3)	53,000	52.0%
Officers and directors as a group (2 persons)(4)	86,890	98.0%

* Director

(1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Series M Preferred Stock of the Company specified opposite his name. Unless otherwise indicated, the mailing address of each shareholder is c/o Universal Insurance Holdings, Inc., 1110 W. Commercial Blvd., Suite 100, Fort Lauderdale, FL 33309.

(2) Consists of (i) 33,890 shares of Series M Preferred Stock and (ii) 15,000 shares of Series M Preferred Stock beneficially owned by Belmer Partners, a Florida General Partnership ("Belmer"), of which Mr. Meier is a general partner. Excludes all shares of Series M Preferred Stock owned by Norman M. Meier and Phylis R. Meier, Mr. Meier's father and mother, respectively, as to which Mr. Meier disclaims beneficial ownership.

(3) Consists of (i) 38,000 shares of Series M Preferred Stock and (ii) 15,000 shares of Series M Preferred Stock beneficially owned by Belmer, of which Mr. Meier is a general partner. Excludes all shares of Series M Preferred Stock owned by Bradley I. Meier and Phylis R. Meier, Mr. Meier's son and former spouse, respectively, as to which Mr. Meier disclaims beneficial ownership.

(4) See footnotes (1) - (3) above.

SERIES A PREFERRED STOCK OWNED BY MANAGEMENT

As of March 1, 2007, directors and named executive officers, individually and as a group, beneficially owned Series A Preferred Stock as follows:

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Norman M. Meier* (2)	9,975	20%
Officers and directors as a group (1 person) (3)	9,975	20%

* Director

(1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Series M Preferred Stock of the Company specified opposite his name. Unless otherwise indicated, the mailing address of each shareholder is c/o Universal Insurance Holdings, Inc., 1110 W. Commercial Blvd., Suite 100, Fort Lauderdale, FL 33309.

(2) Consists of 9,975 shares of Series A Preferred Stock beneficially owned by Belmer, of which Mr. Meier is a general partner. Excludes all shares of Series A Preferred Stock owned by Phylis R. Meier, Mr. Meier's former spouse, as to which Mr. Meier disclaims beneficial ownership.

(3) See footnotes (1)-(2) above.

COMMON STOCK OWNED BY MANAGEMENT

As of March 1, 2007, directors and Named Executive Officers, individually and as a group, beneficially owned Common Stock as follows:

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class
Bradley I. Meier (3)	22,497,335	59.1%
Sean P. Downes (4)	4,226,121	11.1%
Norman M. Meier (5)	504,246	1.3%
Reed J. Slogoff (6)	290,000	.8%
Joel M. Wilentz (7)	290,000	.8%
James M. Lynch (8)	290,807	.8%
Ozzie A. Schindler (9)	35,000	.1%
Officers and directors as a group (7 people) (10)	28,800,400	74.0%

(1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Common Stock of the Company specified opposite his name. Unless otherwise indicated, the mailing address of each shareholder is c/o Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309.

(2) A person is deemed to be the beneficial owner of Common Stock that can be acquired by such person within 60 days of the date hereof upon the exercise of warrants or stock options or conversion of Series A Preferred Stock, Series M Preferred Stock or convertible debt. Except as otherwise specified, each beneficial owner's percentage ownership is determined by assuming that warrants, stock options, Series A Preferred Stock, Series M Preferred Stock and convertible debt that is held by such person (but not those held by any other person) and that are exercisable or convertible within 60 days from the date hereof, have been exercised or converted.

(3) Includes (i) options to purchase an aggregate of 3,645,000 shares of Common Stock; (ii) 169,450 shares of Common Stock issuable upon conversion of Series M Preferred Stock; (iii) an aggregate of 331,761 shares of Common Stock (including shares of Common Stock issuable upon exercise of warrants and conversion of Series A and Series M Preferred Stock) beneficially owned by Belmer, of which Mr. Meier is a general partner; and (iv) the following shares of Common Stock which are subject to proxies granting voting power to Mr. Meier: (A) 333,792 shares owned

shares owned by Phylis Meier, Mr. Meier's mother, (B) 504,246 shares owned by Norman Meier, Mr. Meier's father, (C) an additional 207,916 shares over which Mr. Meier has voting power, and (D) options to purchase an aggregate of 1,115,000 shares of Common Stock owned by Norman Meier, Mr. Meier's father, which are subject to a proxy granting voting power to Mr. Meier. Mr. Meier no longer holds a proxy to vote an aggregate of 666,891 shares held by Lynda Meier and Eric Meier, Mr. Meier's sister and brother, respectively.

(4) Includes options to purchase an aggregate of 465,000 shares of Common Stock.

(5) Includes (i) 214,938 shares of Common Stock issuable upon conversion of Series A and Series M Preferred Stock, and (ii) an aggregate of 331,761 shares of Common Stock (including shares of Common Stock issuable upon exercise of warrants and conversion of Series A and Series M Preferred Stock) beneficially owned by Belmer, of which Norman Meier is a general

partner. Excludes (i) all securities owned by Bradley I. Meier or Phyllis Meier, Norman Meier's son and former spouse, respectively, as to which Norman Meier disclaims beneficial ownership, and (ii) all securities owned by Norman Meier for which Norman Meier has granted voting power to his son, Bradley Meier.

(6) Includes options to purchase an aggregate of 230,000 shares of Common Stock, of which 50,000 are held in a custodial account for Mr. Slogoff's minor son.

(7) Includes options to purchase an aggregate of 240,000 shares of Common Stock.

(8) Includes options to purchase an aggregate of 215,000 shares of Common Stock.

(9) Consists of an option to purchase 35,000 shares of Common Stock.

(10) See footnotes (1) - (9) above.

SERIES M PREFERRED STOCK HELD BY OTHERS

As of March 1, 2007, the following table sets forth information regarding the number and percentage of Series M Preferred Stock held by all persons, other than those persons listed immediately above, who are known by the Company to beneficially own or exercise voting or dispositive control over 5% or more of the Company's outstanding Series M Preferred Stock:

Name and Address (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Phyllis R. Meier (2) Universal Insurance Holdings, Inc. 1110 West Commercial Boulevard Fort Lauderdale, Florida 33309	16,800	18.9%
Belmer Partners (3) c/o Phyllis R. Meier Managing General Partner Universal Insurance Holdings, Inc. 1110 West Commercial Boulevard Fort Lauderdale, Florida 33309	15,000	16.9%

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(1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Series M Preferred Stock specified opposite her or its name.

(2) Consists of (i) 1,800 shares of Series M Preferred Stock and (ii) 15,000 shares of Series M Preferred Stock beneficially owned by Belmer, of which Ms. Meier is the managing general partner. Excludes all securities owned by Bradley I. Meier and Norman M. Meier, the son and former spouse, respectively, as to which Ms. Meier disclaims beneficial ownership.

(3) Belmer Partners is a Florida general partnership in which Phylis R. Meier is managing general partner and Bradley I. Meier and Norman M. Meier are general partners.

SERIES A PREFERRED STOCK HELD BY OTHERS

As of March 1, 2007, the following table sets forth information regarding the number and percentage of Series A Preferred Stock held by all persons, other than those persons listed immediately above, who are known by the Company to beneficially own or exercise voting or dispositive control over 5% or more of the Company's outstanding Series A Preferred Stock:

Name and Address (1)	Amount and Nature of Beneficial Ownership	Percent of Class
Phyllis R. Meier (2) Universal Insurance Holdings, Inc. 1110 West Commercial Boulevard Fort Lauderdale, Florida 33309	9,975	20.0%
Belmer Partners (3) c/o Phyllis R. Meier Managing General Partner Universal Insurance Holdings, Inc. 1110 West Commercial Boulevard Fort Lauderdale, Florida 33309	30,000	60.0%

(1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Series A Preferred Stock specified opposite her or its name.

(2) Consists of 9,975 shares of Series A Preferred Stock beneficially owned. Excludes all shares of Series A Preferred Stock owned by Norman M. Meier, Ms. Meier's former spouse, as to which Ms. Meier disclaims beneficial ownership.

(3) Belmer Partners is a Florida general partnership in which Phylis R. Meier is managing general partner and Bradley I. Meier and Norman M. Meier are general partners.

COMMON STOCK HELD BY OTHERS

As of March 1, 2007, the following table sets forth information regarding the number and percentage of Common Stock held by all persons, other than those persons listed immediately above, who are known by the Company to beneficially own or exercise voting or dispositive control over 5% or more of the Company's outstanding Common Stock:

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Name and Address (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class
Martin Steinberg, Esq., as the receiver for Lancer Offshore Inc. (3) c/o David E. Wells, Esq. Hunton & Williams LLP 1111 Brickell Avenue, Suite 2500 Miami, FL 33131	6,518,004	17.1 %

(1) Unless otherwise indicated, the Company believes that each person has

sole voting and investment rights with respect to the shares of Common Stock of the Company specified opposite its name.

