UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
November 09, 2010

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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ______________ to ______________

Commission File Number 000-20848

UNIVERSAL INSURANCE HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

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

1110 W. Commercial Blvd., Suite 100, Fort Lauderdale, Florida 33309
(Address of principal executive offices)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 39,166,033 shares of common stock, par value $0.01 per share, outstanding on November 5, 2010.

UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Stockholders of
Universal Insurance Holdings, Inc. and Subsidiaries
Fort Lauderdale, Florida

We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of September 30, 2010 and the related condensed consolidated statements of operations for the nine-month and three-month periods ended September 30, 2010 and 2009 and cash flows for each of the nine-month periods ended September 30, 2010 and 2009. These interim financial statements are the responsibility of the Company's management.

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

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Blackman Kallick LLP

Chicago, Illinois

November 9, 2010

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| ASSETS | (Unaudited) September 30, 2010 | December 31, 2009 |
|---|---|---|
| Cash and cash equivalents | $ 294,972,027 | $ 192,924,291 |
| Investments: | | |
| Trading securities, at fair value | 104,356,012 | - |
| Available-for-sale securities, at fair value | - | 114,797,010 |
| Real estate, net | 4,100,539 | 3,289,893 |
| Prepaid reinsurance premiums | 228,363,400 | 200,294,241 |
| Reinsurance recoverables | 67,336,233 | 91,816,433 |
| Premiums receivable, net | 48,516,258 | 37,363,110 |
| Receivable from securities | 13,061,387 | 6,259,973 |
| Other receivables | 2,805,825 | 5,068,367 |
| Income taxes recoverable | - | 3,211,874 |
| Property and equipment, net | 1,280,798 | 1,245,858 |
| Deferred policy acquisition costs, net | 12,852,849 | 9,464,624 |
| Deferred income taxes | 10,466,570 | 11,894,289 |
| Other assets | 900,239 | 617,337 |
| Total assets | $ 789,012,137 | $ 678,247,300 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Unpaid losses and loss adjustment expenses | $ 136,857,850 | $ 127,197,753 |
| Unearned premiums | 346,304,445 | 278,370,544 |
| Advance premium | 20,957,517 | 17,078,558 |
| Accounts payable | 3,496,095 | 3,172,626 |
| Bank overdraft | 24,778,730 | 20,297,061 |
| Reinsurance payable, net | 67,932,331 | 73,104,595 |
| Income taxes payable | 3,464,260 | 368,968 |
| Payable for securities | 379,473 | - |
| Other accrued expenses | 22,671,787 | 20,750,385 |
| Long-term debt | 23,529,412 | 24,632,353 |
| Total liabilities | 650,371,900 | 564,972,843 |
| | | |
| STOCKHOLDERS' EQUITY: | | |
| Cumulative convertible preferred stock, $.01 par value | 1,077 | 1,087 |
| Authorized shares - 1,000,000 | | |
| Issued shares - 107,690 and 108,640 | | |
| Outstanding shares - 107,690 and 108,640 | | |
| Minimum liquidation preference - $287,240 and $288,190 | | |
| Common stock, $.01 par value | 408,771 | 402,146 |

| | | | | |
|---|---|---|---|---|
| Authorized shares - 55,000,000 | | | | |
| Issued shares - 40,877,088 and 40,214,884 | | | | |
| Outstanding shares - 39,166,033 and 37,774,765 | | | | |
| Treasury shares, at cost - 1,711,054 and 1,809,119 shares | | (7,389,414) | | (7,948,606) |
| Common stock held in trust, at cost - 0 and 631,000 shares | | - | | (511,110) |
| Additional paid-in capital | | 37,568,052 | | 36,666,914 |
| Accumulated other comprehensive income, net of taxes | | 5,437 | | 563,654 |
| Retained earnings | | 108,046,314 | | 84,100,372 |
| Total stockholders' equity | | 138,640,237 | | 113,274,457 |
| Total liabilities and stockholders' equity | $ | 789,012,137 | $ | 678,247,300 |