(2) A person is deemed to be the beneficial owner of Common Stock that can be acquired by such person within 60 days of the date hereof upon the exercise of warrants or stock options or conversion of Series A and Series M Preferred Stock or convertible debt. Except as otherwise specified, each beneficial owner's percentage ownership is determined by assuming that warrants, stock options, Series A and Series M Preferred Stock and convertible debt that are held by such a person (but not those held by any other person) and that are exercisable within 60 days from the date hereof, have been exercised or converted.

(3) Consists of 6,518,004 shares of Common Stock as indicated on Schedule 13D dated July 10, 2003 filed with the Securities and Exchange Commission on March 5, 2004.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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, COO and Senior Vice President of the Company. During 2006 and 2005, the Company expensed claims adjusting fees of $829,208 and $1,075,188, respectively, to Downes and Associates.

During 2005, Sean P. Downes filed a claim on his homeowners' policy issued by UPCIC as a result of damage incurred during Hurricane Wilma. UPCIC handled the claim in the ordinary course of its business and made a loss payment to Mr. Downes in the amount of $214,409.

In July 2004, the Company borrowed monies from a private investor in the amount of $175,000 for working capital. In August 2005, this individual's son, Michael P. Moran, became UPCIC's Vice President of Claims. The loan was paid off in January 2006.

Transactions between the Company and its affiliates are on terms no less favorable to the Company than can be obtained from third parties on an arms' length basis. Transactions between the Company and any of its executive officers or directors require the approval of a majority of disinterested directors.

ITEM 13. EXHIBITS

EXHIBITS

3.1 Registrant's Restated Amended and Restated Certificate of Incorporation (1)

3.2 Registrant's Amended and Restated Bylaws (2)

3.3 Certificate of Designation for Series A Convertible Preferred Stock dated October 11, 1994 (5)

3.4 Certificate of Designations, Preferences, and Rights of Series M Convertible Preferred Stock dated August 13, 1997 (3)

3.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation dated October 19, 1998 (5)

3.6	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 18, 2000 (5)
3.7	Certificate of Amendment of Certificate of Designations of the Series A Convertible Preferred Stock dated October 29, 2001 (5)
4.1	Form of Common Stock Certificate (1)
4.2	Form of Warrant Certificate (1)
4.3	Form of Warrant Agency Agreement (1)
4.4	Form of Underwriter Warrant (1)
4.5	Affiliate Warrant (1)
4.6	Form of Warrant to purchase 100,000 shares of Common Stock at an exercise price of $2.00 per share issued to Steven Guarino dated as of April 24, 1997. (Substantially similar in form to two additional warrants to purchase 100,000 shares of Common Stock issued to Mr. Guarino dated as of April 24, 1997, with exercise prices of $2.75 and $3.50 per share, respectively) (3)
10.1	Registrant's 1992 Stock Option Plan (1)
10.2	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (1)
10.5	Management Agreements by and between Universal Property & Casualty Insurance Company and Universal P&C Management, Inc. dated as of June 2, 1997 (3)
10.6	Employment Agreement dated as of May 1, 1997 between Universal Heights, Inc. and Bradley I. Meier (3)
10.7	Employment Agreement dated as of October 11, 2006 between Universal Insurance Holdings, Inc. and James M. Lynch filed herewith
11.1	Statement Regarding Computation of Per Share Income
14.1	Code of Business Conduct and Ethics
16.1	Letter on change in certifying accountants from Millward & Co. CPA's dated February 12, 1999, and as amended February 26, 1999 (5)
16.2	Letter on change in certifying accountants from Deloitte & Touche LLP dated October 7, 2002(6)
16.3	Letter on change in certifying accountants from Deloitte & Touche LLP dated March 27, 2003(7)
21	List of Subsidiaries
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications 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 Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2007

(3) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the year ended April 30, 1997 filed with the Securities and Exchange Commission on August 13, 1997, as amended

(4) Incorporated by reference to the Registrant's Current Report on Form 8-K and Current Report on Form 8-K/A, filed with the Securities and Exchange Commission on February 12, 1999 and February 26, 1999, respectively

(5) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2002 filed with the Securities and Exchange Commission on April 9, 2003

(6) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 7, 2002

(7) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 2, 2003

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

AUDIT FEES

Audit fees for the fiscal years ended December 31, 2006 and December 31, 2005 were $260,000 and $176,000, respectively.

AUDIT RELATED FEES

Audit related fees for the fiscal years ended December 31, 2006 and December 31, 2005 were $0.

TAX FEES

Tax fees for the fiscal years ended December 31, 2006 and December 31, 2005 were $33,500 and $31,500, respectively.

ALL OTHER FEES

All other fees for products and services provided by the Company's principal accountant for the fiscal years ended December 31, 2006 and December 31, 2005 were $0.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF THE INDEPENDENT AUDITOR

All audit related services were pre-approved by the Audit Committee, which concluded that the provision of such services by Blackman Kallick Bartelstein LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report on Form 10-KSB/A to be signed on its behalf by the undersigned, hereunto duly authorized.

UNIVERSAL INSURANCE HOLDINGS, INC.

Dated: August 24, 2007 By: /s/ Bradley I. Meier

Bradley I. Meier, President and Chief Executive Officer

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Universal Insurance Holdings, Inc.
Fort Lauderdale, Florida

We have audited the accompanying consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the

Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Insurance Holdings, Inc. and Subsidiaries as of December 31, 2006, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective January 1, 2006.

/s/ Blackman Kallick Bartelstein LLP

Chicago, Illinois
March 30, 2007

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2006

ASSETS

Cash and cash equivalents	$ 232,890,297
Real estate, net	3,253,064
Reinsurance recoverables	209,757,903
Premiums and other receivables, net	24,294,652
Deferred policy acquisition costs, net	2,106,116
Property and equipment, net	618,912
Deferred income taxes	8,671,756
Other assets	17,724
Total assets	$ 481,610,424

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:	
Unpaid losses and loss adjustment expenses	$ 49,564,514

Unearned premiums	230,346,266
Accounts payable	2,726,049
Reinsurance payable	102,857,079
Federal and state income taxes payable	14,969,270
Dividends payable	1,902,855
Other accrued expenses	15,285,829
Other liabilities	4,529,100
Loans payable	12,324,278
Long-term debt	25,057,266
Total liabilities	459,562,506
COMMITMENTS AND CONTINGENCIES (Notes 12-13)	
STOCKHOLDERS' EQUITY:	
Cumulative convertible preferred stock, $.01 par value, 1,000,000 shares authorized, 138,640 shares issued and outstanding, minimum liquidation preference of $1,419,700	1,387
Common stock, $.01 par value, 50,000,000 shares authorized, 38,057,103 shares issued and 34,948,458 shares outstanding	380,572
Common stock in treasury, at cost - 208,645 shares	(101,820)
Common stock held in trust, at cost - 2,900,000 shares (Note 11)	(2,349,000)
Additional paid-in capital	18,726,387
Retained earnings	5,390,392
Total stockholders' equity	22,047,918
Total liabilities and stockholders' equity	$ 481,610,424

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ende	
	December 31, 2006	Dece
PREMIUMS EARNED AND OTHER REVENUES:		
Direct premiums written	$ 371,754,514	$
Ceded premiums written	(230,718,709)	(
Net premiums written	141,035,805	
Increase in unearned premiums	(86,899,853)	
Premiums earned net	54,135,952	
Net investment income	3,986,414	
Commission revenue	6,714,511	
Other revenue	310,873	
Total premiums earned and other revenues	65,147,750	

OPERATING COSTS AND EXPENSES		
Losses and loss adjustment expenses, net	24,940,879	
General and administrative expenses	13,485,562	
Total operating costs and expenses	38,426,441	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	$ 26,721,309	$
Income taxes, current	17,541,697	
Income taxes, deferred	(8,064,457)	
Income taxes, net	9,477,240	
INCOME FROM CONTINUING OPERATIONS	$ 17,244,069	$
DISCONTINUED OPERATIONS:		
Loss from discontinued operations	(93,136)	
Provision for income tax expense	35,927	
Total loss from discontinued operations	(57,209)	
NET INCOME	$ 17,186,860	$
INCOME PER COMMON SHARE:		
Basic income from continuing operations	$ 0.50	$
Basic income from discontinued operations	$ -	$
Basic net income per share	$ 0.50	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-BASIC	34,409,415	
INCOME PER COMMON SHARE		
Diluted income from continuing operations	$ 0.44	$
Diluted income from discontinued operations	$ -	$
Diluted net income per share	$ 0.44	$
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-DILUTED	39,078,643	
CASH DIVIDEND DECLARED PER COMMON SHARE	$ 0.18	$

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years Ended December 31, 2006		December 31, 2005	
	Shares	Amount	Shares	Amount
PREFERRED STOCK				
Balance, beginning of period	138,640	$ 1,387	138,640	$ 1,387
Balance, end of period	138,640	1,387	138,640	1,387
COMMON STOCK				
Balance, beginning of period	36,463,219	315,037	34,408,775	294,493
Issuance of common stock	1,593,884	65,535	2,054,444	20,544
Balance, end of period	38,057,103	380,572	36,463,219	315,037
TREASURY STOCK				
Balance, beginning of period	208,645	(101,820)	208,645	(101,820)
Balance, end of period	208,645	(101,820)	208,645	(101,820)
STOCK GRANTOR TRUST				
Balance, beginning of period	2,900,000	(2,349,000)	2,900,000	(2,349,000)
Balance, end of period	2,900,000	(2,349,000)	2,900,000	(2,349,000)
ADDITIONAL PAID-IN CAPITAL				
Balance, beginning of period		17,504,331		17,434,407
Issuance of common stock		1,222,056		69,924
Balance, end of period		18,726,387		17,504,331
MINORITY INTEREST				
Balance, beginning of period		35,000		-
Net income (loss) attributable to minority interest		4,421		(4,421)
Minority interest		(39,421)		39,421
Balance, end of period		-		35,000
RETAINED EARNINGS (ACCUMULATED DEFICIT)				
Balance, beginning of period		(5,488,807)		(11,949,875)
Net income attributable to retained earnings (Accumulated Deficit)		17,182,439		6,511,018
Preferred stock dividend		(49,950)		(49,950)
Common stock dividend		(6,253,290)		-
Balance, end of period		5,390,392		(5,488,807)
Total stockholders' equity		$ 22,047,918		$ 9,916,128

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2006	Year En December 31
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 17,186,860	$ 6,506
Adjustments to reconcile net income to cash provided by operations:		
Amortization and depreciation	373,533	377
Issuance of common stock as compensation	1,238,338	90
Net change in assets and liabilities relating to operating activities:		
Reinsurance recoverable	(87,820,035)	(34,464
Premiums and other receivables	(19,238,882)	(4,956
Allowance for doubtful accounts	568,766	
Deferred taxes	(8,064,457)	(607
Deferred acquisition costs, net	(2,106,116)	
Other assets	925,946	31
Reinsurance payable	58,404,726	21,379
Deferred ceding commission	(1,043,544)	1,043
Other liabilities	3,521,271	525
Accounts payable	1,846,604	(2,104
Taxes payable	15,285,828	
Other accrued expenses	10,340,148	3,024
Unpaid losses and loss adjustment expenses	(17,435,442)	9,128
Unearned premiums	179,456,261	27,000
Net cash provided by operating activities - continuing operations	153,439,805	26,974
Net cash used in operating activities - discontinued operations	(55,596)	
Net cash provided by operating activities	153,384,209	26,974
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(36,706)	(302
Building improvements	(230,936)	(1,514
Net cash used in investing activities - continuing operations	(267,642)	(1,817
Net cash provided by investing activities - discontinued operations	51,524	
Net cash used in investing activities	(216,118)	(1,817

CASH FLOWS FROM FINANCING ACTIVITIES:

Preferred stock dividend	(49,950)	(49
Common stock dividend	(4,505,867)	
Issuance of common stock	49,251	
Payments on loans payable	(770,543)	(591
Proceeds from loans payable	37,000,000	1,039
Minority interest	(39,421)	39
Net cash provided by financing activities - continuing operations	31,683,470	437
Net cash provided by financing activities	31,683,470	437
NET INCREASE IN CASH AND CASH EQUIVALENTS	184,851,561	25,595
CASH AND CASH EQUIVALENTS, Beginning of year	48,038,736	22,443
CASH AND CASH EQUIVALENTS, End of year	$ 232,890,297	$ 48,038

The accompanying notes are an integral part of the consolidated financial statements.

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

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

NATURE OF OPERATIONS

Universal Insurance Holdings, Inc. (the "Company") was originally incorporated as Universal Heights, Inc. in Delaware in November 1990. The Company changed its name to Universal Insurance Holdings, Inc. on January 12, 2001. The Company, through its wholly owned subsidiary, Universal Insurance Holding Company of Florida, formed Universal Property & Casualty Insurance Company ("UPCIC") in 1997.

To conform to the 2006 presentation, certain amounts in the prior year's consolidated financial statements and notes have been reclassified.

INSURANCE OPERATIONS

UPCIC's application to become a Florida licensed property and casualty insurance company was filed in May 1997 with the Florida Office of Insurance Regulation ("OIR") and was approved on October 29, 1997. In 1998, UPCIC began operations through the acquisition of homeowner insurance policies issued by the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"). The JUA was established in 1992 as a temporary measure to provide insurance coverage for individuals who could not obtain coverage from private carriers because of the impact on the private insurance market of Hurricane Andrew in 1992. Rather than serving as a temporary source of emergency insurance coverage as was originally intended, the JUA became a major provider of original and renewal insurance coverage for Florida residents. In an attempt to reduce the number of policies in the JUA, and thus the exposure of the program to liability, the

Florida legislature approved a number of initiatives to depopulate the JUA, which resulted in policies being acquired by private insurers and provided additional incentives to private insurance companies to acquire policies from the JUA.

On December 4, 1997, the Company raised approximately $6,700,000 in a private offering with various institutional and/or otherwise accredited investors pursuant to which the Company issued, in the aggregate, 11,208,996 shares of its common stock at a price of $.60 per share. The proceeds of this transaction were used partially for working capital purposes and to meet the minimum regulatory capitalization requirements of $5,000,000 required by the Florida Department of Insurance to engage in this type of homeowners' insurance company business.

In February 1998, the Company commenced its insurance business. Since then the Company has developed into a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Universal Risk Advisors, Inc. was incorporated in Florida on July 2, 1998, and became licensed by the Florida Department of Insurance on August 17, 1998 and contracted with UPCIC on September 28, 1998 as the Company's wholly owned managing general agent ("MGA"). Through the MGA, the Company has underwriting and claims authority for UPCIC as well as third-party insurance companies. The MGA seeks to generate revenue through policy fee income and other administrative fees from the marketing of UPCIC and third-party insurance products through the Company's distribution network and UPCIC.

Universal Florida Insurance Agency was incorporated in Florida on July 2, 1998, and Coastal Homeowners Insurance Specialists, Inc. was incorporated in Florida on July 2, 2001, each as wholly owned subsidiaries of Universal Insurance Holdings, Inc. to solicit voluntary business and to generate commission revenue. These entities are a part of the Company's agency operations, which seek to generate income from commissions, premium financing referral fees and the marketing of ancillary services. In addition, Capital Resources Group, LTD. was incorporated in the British Virgin Islands on June 2, 2000 as a subsidiary of the Company to participate in contingent capital products. The Company has also formed a claims adjusting company, Universal Adjusting Corporation, which was incorporated in Delaware on August 9, 1999. Universal Adjusting Corporation currently has claims authority for UPCIC.

ONLINE COMMERCE OPERATIONS

The Company had also formed subsidiaries that specialize in selling insurance and generating insurance leads via the Internet. Tigerquote.com Insurance & Financial Services Group, Inc. ("Tigerquote.com") and Tigerquote.com Insurance Solutions, Inc. were incorporated in Delaware on June 6, 1999 and August 23, 1999, respectively. Tigerquote.com was an Internet insurance lead generating network while Tigerquote.com Insurance Solutions, Inc. was a network of Internet insurance agencies. Insurance agencies had been established in 22 states. None of these agencies are currently active as the Company changed its focus to selling leads to other companies and independent agents. During 2006, the Company decided to discontinue online commerce operations and focus on its core operations.

CORPORATE AND OTHER OPERATIONS

During 2001, the Company formed Tiger Home Services, Inc., which furnished pool services to homeowners until the operation was sold during the second quarter of 2005.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Universal Insurance Holdings, Inc., its wholly owned subsidiary, Universal Property & Casualty Insurance Co. and other wholly owned entities, Atlas Florida Financial Corporation, parent of Sterling Premium Finance Company, Sterling Premium Finance Company, and the Universal Insurance Holdings, Inc. Stock Grantor Trust. All intercompany accounts and transactions have been eliminated in consolidation. The 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. Prior to the Company's decision to discontinue online commerce operations, the Company and its subsidiaries operated principally in two business segments consisting of insurance and online commerce during each period reported in the accompanying consolidated financial statements, based upon management reporting.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company are summarized as follows:

USE OF ESTIMATES. 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 as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company's primary areas of estimate are the recognition of premium revenues, insurance liabilities, deferred policy acquisition costs and reinsurance. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts, after intercompany eliminations, of the Company and its subsidiaries. Prior to being a wholly owned subsidiary of the Company in 2006, Sterling Premium Finance Company, was consolidated in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), CONSOLIDATION OF VARIABLE INTEREST ENTITIES ("FIN 46R"). FIN 46R requires the consolidation of certain entities considered to be variable interest entities ("VIEs"). An entity is considered to be a VIE when it has equity investors who lack the characteristics of having a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE's expected losses if they occur, received a majority of the entity's expected residual returns if they occur, or both.

CASH AND CASH EQUIVALENTS. The Company includes in cash equivalents all short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of three months or less.