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | For the Nine Months Ended September 30, 2010 | For the Nine Months Ended September 30, 2009 | For the Three Months Ended September 30, 2010 | For the Three Months Ended September 30, 2009 |
|---|---|---|---|---|
| PREMIUMS EARNED AND OTHER REVENUES | | | | |
| Direct premiums written | $ 520,781,570 | $ 436,610,689 | $ 152,662,238 | $ 134,626,400 |
| Ceded premiums written | (357,411,323) | (328,518,186) | (108,539,124) | (104,152,022) |
| Net premiums written | 163,370,247 | 108,092,503 | 44,123,114 | 30,474,378 |
| (Increase) decrease in net unearned premium | (39,864,743) | (200,377) | 4,708,040 | 2,283,358 |
| Premiums earned, net | 123,505,504 | 107,892,126 | 48,831,154 | 32,757,736 |
| Net investment income | 376,575 | 1,385,007 | 66,004 | 586,525 |
| Realized gains on investments | 11,993,359 | 13,588,681 | 6,249,015 | 12,136,072 |
| Unrealized gains on investments | 8,597,233 | - | 8,597,233 | - |
| Foreign currency transaction gains | 800,990 | 6,156,945 | (8,060) | 6,084,629 |
| Commission revenue | 25,469,318 | 23,413,086 | 7,948,019 | 8,105,468 |
| Other revenue | 3,488,748 | 4,214,347 | 1,468,416 | 1,312,617 |
| Total premiums earned and other revenues | 174,231,727 | 156,650,192 | 73,151,781 | 60,983,047 |
| OPERATING COSTS AND EXPENSES | | | | |
| Losses and loss adjustment expenses | 77,856,730 | 68,695,552 | 29,370,125 | 23,768,729 |
| General and administrative expenses | 43,820,836 | 36,789,168 | 20,242,856 | 18,674,744 |
| Total operating costs and expenses | 121,677,566 | 105,484,720 | 49,612,981 | 42,443,473 |
| INCOME BEFORE INCOME TAXES | 52,554,161 | 51,165,472 | 23,538,800 | 18,539,574 |
| Income taxes, current | 18,980,805 | 16,127,712 | 7,324,661 | 7,178,058 |
| Income taxes, deferred | 1,417,694 | 3,446,852 | 1,769,454 | (153,004) |
| Income taxes, net | 20,398,499 | 19,574,564 | 9,094,115 | 7,025,054 |
| NET INCOME | $ 32,155,662 | $ 31,590,908 | $ 14,444,685 | $ 11,514,520 |
| Basic net income per common share | $ 0.82 | $ 0.84 | $ 0.37 | $ 0.31 |

| | | | | |
|---|---|---|---|---|
| Weighted average of common shares outstanding - Basic | 39,075,571 | 37,601,409 | 39,167,241 | 37,625,013 |
| Fully diluted net income per share | $ 0.80 | $ 0.78 | $ 0.36 | $ 0.28 |
| Weighted average of common shares outstanding - Diluted | 40,386,445 | 40,374,409 | 40,276,276 | 40,671,509 |
| Cash dividend declared per common share | $ 0.22 | $ 0.34 | $ - | $ - |

| | For the Nine Months Ended September 30, | | For the Three Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Comprehensive Income: | | | | |
| Net income | $ 32,155,662 | $ 31,590,908 | $ 14,444,685 | $ 11,514,520 |
| Change in net unrealized (losses) gains on investments, net of tax | (558,217) | 4,590,905 | 408,684 | (3,638,071) |
| Comprehensive Income | $ 31,597,445 | $ 36,181,813 | $ 14,853,369 | $ 7,876,449 |

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(Unaudited)