PREMIUMS RECEIVABLE. Written premiums are earned into income on a pro rata basis over the policy term. Accordingly, unearned premiums represent the portion of written premiums that is applicable to the unexpired risk. Generally, premiums are collected prior to providing risk coverage, minimizing the Company's exposure to credit risk. The Company performs a policy level evaluation to determine the extent the premiums receivable balance exceeds the unearned premiums balance. The Company then ages this exposure to establish an allowance for doubtful accounts based on prior experience. As of December 31, 2006, the

Company had recorded an allowance for doubtful accounts in the amount of

$568,766.

SECURITIES HELD TO MATURITY. Debt securities which the Company has the intent and ability to hold to maturity are reported at amortized cost, adjusted for amortization of premiums or accretion of discounts and other-than-temporary declines in fair value. The Company had no such securities during 2005 or 2006.

INVESTMENTS IN REAL ESTATE. Investments in real estate are carried at cost less depreciation. Real estate represents a building purchased by UPCIC that the Company uses as its home office. Depreciation is provided on the straight-line basis over twenty-seven-and-one-half years. The Company reviews its real estate annually and whenever changes in circumstances indicate that the carrying amount may not be recoverable.

SECURITIES AVAILABLE FOR SALE. Equity securities are reported at fair value, with unrealized gains and losses reported net of applicable deferred tax as a separate component of stockholders' equity. Realized gains and losses are determined on the specific identification method. The Company had no such securities during 2005 or 2006.

PROPERTY AND EQUIPMENT. Property and equipment is recorded at cost. Depreciation is provided on the straight-line basis over the estimated useful life of the assets. Estimated useful life of all property and equipment ranges from three to five years. Routine repairs and maintenance are expensed as incurred. Website development costs are capitalized and amortized over their estimated useful life. The Company reviews its property and equipment annually and whenever changes in circumstances indicate that the carrying amount may not be recoverable.

RECOGNITION OF PREMIUM REVENUES. Property and liability premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS. In the event policyholders cancel their policies, unearned premiums represent amounts that UPCIC would refund policyholders. Accordingly, 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 owed over the life of each policy. As of December 31, 2006, the Company has direct unearned premiums of $230,346,266.

RECOGNITION OF COMMISSION REVENUE. Commission revenue, which is comprised of the MGA's policy fee income on all new and renewal insurance policies and commissions generated from agency operations is recognized as income upon policy inception. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS.

RECOGNITION OF TRANSACTION FEE REVENUE. Transaction fee revenue, which is comprised of revenue from the selling of insurance leads is recognized as income upon sale of the lead. Effective November 2004, for most customers payment was required in advance of distribution of the leads. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS.

DEFERRED POLICY ACQUISITION COSTS. Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business, net of reinsurance commissions, are deferred and amortized over the terms of the policies or reinsurance treaties to which they are related.

INSURANCE LIABILITIES. Unpaid losses and loss adjustment expenses ("LAE") are provided for as claims are incurred. The provision for unpaid losses and loss adjustment expenses includes: (1) the accumulation of individual case estimates for claims and claim adjustment expenses reported prior to the close of the accounting period; (2) estimates for unreported claims based on industry data; and (3) estimates of expenses for investigating and adjusting claims based on the experience of the Company and the industry.

Inherent in the estimates of ultimate claims are expected trends in claim severity, frequency and other factors that may vary as claims are settled. The amount of uncertainty in the estimates for casualty coverage is significantly affected by such factors as the amount of claims experience relative to the development period, knowledge of the actual facts and circumstances and the amount of insurance risk retained. In the case of UPCIC, this uncertainty is compounded by UPCIC's limited history of claims experience. In addition, UPCIC's policyholders are currently concentrated in South Florida, which is periodically subject to adverse weather conditions, such as hurricanes and tropical storms.

The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings.

PROVISION FOR PREMIUM DEFICIENCY. It is the Company's policy to evaluate and recognize losses on insurance contracts when estimated future claims and maintenance costs under a group of existing contracts will exceed anticipated future premiums. No accrual for premium deficiency was considered necessary as of December 31, 2006.

REINSURANCE. In the normal course of business, the Company seeks to reduce the risk of 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 provisions of the reinsurance agreement and consistent with the establishment of the liability of the Company.

INCOME TAXES. Income tax provisions are based on the asset and liability method. Deferred federal and state income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, net of valuation allowance. The Company reviews its deferred tax assets for recoverability. At December 31, 2006, the Company determined that the benefit of its deferred tax assets was fully realizable and, therefore, no valuation allowance was recorded.

INCOME (LOSS) PER SHARE OF COMMON STOCK. Basic earnings per share is computed by dividing the Company's net income (loss) less cumulative Preferred Stock dividends by the weighted-average number of shares of Common Stock outstanding during the period. Diluted earnings per share is computed by dividing the Company's net income (loss) minus Preferred Stock dividends by the weighted average number of shares of Common Stock outstanding during the period and the impact of all dilutive potential common shares, primarily Preferred Stock, options and warrants. The dilutive impact of stock options and warrants is determined by applying the treasury stock method and the dilutive impact of the Preferred Stock is determined by applying the "if converted" method.

FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS. Statement of Financial Accounting Standards ("SFAS") No. 107, DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, requires disclosure of the estimated fair value of all financial instruments, including both assets and liabilities unless specifically exempted. The Company uses the following methods and assumptions in estimating the fair value of financial instruments.

Cash and cash equivalents: the carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates fair value due to the short-term nature of those items.

Premiums and other receivables, reinsurance recoverables and accounts payable: the carrying amounts reported in the consolidated balance sheet for premiums and other receivables, reinsurance recoverables and accounts payable approximate their fair value due to their short-term nature.

Long-term debt and loans payable are held at carrying value, which approximates fair value as of December 31, 2006.

CONCENTRATIONS OF CREDIT RISK. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, investments, premiums receivable and reinsurance recoverables. Concentrations of credit risk with respect to cash on deposit are limited by the Company's policy of investing excess cash in a money market account and overnight repurchase agreements of US Government and US Government Agency securities with major national banks. These accounts are held by Wachovia Bank, N.A. and SunTrust Banks, Inc. Concentrations of credit risk with respect to premiums receivable are limited due to the large number of individuals comprising the Company's customer base. However, the majority of the Company's revenues are currently derived from products and services offered to customers in Florida, which could be adversely affected by economic downturns, an increase in competition or other environmental changes. In order to reduce credit risk for amounts due from reinsurers, the Company seeks to do business with financially sound reinsurance companies and regularly evaluates the financial strength of all reinsurers used.

STOCK OPTIONS. The Company grants options for a fixed number of shares to employees and outside directors with an exercise price equal to the fair value of the shares as of the grant date. Prior to January 1, 2006 the Company elected to apply Accounting Principles Board ("APB") No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations in accounting for its stock options granted to employees and directors, and SFAS No. 123 ACCOUNTING FOR STOCK-BASED COMPENSATION, for its stock options granted to non-employees. Under APB No. 25, because the exercise price of the Company's employee and director stock options equal the market price of underlying stock on the date of the grant, no compensation expense was recognized. The Company expensed the fair value (determined as of the grant date) of options and warrants granted to non-employees in accordance with SFAS No. 123. SFAS 123 (R) was adopted using the modified prospective transition method. Under this transition method, compensation cost recognized in the periods after adoption includes (i) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006 based on the grant-date fair value estimated in accordance with the original provision of SFAS 123, and (ii) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Results from prior periods have not been restated. As a result of adopting SFAS 123 (R), the Company's income before income taxes and net income for the year ended December 31, 2006 are $24,212 and $15,738 lower, respectively, than if it had continued to account for share-based compensation under APB 25. In addition, during the year ended December 31, 2006, the Company issued common stock valued at $1,102,014 as compensation.

The following table illustrates the effects on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company's stock option plans for all periods presented. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes-Merton option pricing model and amortized to expense over the options' vesting periods.

	Year Ended December 31,2006	December 31, 2005
Net income reported	$ 17,186,860	$ 6,506,597
Add:		
Total stock-based compensation expense included in reported net income, net of related tax effects	15,738	-
Deduct:		
Total stock-based compensation expense determined under fair value based method, net of related tax effects	(15,738)	(32,775)
SFAS No. 123 (R) pro forma net income	$ 17,186,860	$ 6,473,822
Pro forma earnings per share		
Basic	$0.50	$0.20
Fully diluted	$0.44	$0.19
Earnings per share, as reported		
Basic	$0.50	$0.20
Fully diluted	$0.44	$0.19

STATUTORY ACCOUNTING. UPCIC prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida. Effective January 1, 2001, the Office of Insurance Regulation of the State of Florida required that insurance companies domiciled in the State of Florida prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual (the "Manual"), as modified by the Office of Insurance Regulation of the State of

Florida. Accordingly, the admitted assets, liabilities and capital and surplus of UPCIC as of December 31, 2006, and the results of its operations and its cash flow, for the year then ended have been determined in accordance with statutory accounting principles, but adjusted to accounting principles generally accepted in the United States of America (GAAPUSA) for purposes of these financial statements. These principles are designed primarily to demonstrate the ability to meet obligations to policyholders and claimants and, consequently, differ in some respects from GAAPUSA.

NEW ACCOUNTING PRONOUNCEMENTS. SFAS No.123 (Revised 2004), Share-Based Payments, issued in December 2004, is a revision of FASB Statement 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock

Issued to Employees, and its related implementation guidance. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payments transactions. SFAS No. 123 (Revised 2004) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions) with the cost recognized over the period during which an employee is required to provide service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period of the company's first fiscal year that begins on or after December 15, 2005 and the Company adopted the standard in the first quarter of fiscal year 2006.

On March 29, 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. (SAB 107) regarding the Staff's interpretation of SFAS 123(R). This interpretation expresses the views of the Staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and provides the Staff's views regarding the valuation of share-based payments arrangements by public companies. In particular, this SAB provides guidance related to share-based payments transactions with non-employees, the transition from nonpublic to public entity status, valuation methods, the accounting for certain redeemable financial instruments issued under shared-based payments arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payments arrangements, the accounting for income tax effects of share-based payments arrangements upon adoption of SFAS 123(R), the modification of employee share options prior to adoption of SFAS 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123(R). The Company adopted SAB 107 in connection with its adoption of SFAS 123(R).

In May 2005, FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in absence of explicit transition requirements specific to the newly adopted accounting principle. The statement provides guidance for determining whether retrospective application of a change in accounting principle is impracticable. The statement also addresses the reporting of a correction of error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 14, 2005. The Company adopted SFAS No. 154 in the first quarter of 2006. The impact of such adoption did not have an effect on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes -- an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not threshold should be measured in order to determine the tax benefit to be recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on our results of operations, financial position and cash flows.

In September 2006, the FASB issued SFAS No. 157 which redefines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("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 effective for fiscal years beginning after November 15, 2007. The effects of adoption will be 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, SFAS No. 157 is not expected to have a material effect on the results of operations or financial position of the Company.

RECLASSIFICATIONS. Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

NOTE 3 - REINSURANCE

UPCIC's in-force policyholder coverage for windstorm exposures as of December 31, 2006 was approximately $52.0 billion. In the normal course of business, UPCIC also seeks to reduce the risk of 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 policy. Reinsurance premiums, losses and loss adjustment expenses are accounted for on a basis 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 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.

QUOTA SHARE

Effective June 1, 2006, UPCIC entered into a quota share reinsurance treaty and excess per risk agreements with various reinsurers. Under the quota share treaty, through May 31, 2007, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk with a ceding commission equal to 28% of ceded gross written premiums. In addition, the quota share treaty has a limitation for any one occurrence of $25,000,000 and a limitation of $55,000,000 from losses arising out of events that are assigned a catastrophe serial number by the Insurance Services Office, Inc.'s (ISO) Property Claims Services unit. For the year ended December 31, 2005, UPCIC ceded 80% of gross written premiums, losses and loss adjustment expenses during the first five months of 2005 for policies with coverage for wind risk with a ceding commission equal to 28% of ceded gross premiums written versus 55% of policies with coverage for wind risk with a ceding commission equal to 31% of ceded gross premiums written during the remaining seven months of 2005 and the first five months of 2006. Effective December 1, 2005, UPCIC entered into a second quota share reinsurance treaty with one of the reinsurers on the earlier treaty. Under the second quota share treaty, UPCIC ceded an additional 25% of its gross written premiums, losses and loss adjustment expenses for policies with coverage for wind risk with a ceding commission equal to 35% of ceded gross written premiums through May 31, 2006. In addition, the quota share treaties effective June 1, 2005 and December 1, 2005 had a limitation for any one occurrence of $3,000,000.

EXCESS PER RISK

Effective June 1, 2006 through May 31, 2007 and June 1, 2005 through May 31, 2006, 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 $5,200,000 aggregate limit applies to the term of the contract.

Effective June 1, 2006 through May 31, 2007 and June 1, 2005 through May 31, 2006, 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 the contract.

EXCESS CATASTROPHE

UPCIC's excess catastrophe reinsurance agreement provides four layers of excess catastrophe coverage of $46,000,000 in excess of $3,000,000 as of June 1, 2005 as follows:

	First Layer	Second Layer	Third Layer	Fourth Layer
Coverage	$13,000,000 in excess of $3,000,000 each loss occurrence	$9,500,000 in excess of $16,000,000 each loss occurrence	$10,000,000 in excess of $25,500,000 each loss occurrence	$13,500,000 in excess of $35,500,000 each loss occurrence
Deposit premium	$4,290,000	$2,090,000	$1,400,000	$1,012,500
Minimum premium	$3,432,000	$1,672,000	$1,120,000	$810,000
Premium rate -% of total insured value	0.050%	0.024%	0.016%	0.012%

Effective June 1, 2006, UPCIC revised and enhanced its catastrophe reinsurance program. UPCIC's excess catastrophe reinsurance agreement provides three layers of excess catastrophe coverage of $76,000,000 in excess of $25,000,000 as of December 31, 2006 as follows:

	First Layer	Second Layer	Third Layer
Coverage	$32,000,000 in excess of $25,000,000 each each loss occurrence (placed 100%)	$18,000,000 in excess of $57,000,000 each loss occurrence (placed 100%)	$26,000,000 in excess of $75,000,000 each loss occurrence (placed 100%)
Deposit premium (100%)	$14,720,000	$6,210,000	$6,240,000

Minimum premium (100%)	$13,248,000	$5,589,000	$5,616,000
Premium rate -% of total insured value	0.074%	0.031%	0.031%

Loss occurrence is defined as all individual losses directly occasioned by any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event, which occurs in the State of Florida. The contract contains a provision for one reinstatement in the event coverage is exhausted. An additional premium will be calculated pro rata as to amount and 100% as to time.

Effective June 1, 2006 through May 31, 2007, UPCIC purchased a reinstatement premium protection contract which reimburses the Company for its cost to reinstate the catastrophe coverage of $76,000,000 in excess of $25,000,000.

Also, effective June 1, 2006, UPCIC obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of the Company's net retention through three catastrophe events, including hurricanes, as follows:

	2nd Event	2nd/3rd Event	3rd Event	2nd Layer 3rd Event
Coverage	$11,250,000 in excess of $13,750,000 each loss occurrence subject to an otherwise recoverable amount of $11,250,000 (placed 17.5%)	$11,250,000 in excess of $13,750,000 each loss occurrence subject to an otherwise recoverable amount of $11,250,000 (placed 12.5%)	$6,750,000 in excess of $7,000,000 each loss occurrence subject to an otherwise recoverable amount of $13,500,000 (placed 50%)	$11,250,000 in excess of $13,750,000 each loss occurrence subject to an otherwise recoverable amount of $22,500,000 (placed 37.5%)
Deposit premium (100%)	$1,800,000	$3,037,500	$1,012,500	$1,518,750
Minimum premium (100%)	$1,620,000	$2,733,750	$911,250	$1,366,875
Premium rate -% of total insured value	0.009%	0.015%	0.005%	0.00759%

UPCIC also obtained coverage from the Florida Hurricane Catastrophe Fund ("FHCF"), which is administered by the Florida State Board of Administration. Under the reimbursement agreement, FHCF would reimburse the Company, with respect to each loss occurrence during the contract year for 90% of the ultimate loss paid by the Company in excess of the Company's retention plus 5% of the reimbursed losses to cover loss adjustment expenses. A covered event means any one storm declared to be a hurricane by the National Hurricane Center for losses incurred in Florida, both while it is a hurricane and through subsequent downgrades. For the contract year June 1, 2005 to May 31, 2006, FHCF provided coverage of $85,333,000 in excess of $26,827,000. The premium for this coverage was $4,266,662. For the contract year June 1, 2006 to May 31, 2007, the Fund has provided coverage of $217,480,380 in excess of $81,363,626. The premium for this coverage was $15,432,459.

Also at June 1, 2006, the FHCF made available, and the Company obtained, $10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies, such as UPCIC. This particular layer of coverage is $10,000,000 in excess of $3,750,000. The premium for this coverage was $5,000,000.

Amounts recoverable from reinsurers are estimated in accordance with the reinsurance contract. 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.

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

	Year Ended December 31, 2006			Year Ended December 31, 2005		
	PREMIUMS WRITTEN	PREMIUMS EARNED	LOSS AND LOSS ADJUSTMENT EXPENSES	PREMIUMS WRITTEN	PREMIUMS EARNED	LOS AD E
Direct	$ 371,754,514	$ 192,298,253	$ 70,704,156	$ 88,701,123	$ 61,700,978	$
Ceded	(230,718,709)	(138,162,301)	(45,763,277)	(67,094,245)	(45,874,996)	(
Net	$ 141,035,805	$ 54,135,952	$ 24,940,879	$ 21,606,878	$ 15,825,982	$

Other amounts:

	December 31, 2006
Reinsurance recoverable on unpaid losses and loss adjustment expenses	$32,369,503
Reinsurance recoverable on paid losses	13,106,236
Other reinsurance receivables	30,078,990
Prepaid reinsurance premiums	134,203,174
Reinsurance recoverable	$209,757,903
Reinsurance payable	$102,857,079

Reinsurance payable, as of December 31, 2006, has been reduced by $18,912,852 which represents ceding commissions due from reinsurers. 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. UPCIC evaluates the 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.