For the Nine Months Ended September 30, 2010

| | Common Shares | Preferred Stock Shares | Common Stock Amount | Preferred Stock Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Stock Held in Trust | Trea Sto |
|---|---|---|---|---|---|---|---|---|---|
| Balance, Dec. 31, 2009 | 40,214,884 | 108,640 | $402,146 | $1,087 | $36,666,914 | $84,100,372 | $563,654 | $(511,110) | $(7,94 |
| Common shares issued | 1,900,207 | | 19,002 | | 1,858,078 | | | | (4,71 |
| Preferred stock conversion | 1,187 | (950) | 12 | (10) | (2) | | | | |
| Release of shares from SGT | | | | | 939,900 | | | 511,110 | (2,32 |
| Retirement of treasury shares | (1,239,190) | | (12,389) | | (7,591,863) | | | | 7,60 |
| Stock compensation plans | | | | | 1,766,346 | | | | |
| Net income | | | | | | 32,155,662 | | | |
| Excess tax benefits from stock-based compensation | | | | | 3,660,201 | | | | |
| Reclassification of excess tax benefits from stock-based compensation | | | | | (421,894) | 421,894 | | | |
| Amortization of deferred compensation | | | | | 690,372 | | | | |
| | | | | | | (8,631,614) | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Declaration of dividends | | | | | | | | | |
| Reclassification of investments to trading portfolio, net of tax effect of $253,170 | | | | | | | 403,137 | | |
| Change in net unrealized gain on invest, net of tax effect of $(603,732) | | | | | | | (961,354 ) | | |
| Balance, Sept. 30, 2010 | 40,877,088 | 107,690 | $408,771 | $1,077 | $37,568,052 | $108,046,314 | $5,437 | $- | $(7,38 |
| | For the Nine Months Ended September 30, 2009 | | | | | | | | |
| Balance Dec. 31, 2008 | 40,158,019 | 138,640 | $401,578 | $1,387 | $33,587,414 | $75,654,070 | $24,834 | $(733,860) | $(7,38 |
| Common shares issued | 20,000 | | 200 | | 21,800 | | | | |
| Preferred stock conversion | 75,000 | (30,000 ) | 750 | (300 ) | (450 ) | | | | |
| Release of shares from SGT | | | | | 136,550 | | | 36,450 | (189 |
| Stock compensation plans | | | | | 1,421,332 | | | | |
| Net income | | | | | | 31,590,908 | | | |
| Excess tax benefits from stock-based compensation | | | | | 49,549 | | | | |
| Amortization of deferred compensation | | | | | 490,407 | | | | |
| Declaration of dividends | | | | | | (12,807,201 ) | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Change in net unrealized gain on invest, net of tax effect of $2,883,096 | | | | | | | 4,590,905 | | |
| Balance, Sept. 30, 2009 | 40,253,019 | 108,640 | $402,528 | $1,087 | $35,706,602 | $94,437,777 | $4,615,739 | $(697,410) | $(7,57 |

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

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

| | Nine Months Ended September 30, 2010 | Nine Months Ended September 30, 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net Income | $ 32,155,662 | $ 31,590,908 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Bad debt expense | 1,665,919 | 1,056,636 |
| Depreciation | 731,817 | 336,075 |
| Amortization of cost of stock options | 1,766,349 | 1,421,332 |
| Amortization of restricted stock grants | 690,372 | 490,407 |
| Realized gains on investments | (11,993,359) | (13,588,681) |
| Unrealized gains on investments | (8,597,233) | - |
| Foreign currency gains on investments | (834,529) | (6,108,112) |
| Amortization of premium / accretion of discount, net | 404,822 | 203,653 |
| Deferred income taxes | 1,778,281 | 3,427,227 |
| Other | (20,935) | 130,121 |
| Net change in assets and liabilities relating to operating activities: | | |
| Prepaid reinsurance premiums | (28,069,159) | (34,804,467) |
| Reinsurance recoverables | 24,480,200 | (4,621,514) |
| Premiums receivable, net | (12,819,067) | (5,005,214) |
| Other receivables | 2,035,488 | (2,817,396) |
| Income taxes recoverable | 3,211,874 | 1,624,875 |
| Deferred policy acquisition costs, net | (3,388,225) | (8,708,186) |
| Purchases of fixed maturities, trading | (287,865,409) | - |
| Proceeds from sales of fixed maturities, trading | 338,319,461 | - |
| Purchases of equity securities, trading | (60,245,223) | - |
| Proceeds from sale of equity securities, trading | 56,968,340 | - |
| Other assets | (150,404) | (164,470) |
| Unpaid losses and loss adjustment expenses | 9,660,097 | 10,315,726 |
| Unearned premiums | 67,933,901 | 35,004,845 |
| Accounts payable | 323,469 | 58,414 |
| Reinsurance payable | (5,172,264) | 55,964,083 |
| Income taxes payable | 3,095,292 | 235,571 |
| Other accrued expenses | 1,921,402 | 8,279,954 |
| Advance premium | 3,878,959 | 3,156,081 |
| Net cash provided by operating activities | 131,865,898 | 77,477,868 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property | 32,608 | - |
| Purchase of real estate | (1,016,921) | - |