The Company may also be subject to assessments by Citizens Property Insurance Corporation, the state-run insurer of last resort and the FHCF as a result of operating deficiencies related to windstorm catastrophes. In addition, the Company is subject to assessments by the Florida Insurance Guaranty Association, as a result of other company insolvencies. Under current 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 August 17, 2005 the Board of Governors of Citizens Property Insurance Corporation ("Citizens") authorized the levying of a regular assessment on assessable insurers to recoup the 2004 Plan Year Deficit incurred in the High Risk Account. The assessment is based upon the Company'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 $203,300. Pursuant to Florida statutes, 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. UPCIC completed the recoupment of this assessment in 2006.

On June 12, 2006, the Florida Office of Insurance Regulation ("OIR") ordered an emergency FHCF assessment of 1% of direct premiums written for policies with effective dates beginning January 1, 2007, which the Company will collect from policyholders, as the assessment is to policyholders, not the Company. This assessment was a result of catastrophe losses Florida experienced in 2004 and 2005.

During its meeting on June 16, 2006, the Board of Directors of Florida Insurance Guaranty Association ("FIGA") determined the need for an assessment upon its member companies. FIGA decided on an assessment on member companies of 2% of the Florida net direct premiums for the calendar year 2005. Based on the 2005 net direct premium of $11.2 billion, this would generate approximately $225 million. UPCIC's participation in this assessment totaled $1,772,861. Pursuant to Florida statutes, 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. UPCIC recouped this assessment in 2006.

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 the Company'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 statutes, 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. UPCIC recouped this assessment in 2006.

During its meeting on December 14, 2006 the Board of Directors of FIGA determined the need for an emergency assessment upon its member companies. The 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 premium of $11.2 billion, this would generate approximately $225 million. UPCIC's participation in this assessment totaled $1,772,861. Pursuant to Florida statutes, 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 will be underwriting the recoupment in connection with this assessment in 2007.

NOTE 4 - INVESTMENTS

Major categories of net investment income are summarized as follows:

	Year Ended December 31, 2006	Year Ended December 31, 2005
Investment income on cash and cash equivalents	$ 4,259,399	$ 925,387
Investment expenses	272,985	243,302
Net investment income	$ 3,986,414	$ 682,085

As of December 31, 2006, the Company's investments consisted entirely of cash and cash equivalents with a value of $232,890,297. Cash is comprised of accounts with an aggregate carrying value $205,957,796 as of December 31, 2006, which is primarily invested daily in overnight repurchase agreements of U.S. government and U.S. government agency securities. Cash equivalents is comprised of a money market account with carrying value of $25,432,501 and short-term investment with a carrying value of $1,500,000 on deposit with regulatory authorities.

As of December 31, 2006, the Company had no available-for-sale or held-to-maturity securities.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, as of December 31, 2006, consisted of the following:

Computers	$ 50,041
Furniture	290,147
Automobiles and equipment	261,928
Boat	160,371
Software	668,057
Total cost	1,430,544
Less: Accumulated depreciation and amortization	(811,632)
Property and equipment, net	$ 618,912

Depreciation and amortization of property and equipment was $373,533 and $377,748 during 2006 and 2005, respectively.

Real estate, as of December 31, 2006 consisted of the following:

Land	$ 270,000
Building	1,410,000
Capital Improvements	1,745,164
Total cost	3,425,164
Less: Accumulated depreciation	(172,100)
Real estate, net	$ 3,253,064

Depreciation of real estate was $118,932 and $53,168 during 2006 and 2005, respectively.

NOTE 6 - LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

As described in Note 2, UPCIC establishes liabilities for unpaid losses and loss adjustment expenses on reported and unreported claims of insured losses. These liability estimates are based on known facts and interpretation of factors such as claim payment patterns, loss payments, pending levels of unpaid claims, product mix and industry experience. The establishment of appropriate liabilities, including liabilities for catastrophes, is an inherently uncertain process. This uncertainty is compounded by UPCIC's limited history of claims experience. UPCIC regularly updates its estimates as new facts become known and further events occur which may impact the resolution of unsettled claims.

The level of catastrophe loss experienced in any year cannot be predicted and could be material to results of operations and financial position. UPCIC's policyholders are concentrated in South Florida, which is periodically subject to adverse weather conditions, such as hurricanes and tropical storms. During 2006, the Company did not experience any catastrophic events. During 2005, Florida experienced three windstorms catastrophes (Hurricanes Dennis, Katrina and Wilma) which resulted in losses. During 2004, Florida experienced four windstorm catastrophes (Hurricanes Charley, Frances, Ivan, and Jeanne) which resulted in losses. UPCIC's in-force policyholder coverage for windstorm exposures as of December 31, 2006 was approximately $52 billion. UPCIC continuously evaluates alternative business strategies to more effectively manage its exposure to catastrophe losses, including the maintenance of catastrophic reinsurance coverage as discussed in Note 3.

Management believes that the liabilities for claims and claims expense as of December 31, 2006 are appropriately established in the aggregate and adequate to cover the ultimate cost of reported and unreported claims arising from losses which had occurred by that date. However, if losses exceeded direct loss reserve estimates there could be a material adverse effect on the Company's financial statements. Also, if there are regulatory initiatives, legislative enactments or case law precedents which change the basis for policy coverage, in any of these events, there could be an effect on direct loss reserve estimates having a material adverse effect on the Company's financial statements.

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	Year Ended December 31, 2006	Year Ended December 31, 2005

Balance at beginning of year	$ 66,999,956	$ 57,871,952
Less reinsurance recoverable	(60,859,231)	(56,292,041)
Net balance at beginning of year	6,140,725	1,579,911
Incurred related to:		
Current year	9,246,922	7,048,934
Prior years	15,693,957	2,549,050
Total incurred	24,940,879	9,597,984
Paid related to:		
Current year	4,453,684	3,821,743
Prior years	9,432,910	1,215,427
Total paid	13,886,594	5,037,170
Net balance at end of year	17,195,010	6,140,725
Plus reinsurance recoverable	32,369,504	60,859,231
Balance at end of year	$ 49,564,514	$ 66,999,956

The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2006 were increased in the current year by $15,693,957 for claims that had occurred on or before the prior year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2005 were increased during 2005 by $2,549,050 for claims that had occurred on or before the previous year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. There can be no assurance that the Company's unpaid losses and LAE will not develop redundancies or deficiencies and possibly differ materially from the Company's unpaid losses and LAE as of December 31, 2006. In the future, if the unpaid losses and LAE develop redundancies or deficiencies, such redundancy or deficiency would have a positive or adverse impact, respectively, on future results of operations.

NOTE 7 - LOANS PAYABLE

During 2003, the Company purchased software for $520,000. Management believes the software will assist it in reducing overall management expenses versus the previous outside vendor agreement. The final installment payment on the software of $150,000 was paid in March 2005.

Loans payable as of December 31, 2006 also consists of the following bank loans secured by the respective assets: a boat loan for $65,549 principal due in May 2011, with interest paid monthly at 8.8%, and several vehicle loans totaling $16,015 principal due from January 2005 to March 2008, with interest paid monthly ranging from 5.6% to 10%. Other loans with vendors and private investors amounted to $37,300,000 as of December 31, 2006. Loans with vendors and private investors are primarily short-term loans utilized for working capital. As noted in "Management's Discussion and Analysis--Liquidity and Capital Resources," two promissory notes from two private investors with an aggregate remaining principal balance of $300,000 are guaranteed under a financial protection contract. In addition, the Company granted certain vendors and private investors warrants in connection with the short-term loans (see Note 11).

On November 9, 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration under Florida's Insurance Capital Build-Up Incentive Program. Given the proximity of the loan origination date to the balance sheet date, the carrying value of the note deemed to approximate its fair value as of December 31, 2006. Under the program. which was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the State Board of Administration 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 $62 million. Under Florida law, the current surplus will allow UPCIC to write up to approximately $600 million in gross written premiums in the 2007 calendar year.

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 Florida Insurance Regulation.

An event of default will occur under the surplus note if UPCIC: (i) defaults in the payment of the surplus note; (ii) fails to meet at least a 2:1 ratio of net premium to surplus ("Minimum Writing Ratio") requirement by June 1, 2007; (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; or (vii) pays any dividend when principal or interest payments are past due under the surplus note. As of December 31, 2006, the Company is in compliance with each of the aforementioned loans covenants.