| | | | | |
|---|---|---|---|---|
| Purchases of fixed maturities, available-for-sale | | (129,140,469) | | (206,473,797) |
| Proceeds from sales of fixed maturities, available-for-sale | | 116,237,712 | | 203,451,919 |
| Purchases of equity securities, available-for-sale | | (80,730,225) | | (131,231,211) |
| Proceeds from sales of equity securities, available-for-sale | | 70,680,944 | | 79,069,631 |
| Capital expenditures and building improvements | | (572,155) | | (509,517) |
| Net cash used in investing activities | | (24,508,506) | | (55,692,975) |
| Cash flows from financing activities: | | | | |
| Bank overdraft | | 4,481,669 | | 4,559,007 |
| Preferred stock dividend | | (14,962) | | (22,462) |
| Common stock dividend | | (8,616,650) | | (8,268,279) |
| Issuance of common stock | | 7,000 | | 22,000 |
| Treasury shares on option exercise | | (3,723,972) | | (16,537) |
| Excess tax benefits from stock-based compensation | | 3,660,200 | | 19,625 |
| Repayments of loans payable | | (1,102,941) | | - |
| Net cash used in financing activities | | (5,309,656) | | (3,706,646) |
| | | | | |
| Net increase in cash and cash equivalents | | 102,047,736 | | 18,078,247 |
| Cash and cash equivalents at beginning of period | | 192,924,291 | | 256,964,637 |
| Cash and cash equivalents at end of period | $ | 294,972,027 | $ | 275,042,884 |
| | | | | |
| Non cash items: | | | | |
| Dividends accrued | $ | - | $ | 4,516,460 |

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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. 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's primary product is homeowners' insurance.

Basis of Presentation

The Company's unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of Universal Insurance Holdings, Inc. and its subsidiaries. We have made all adjustments that, in our opinion, are necessary for a fair statement of results of the interim periods, and all such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated financial statements should be read in conjunction with our annual audited consolidated financial statements and related notes for the year ended December 31, 2009. The condensed consolidated balance sheet at December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by GAAP. Certain financial information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted.

Management must make estimates and assumptions that affect amounts reported in our condensed consolidated financial statements and in disclosures of contingent assets and liabilities. Actual results may differ from those estimates.

To conform to the 2010 presentation, certain amounts in the prior periods' consolidated financial statements and notes have been reclassified. Such reclassifications had no effect on net income or stockholders' equity.

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2009. The following are new or revised disclosures or disclosures required on a quarterly basis.

Trading Securities. The Company's trading securities include marketable fixed maturity and equity securities with readily determinable fair values that the Company intends to trade. The securities are carried at fair value and all applicable interest and dividends, realized gains and losses, and unrealized gains and losses on changes in fair value are included in income.

During the three-month period ended September 30, 2010, the Company evaluated the trading activity in its investment portfolio, its investing strategy, and its overall investment program, and concluded that its investment activities throughout the quarter were more consistent with the trading classification. As a result of this evaluation, the Company reclassified its available-for-sale portfolio as a trading portfolio effective July 1, 2010. As a result of the reclassification, pre-tax net unrealized losses in the amount of $656,307 on the available-for-sale portfolio, as of July 1, 2010, were recognized in current period revenues as a reduction of unrealized gains on investments. During the three-month period ended September 30, 2010, the market value of the Company's trading portfolio increased by $9,253,540 before income taxes. The increase in market value was recorded in current period revenues as unrealized gains on investments.