If UPCIC fails to increase its writing ratio for two consecutive quarters prior to June 1, 2007, fails to obtain the 2:1 Minimum Writing Ratio by June 1, 2007, or drops below the 2:1 Minimum Writing Ratio once it is obtained for two consecutive quarters, the interest rate on the surplus note will increase during such deficiency by 25 basis points if the resulting writing ratio is between 1.5:1 and 2:1 and the interest rate will increase by 450 basis points if the writing ratio is below 1.5:1. If the writing ratio remains below 1.5:1 for three consecutive quarters after June 1, 2007, UPCIC must repay a portion of the surplus note so that the Minimum Writing Ratio will be obtained for the following quarter. The Company expects to maintain the 2:1 Minimum Writing Ratio throughout the term of the surplus note.

To meet its matching obligation under the Insurance Capital Build-Up Incentive 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 will accrue at the market rate of 12.75% per annum. The outstanding principal is 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. Given the short duration of the note, the carrying value was deemed to approximate its fair value as of December 31, 2006. 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 year beginning on June 1, 2007. As of March 30, 2007, all amounts due on the Note have been paid.

Loan repayments are due as follows as of December 31, 2006:

2007	$12,324,278
2008	15,334
2009	14,118
2010	1,007,968
2011	1,050,826
Thereafter	22,969,020
	$37,381,544

Interest expense was $412,729 and $37,228 for the twelve months ended December 31, 2006 and 2005, respectively.

NOTE 8 - REGULATORY REQUIREMENTS AND RESTRICTIONS

UPCIC is subject to comprehensive regulation by the OIR. The Florida Insurance Code (the "Code") requires that UPCIC maintain minimum statutory surplus of $4,000,000. UPCIC is also required to adhere to prescribed premium-to-surplus ratios under the Code and to maintain approved securities on deposit with the state of Florida. UPCIC's statutory surplus as of December 31, 2006 is $62,018,676. During 2005 and 2006, UPCIC did not pay dividends to the Company.

The maximum amount of dividends which can be paid by Florida insurance companies without prior approval of the Florida Commissioner 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 10.0% of statutory unassigned capital surplus as of the preceding year end. During 2005 and 2006, UPCIC did not pay dividends to the Company.

NOTE 9 - 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, and unaffiliated third parties. Claims adjusting functions are performed by Universal Adjusting Corporation, a wholly owned subsidiary of the Company and unaffiliated third parties.

Downes and Associates, Inc., a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates, Inc. is owned by Dennis Downes, who is the father of Sean P. Downes, COO and Senior Vice President of UPCIC. During 2006 and 2005, the Company expensed claims adjusting fees of $829,208 and $1,075,188, respectively, to Downes and Associates.

During 2005, Sean P. Downes filed a claim on his homeowners' policy issued by UPCIC as a result of damage incurred during Hurricane Wilma. UPCIC handled the claim in the ordinary course of its business and has made a loss payment to Mr. Downes in the amount of $214,409.

In July 2004, the Company borrowed monies from a private investor in the amount of $175,000 for working capital. In August 2005, this individual's son, Michael P. Moran, became UPCIC's Vice President of Claims. The loan was paid off in January 2006.

In September 2006, the Company acquired Sterling Premium Finance Company, Inc. ("Sterling") for the purchase price of $50,000 from the Company's CEO and COO, who joint owned Sterling. The purchase price was equal to Sterling's book value at the time of acquisition.

NOTE 10- INCOME TAX PROVISION

The following table reconciles the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2006 and 2005:

	2006	2005
Statutory federal income tax rate	35.0%	35.0%
Increases (decreases) resulting from:		
Utilization of net operating loss carry forward	0%	(28.5%)
Change in valuation allowance	(6.5%)	(15.6%)
Alternative minimum tax	0%	2.5%
Disallowed executive compensation	2.9%	0%
Disallowed meals & entertainment	.7%	0%
State income tax	6.1%	0%
Other	(2.7%)	(1.0%)
Effective tax rate	35.5%	(7.6)%

Deferred income taxes as of December 31, 2006 are provided for the temporary differences between financial reporting basis and the tax basis of the Company's assets and liabilities under SFAS 109. The tax effects of temporary differences are as follows:

Deferred income tax assets:	
Unearned premiums	$ 7,417,440
Unpaid losses	576,770
Regulatory assessments	785,584
Executive compensation	472,645
Allowance for uncollectible receivables	219,401
Property and equipment	12,351
	9,484,191
Deferred income tax liabilities:	
Deferred policy acquisition costs	(812,435)
Net deferred income tax asset	$ 8,671,756

A valuation allowance is deemed unnecessary as of December 31, 2006 because management believes it is probable that the Company will generate substantial taxable income sufficient to realize the tax benefits associated with the net deferred income tax asset shown above in the near future. A valuation allowance of $607,299 associated with the utilization of net operating loss carryforwards had been recorded as of December 31, 2005.

As of December 31, 2006, the Company has no remaining net operating loss available to carry forward to offset future taxable income.

Included in the income tax is Florida income tax at a rate of 5.5%.

NOTE 11 - STOCKHOLDERS' EQUITY

CUMULATIVE PREFERRED STOCK

Each share of Series A and M Preferred Stock is convertible by the Company into 2.5 shares of Common Stock and 5 shares of Common Stock, respectively, into an aggregate of 568,326 common shares. The Series A Preferred Stock pays a cumulative dividend of $.25 per share per quarter.

STOCK OPTIONS

The Company adopted a 1992 Stock Option Plan (the "Plan") under which new shares of Common Stock are reserved for issuance upon the exercise of the options. The Plan is designed to serve as an incentive for attracting and retaining qualified and competent employees, officers, directors and consultants of the Company. All employees, officers, directors and consultants of the Company or any subsidiary are eligible to participate in the Plan. The Plan does not specify the number of shares for which options are available for grant. The stock options may be granted over a period not to exceed 10 years and generally vest as of the date of grant or upon certain goals attained. The Plan has no provisions for the exercising of options other than paying the cash exercise price.

A summary of the option activity for the years ended December 31, 2006 and 2005 is presented below:

					Options Exercisable	
	Number of Shares	Option Price per Share Low	High	Weighted	Number of Shares	Weig Ave Exer Pr
Outstanding January 1, 2005	8,032,999	$ 0.04	$ 3.88	$ 1.00	8,032,999	$
Cancelled	(517,999)	$ 0.50	$ 3.88	$ 1.66		
Outstanding December 31, 2005	7,515,000	$ 0.04	$ 1.87	$ 0.95	7,515,000	$
Exercised	(220,000)	$ 0.04	$ 0.50	$ 0.08		
Cancelled	(850,000)	$ 1.00	$ 1.25	$ 1.24		
Outstanding December 31, 2006	6,445,000	$ 0.04	$ 1.87	$ 0.91	6,445,000	$

The total intrinsic value of options exercised in 2006 was $9,480. The total cash received in 2006 for the exercise of stock options was $18,000.

The weighted average remaining contractual life on the 6,445,000 options outstanding and exercisable as of December 31, 2006 was 2.4 years. All options are exercisable and fully vested.

There were no options granted in 2006 or 2005.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, such models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

WARRANTS

A summary of the warrant activity for the years ended December 31, 2006 and 2005 is presented below:

		Warrants Exercisable				
	Number of Shares	Warrant Price per Share Low	High	Weighted	Weighted Average Number of Shares	Weig Ave Exer Pr
Outstanding January 1, 2005	3,068,652	$ 0.03	$ 4.25	$ 1.27	3,068,652	$
Granted	200,000	$ 0.05	$ 0.05	$ 0.05		
Cancelled	(1,336,646)	$ 1.00	$ 4.25	$ 2.29		
Outstanding December 31, 2005	1,932,006	$ 0.03	$ 3.00	$ 1.11	1,932,006	$
Exercised	(625,000)	$ 0.05	$ 0.05	$ 0.05		
Cancelled	(457,006)	$ 0.75	$ 3.00	$ 1.20		
Outstanding December 31, 2006	850,000	$ 0.03	$ 1.00	$ 0.72	850,000	$

The total intrinsic value of warrants exercised in 2006 was $24,305. The total cash received in 2006 for the exercise of stock warrants was $31,250.

The weighted average remaining contractual life on the 850,000 options outstanding and exercisable as of December 31, 2006 was 1.9 years. All warrants are exercisable and fully vested.

The actual tax benefit realized for the tax deductions from option and warrant exercise of the share-based payment arrangements totaled $376,747 for the year ended December 31, 2006.