The Company's reclassification of its available-for-sale investments to a trading portfolio had the following effect on items reporting in the Condensed Consolidated Financial Statements:

| Increase (decrease) in: | For the nine months ended September 30, 2010 | For the three months ended September 30, 2010 |
|---|---|---|
| Unrealized gains on investments | $8,597,233 | $8,597,233 |
| Net income | $5,280,850 | $5,280,850 |
| Basic net income per common share | $0.13 | $0.13 |
| Fully diluted net income per common share | $0.13 | $0.13 |
| Cash flows from operating activities | $47,177,169 | not presented |
| Cash flows from investing activities | $(47,177,169) | not presented |

The Company will continue to record future changes in the market value of its trading portfolio directly to revenues as unrealized gains or losses on investments.

Fair Value of Financial Instruments. The Company's long-term debt was held at a carrying value of $23,529,412 and $24,632,353 as of September 30, 2010 and December 31, 2009, respectively. The fair value of long-term debt as of September 30, 2010 was estimated based on discounted cash flows utilizing interest rates currently offered for similar products and was determined to be $18,175,475 and $18,299,889 as of September 30, 2010 and December 31, 2009, respectively.

Concentrations of Credit Risk. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and reinsurance recoverables.

In order to reduce credit risk for amounts due from reinsurers, the Company's primary insurance subsidiary, UPCIC, seeks to do business with financially sound reinsurance companies and regularly evaluates the financial strength of all reinsurers used. UPCIC's largest reinsurer, Everest Reinsurance Company, has the following ratings from each of the rating agencies: A+ from A.M. Best Company, A+ from Standard and Poor's Rating Services and Aa3 from Moody's Investors Service, Inc. As of

September 30, 2010 and December 31, 2009, UPCIC's reinsurance portfolio contained the following authorized reinsurers that had unsecured recoverables for paid and unpaid losses, including incurred but not reported ("IBNR") reserves, loss adjustment expenses and unearned premiums whose aggregate balance exceeded 3% of UPCIC's statutory surplus:

| Reinsurer | As of September 30, 2010 | As of December 31, 2009 |
|---|---|---|
| Everest Reinsurance Company | $233,742,057 | $ 208,129,753 |
| Florida Hurricane Catastrophe Fund | n/a | 24,888,534 |
| Total | $233,742,057 | $ 233,018,287 |

As of September 30, 2010 and December 31, 2009, UPCIC did not have any unsecured recoverables from unauthorized reinsurers exceeding 3% of UPCIC's statutory surplus.

Stock Compensation. The Company periodically issues restricted common stock and grants options to purchase common stock to its directors, officers and employees. These restricted stock awards and stock option grants are recorded as compensation expense ratably over their respective vesting periods.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB ") issued new accounting guidance which expands disclosure requirements relating to fair value measurements. The guidance adds requirements for disclosing amounts of and reasons for significant transfers into and out of Levels 1 and 2 and requires gross rather than net disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The guidance also provides clarification that fair value measurement disclosures are required for each class of assets and liabilities. Disclosures about the valuation techniques and inputs used to measure fair value for measurements that fall in either Level 2 or Level 3 are also required. The Company adopted the provisions of the new guidance as of March 31, 2010 except for disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are required for fiscal years beginning after December 15, 2010. Disclosures are not required for earlier periods presented for comparative purposes. The new guidance affects disclosures only; and therefore, the adoption had no impact on the Company's results of operations or financial position.

In February 2010, the FASB amended the subsequent events guidance issued in May 2009 to remove the requirement for SEC filers to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The amendment was effective upon issuance. The adoption of this guidance did not have an impact on the Company's consolidated financial condition or results of operations.