OTHER STOCK ISSUANCES

In February 2006, the Company issued 325,000 shares of restricted Common Stock at a price of $.05 per share to a private investor pursuant to the exercise of warrants to purchase restricted Common Stock. In April 2006, the Company issued 200,000 shares of Common Stock at a price of $.05 per share to a vendor pursuant to the exercise of warrants to purchase restricted Common Stock. Also in April 2006, the Company issued 200,000 shares of restricted Common Stock at a price of $.04 per share to Sean P. Downes, COO of the Company, pursuant to Mr. Downes' exercise of stock options and 123,077 shares of restricted Common Stock at a price of $.93 per share pursuant to Mr. Downes' election to receive such shares in lieu of accrued vacation. Also in April 2006, the Company issued 10,000 shares of restricted Common Stock at a price of $.50 per share to Reed J. Slogoff, a director of the Company, pursuant to the exercise of options to purchase restricted Common Stock. In May 2006, the Company issued 400,000 shares of restricted Common Stock to one employee at $1.23 per share and 25,000 to a second employee at $1.30 per share in conjunction with employment agreements. Also in May 2006, the Company issued 10,000 shares of restricted Common Stock at a price of $.50 per share to an employee of the Company pursuant to the exercise of options to purchase the restricted Common Stock. In June 2006, the Company issued 25,000 shares of restricted Common Stock at a price of $1.52 per share to each of the then outside directors of the Company (Norman M. Meier, Reed Slogoff, and Joel Wilentz) and 200,000 shares of restricted Common Stock at a price of $1.52 per share to Sean P. Downes, COO of the Company, as a bonus. Also in June 2006, the Company issued James M. Lynch, CFO of the Company, 25,807 shares of Common Stock at a price of $1.65 per share as a bonus. 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 OTC Bulletin Board and the shares were issued in private transactions pursuant Section 4(2) of the Securities Act of 1933, as amended.

On October 24, 2006, the Company declared a dividend of $.05 per share on its outstanding Common Stock of the Company to be paid on April 9, 2007 to the shareholders of record of the Company at the close of business on March 19, 2007. The dividend payable amount of $1,902,855 for this dividend is accrued in the December 31, 2006 balance sheet. At December 31, 2006, the Company recorded a dividend payable in the amount of $1,902,855 for this dividend and a net reduction to retained earnings in the amount of $1,747,423, which represents the total dividend net of the dividends on the shares held in treasury stock and in the Stock Grantor Trust described in Note 11 - Stockholders' Equity. During the fourth quarter, the Company paid a dividend of $0.05 per share that was accrued at the end of third quarter. The aggregate amount of the dividend was $1,747,423. During the third quarter, the Company paid a dividend of $0.04 per share of outstanding Common Stock that was accrued at the end of the second quarter. The aggregate amount of the dividend was $1,393,938. During the second quarter, the Company paid a dividend of $0.04 per share of outstanding Common Stock that was accrued at the end of first quarter. The aggregate amount of the dividend was $1,364,506.

At the Company's Annual Meeting of Shareholders held on December 7, 2005, the shareholders voted to amend the Company's certificate of incorporation to increase the number of authorized shares of Common Stock from 40,000,000 to 50,000,000 shares.

STOCK GRANTOR TRUST

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 Company Common Stock. In exchange, the SGT delivered $29,000 and a promissory note to the Company for approximately $2,320,000 which together represents the purchase price of the shares. Amounts owed by the SGT to the Company will be repaid by cash received by the SGT, which will result in the SGT releasing shares to satisfy Company obligations for stock options. The assets of the SGT are subject to the claims of the Company's general creditors under federal and

state law. The consolidated financial statements include the accounts of the SGT. Dividends paid by the Company and received by the SGT on shares of Common Stock held in trust are eliminated in consolidation and shown net in the Consolidated Financial Statements.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENTS

The Company's employment agreement with Mr. Meier is dated as of August 11, 1999. The Company and Mr. Meier have amended the employment agreement, with the most recent amendment dated March 21, 2007 (the employment agreement and the amendments are collectively referred to as the "Meier Agreement"). Under the terms of the Meier Agreement, Mr. Meier will serve as the Company's President and Chief Executive Officer. Mr. Meier received a base salary of $830,324 in 2006, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Meier Agreement, Mr. Meier is entitled to an annual performance bonus equal to three percent (3%) of the pretax income of the Company up to $5 million, and four percent (4%) of the pretax income of the Company in excess of $5 million; provided, however, that any such bonus is contingent upon the Company's shareholders approving such bonus formula. Should the Company's shareholders fail to approve the formula, Mr. Meier forfeits his right to the bonus. Mr. Meier is also eligible for other benefits customarily provided by the Company to its executive employees, and the Meier Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Meier Agreement), the Company shall pay Mr. Meier an amount equal to 48 months base salary, plus two times any bonus paid for the preceding fiscal year. Further, in the event of a Change in Control, all options held by Mr. Meier vest and become immediately exercisable. Also, in the event that the Company terminates the Meier Agreement, the Company shall pay Mr. Meier 48 months total compensation. The Meier Agreement expires on December 31, 2008; however, the agreement is automatically extended each year thereafter unless the Company or Mr. Meier provides written notice that the agreement is being terminated 60 days in advance of the anniversary date of the Meier Agreement.

The Company's employment agreement with Mr. Downes is dated as of January 1, 2005 and provides that Mr. Downes will serve as Chief Operating Officer and Senior Vice President of the Company. The Company and Mr. Downes have amended the employment agreement, with the most recent amendment dated March 21, 2007 (the employment agreement and the amendments are collectively referred to as the "Downes Agreement"). Mr. Downes received a base salary of $527,678 in 2006, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Downes Agreement, Mr. Downes is entitled to an annual performance bonus equal to three percent (3%) of the pre-tax profits of the Company; provided, however, that any such bonus is contingent upon the Company's shareholders approving such bonus formula. Should the Company's shareholders fail to approve the formula, Mr. Downes forfeits his right to the bonus. Under the Downes Agreement, the Company may grant Mr. Downes options or warrants to purchase the Company's Common Stock. Mr. Downes is also eligible for other benefits customarily provided by the Company to its executive employees and the Downes Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Downes Agreement), the Company shall pay Mr. Downes an amount equal to 12 months base salary, plus the annual bonus paid for the preceding fiscal year. Further, in the event of a Change in Control, all options held by Mr. Downes vest and become immediately exercisable. The Downes Agreement expires on December 31, 2008 unless extended in writing by the Company. During the year ended December 31, 2006, Mr. Downes converted bonus and accrued vacation into 323,077 shares of Common Stock. The shares were issued to Mr. Downes in private transactions performed in accordance with the terms of the Downes Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended.

OPERATING LEASE

The Company has leased certain computer equipment and software under a master equipment lease agreement with Relational Funding, Inc. with an original equipment cost of $743,442. The following is a schedule of future minimum rental payments required under the non-cancelable operating lease as of December 31, 2006:

2007	$ 227,076
2008	136,581
2009	32,042
	$ 395,699

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NOTE 13 - LITIGATION

Certain lawsuits have been filed against the Company. In the opinion of management, none of these lawsuits are material and they are all adequately reserved for or covered by insurance or, if not so covered, are without merit or involve such amounts that if disposed of unfavorably would not have a material adverse effect on the Company's financial position or results of operations.

On February 7, 2005, Marty Steinberg as a court appointed receiver for the entities consisting of Lancer Management Group LLC, Lancer Management Group II LLC, Lancer Offshore Inc., Omnifund Ltd., LSPV Inc., LSPV LLC, Alpha Omega Group Inc. and G.H. Associates LLC (collectively the "Lancer Entities") filed suit against Alfred Taubman, Anthony Cullen, British American Racing, Centrack International, Inc., Kuwait & Middle East Financial Investment Co., Liberty International Asset Management, Macroview Investments Limited, Opus Portfolio Ltd., Reva Stocker, Roger Dodger, LLC, Signet Management Limited, Thornhill Group Inc. Trust, World Class Boxing and the Company (collectively the "Defendants") in the United States District Court for the Southern District of Florida. The Company received the notice of suit by mail on September 8, 2005. The suit alleged that the Lancer Entities fraudulently transferred funds to the Defendants and that the transfers unduly enriched the Defendants. The receiver asked the Company to pay $658,108. The Company had no record of the alleged transfers and vigorously defended the suit. The lawsuit has since been dismissed with prejudice by the receiver.

NOTE 14 - EARNINGS PER SHARE

The following table reconciles the numerator (earnings) and denominator (shares) of the basic and diluted earnings per share computations for net income for the years ended December 31, 2006 and 2005.

	For year ended December 31, 2006			For year ended December 31, 200		
	Income Available to Common Stockholders Amount	Shares	Per Share Amount	Income Available to Common Stockholders Amount	Shares	P
Net income	$17,186,860			$ 6,506,597		
Less: Preferred stock dividends	(49,950)			(49,950)		
Income available to common stockholders	17,136,910	34,409,415	$ 0.50	6,456,647	32,807,521	

Effect of dilutive securities:					
Stock options and warrants	-	4,100,903	(0.06)	-	569,793
Preferred stock	49,950	568,325	-	49,950	568,325
Income available to common stockholders and assumed conversion	$17,186,860	39,078,643	$ 0.44	$ 6,506,597	33,945,639

NOTE 15 - SUPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest and income taxes during the years ended December 31, 2006 and 2005 were as follows:

	For the years ended	
	December 31, 2006	December 31, 2005
Interest	178,529	37,228
Income Taxes	2,696,500	80,000

NOTE 16 - SUBSEQUENT EVENTS

On March 15, 2007, the Company declared a dividend of $.07 per share on its outstanding Common Stock of the Company to be paid on August 10, 2007 to the shareholders of record of the Company at the close of business on July 20, 2007. The dividend payable amount is $2,446,392.