3. Insurance Operations

The Company's primary business consists of transacting homeowners' insurance through UPCIC. UPCIC collects premiums from policyholders for coverage provided under its insurance policies. Unearned premiums represent amounts that UPCIC would be required to refund policyholders if their policies were canceled. UPCIC determines unearned premiums by calculating the pro-rata amount that would be due to the policyholders at a given point in time based upon the premiums due for the full policy term. At September 30, 2010, UPCIC serviced approximately 576,000 homeowners' and dwelling fire insurance

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policies with direct unearned premiums totaling $346,304,445 and in-force premiums of approximately $651,200,000. At December 31, 2009, UPCIC serviced 541,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $278,370,544 and in-force premiums of approximately $567,100,000.

The insurance premiums charged by UPCIC are subject to various statutory and regulatory requirements. Among these, UPCIC must offer wind mitigation discounts in accordance with a program mandated by the Florida legislature and implemented by the Florida Office of Insurance Regulation ("OIR"). The level of wind mitigation discounts mandated by the Florida legislature to be effective June 1, 2007 for new business and August 1, 2007 for renewal business have had a significant effect on UPCIC's premium. The following table reflects the effect of wind mitigation credits received by UPCIC policyholders:

| | | Reduction of in-force premium (only policies including wind coverage) | | |
|---|---|---|---|---|
| Date | Percentage of UPCIC policyholders receiving credits | Total credits | In-force premium | Percentage reduction of in-force premium |
| 06/01/2007 | 1.9% | $ 6,284,697 | $ 487,866,319 | 1.3% |
| 12/31/2007 | 11.8% | $ 31,951,623 | $ 500,136,287 | 6.0% |
| 03/31/2008 | 16.9% | $ 52,398,215 | $ 501,523,343 | 9.5% |
| 06/30/2008 | 21.3% | $ 74,185,924 | $ 508,411,721 | 12.7% |
| 09/30/2008 | 27.3% | $ 97,802,322 | $ 515,560,249 | 16.0% |
| 12/31/2008 | 31.1% | $ 123,524,911 | $ 514,011,138 | 19.4% |
| 03/31/2009 | 36.3% | $ 158,229,542 | $ 530,029,572 | 23.0% |
| 06/30/2009 | 40.4% | $ 188,053,342 | $ 544,646,437 | 25.7% |
| 09/30/2009 | 43.0% | $ 210,291,783 | $ 554,378,761 | 27.5% |
| 12/31/2009 | 45.2% | $ 219,974,130 | $ 556,577,449 | 28.3% |
| 03/31/2010 | 47.8% | $ 235,717,892 | $ 569,870,173 | 29.3% |
| 06/30/2010 | 50.9% | $ 281,386,124 | $ 620,276,858 | 31.2% |
| 09/30/2010 | 52.4% | $ 291,306,407 | $ 634,285,246 | 31.5% |

4. Reinsurance

UPCIC seeks to protect against the risk of catastrophic loss by obtaining reinsurance coverage as of the beginning of the hurricane season on June 1 of each year. UPCIC's reinsurance program consists of excess of loss, quota share and catastrophe reinsurance, subject to the terms and conditions of the applicable agreements.

On May 31, 2010, UPCIC and Segregated Account T25 – Universal Insurance Holdings of White Rock Insurance (SAC) Ltd. ("T25") mutually agreed to a Commutation and Settlement Agreement related to the Underlying Property Catastrophe Excess of Loss Reinsurance Contract effective March 23, 2010. A replacement contract was entered into between the parties on June 1, 2010 as part of UPCIC's reinsurance program in effect for the period June 1, 2010, through May 31, 2011. In conjunction with the commutation and entering into a new contract, the Company contributed additional capital to T25 due to the increased reinsurance coverage and collateral requirements of the replacement contract, effective June 1, 2010. The Company is the account owner of T25 under Bermuda law, and the reinsurance transactions between T25 and UPCIC are eliminated in consolidation.

UPCIC's in-force policyholder coverage for windstorm exposures as of September 30, 2010 was approximately $124.2 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 contracts.  Reinsurance premiums, losses and loss adjustment expenses (“LAE”) 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 netted against policy acquisition costs and amortized over the effective period of the related insurance policies.

2010 Reinsurance Program

Quota Share

Effective June 1, 2010, UPCIC entered into a quota share reinsurance contract with Everest Re. Everest Re has the following ratings from each of the rating agencies: A+ from A.M. Best Company, A+ from Standard and Poor’s Rating Services and Aa3 from Moody’s Investors Service, Inc.  Under the quota share contract, through May 31, 2011, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk with a ceding commission equal to 25% of ceded gross written premiums. In addition, the quota share contract has a limitation for any one occurrence of 56% of Gross Premiums Earned, not to exceed $160,000,000 (of which UPCIC's net liability on the first $160,000,000 of losses in a first event scenario is $22,500,000, in a second event scenario is $13,150,000 and in a third event scenario is $15,000,000) and a limitation from losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services ("PCS") office of 140% of Gross Premiums Earned, not to exceed $400,000,000.

Excess Per Risk

Effective June 1, 2010 through May 31, 2011, UPCIC entered into a multiple line excess per risk contract with various reinsurers. Under the multiple line excess per risk contract, UPCIC obtained coverage of $1,400,000 in excess of $600,000 ultimate net loss for each risk and each property loss, and $1,000,000 in excess of $300,000 for each casualty loss. A $7,000,000 aggregate limit applies to the term of the contract.

Effective June 1, 2010 through May 31, 2011, UPCIC entered into a property per risk excess contract covering ex-wind only policies. Under the property per risk excess contract, UPCIC obtained coverage of $400,000 in excess of $200,000 for each property loss. A $2,000,000 aggregate limit applies to the term of the contract.

The total cost of the Company's multiple line excess reinsurance program effective June 1, 2010 through May 31, 2011 is $3,500,000 of which the Company's cost is 50%, or $1,750,000, and the quota share reinsurers' cost is the remaining 50%. The total cost of the Company's property per risk reinsurance program effective June 1, 2010 through May 31, 2011 is $475,000.

Excess Catastrophe

Effective June 1, 2010 through May 31, 2011, under excess catastrophe contracts, UPCIC obtained catastrophe coverage of $660,500,000 in excess of $160,000,000 covering certain loss occurrences including hurricanes. The coverage of $660,500,000 in excess of $160,000,000 has a second full limit available to UPCIC; additional premium is calculated pro rata as to amount and 100% as to time, as applicable.

Effective June 1, 2010 through May 31, 2011, UPCIC purchased reinstatement premium protection which reimburses UPCIC for its cost to reinstate the catastrophe coverage of the first $310,500,000 (part of $660,500,000) in excess of $160,000,000.

Effective June 1, 2010 through May 31, 2011, under an underlying excess catastrophe contract, UPCIC obtained catastrophe coverage of 50% of $105,000,000 in excess of $55,000,000 covering certain loss occurrences including hurricanes. UPCIC entered into this contract with a segregated account that was established by a third-party reinsurer in accordance with Bermuda law. The Company has secured the obligations of the segregated account by contributing the amount of the segregated account's liability for losses, net of UPCIC's required premium payments, to a trust account.

Effective June 1, 2010 through May 31, 2011, under an excess catastrophe contract specifically covering risks located in North Carolina and South Carolina, UPCIC obtained catastrophe coverage of 50% of $40,000,000 in excess of $10,000,000 covering certain loss occurrences including hurricanes. The coverage of 50% of $40,000,000 in excess of $10,000,000 has a second full limit available to UPCIC; additional premium is calculated pro rata as to amount and 100% as to time, as applicable. The cost of UPCIC's excess catastrophe contract specifically covering risks located in North Carolina and South Carolina is $2,025,000.

Effective June 1, 2010 through May 31, 2011, UPCIC also obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of UPCIC's net retention through three catastrophe events including hurricanes, as follows:

| | 2ndEvent | 3rdEvent |
|---|---|---|
| Coverage | $123,700,000 in excess of $36,300,000 each loss occurrence subject to an otherwise recoverable amount of $123,700,000 (placed 50%) | $130,000,000 in excess of $30,000,000 each loss occurrence subject to an otherwise recoverable amount of $260,000,000 (placed 100%) |
| Deposit premium (100%) | $22,266,000 | $9,100,000 |
| Minimum premium (100%) | $17,812,800 | $7,280,000 |
| Premium rate -% of total insured value | 0.020088% | 0.00821% |

UPCIC also obtained coverage from the Florida Hurricane Catastrophe Fund ("FHCF"), which is administered by the Florida State Board of Administration ("SBA"). Under the reimbursement agreement, the FHCF would reimburse UPCIC, for each loss occurrence during the contract year, for 90% of the ultimate loss paid by UPCIC in excess of its retention plus 5% of the reimbursed losses to cover loss

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adjustment expenses, subject to an aggregate contract limit. 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, 2010 to May 31, 2011, UPCIC purchased the traditional FHCF coverage and did not purchase the Temporary Increase in Coverage Limit Option offered to insurers by the FHCF. UPCIC's estimate of its traditional FHCF coverage is based upon UPCIC's exposure in-force as of June 30, 2010, as reported by UPCIC to the FHCF on September 1, 2010 and is 90% of $1,118,744,624 in excess of $422,612,828. The estimated premium for this coverage is $68,296,648.

Also at June 1, 2010, the FHCF made available, and UPCIC obtained, $10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive ("ICBUI") Program offered by the FHCF, such as UPCIC. This particular layer of coverage at June 1, 2010 is $10,000,000 in excess of $26,300,000. The premium for this coverage is $5,000,000.

On October 29, 2010, the SBA published its most recent estimate of the FHCF's loss reimbursement capacity in the Florida Administrative Weekly. The SBA estimated that the FHCF's total claims-paying capacity under current market conditions for the 2010 - 2011 contract year is projected to be $18.776 billion over the 12-month period following the estimate. The SBA also referred to its report entitled, "October 2010 Estimated Claims Paying Capacity Report" ("Report") as providing greater detail regarding the FHCF's claims-paying capacity. The Report estimated that the FHCF's minimum 12-month claims-paying capacity is $19.414 billion and its maximum 12-month claims-paying capacity is $35.414 billion with an average claims-paying capacity of $25.414 billion. This projected claims-paying capacity exceeds the FHCF's maximum statutory obligation for 2010 of $18.776 billion. Claims-paying capacity exceeding the FHCF's maximum statutory obligation for a single contract year may be available for insurer reimbursements in future contract years. UPCIC purchased the FHCF Mandatory Layer of Coverage for the 2010 - 2011 contract year, which corresponds to FHCF loss reimbursement capacity of $17 billion. In the event the aggregate amount of reimbursement coverage requested by insurers for a particular contract year exceeds the FHCF's actual claims-paying capacity, the FHCF's obligation to reimburse insurers is limited by law to its actual claims-paying capacity. The aggregate cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's loss reimbursement capacity.

The total cost of UPCIC's multiple line excess and property per risk reinsurance program effective June 1, 2010 through May 31, 2011 is $3,975,000 of which UPCIC's cost is $2,225,000, and the quota share reinsurers cost is the remaining $1,750,000. The cost of UPCIC's underlying excess catastrophe contract is $42,000,000, subject to a potential return premium of up to $31,458,000. The total cost of UPCIC's private catastrophe reinsurance program effective June 1, 2010 through May 31, 2011 is $134,538,000 of which UPCIC's cost is 50%, or $67,269,000, and the quota share reinsurers cost is the remaining 50%. In addition, UPCIC purchases reinstatement premium protection as described above, the cost of which is $16,210,064. UPCIC's cost of the subsequent catastrophe event excess of loss reinsurance is $15,683,000. The estimated premium that UPCIC plans to cede to the FHCF for the 2010 hurricane season is $68,296,648 of which UPCIC's cost is 50%, or $34,148,324 and the quota share reinsurers' cost is the remaining 50%. UPCIC is also participating in the additional coverage option for Limited Apportionment Companies or companies that participated in the ICBUI Program offered by the FHCF, the premium for which is $5,000,000 of which UPCIC's cost is 50%, or $2,500,000, and the quota share reinsurers' cost is the remaining 50%. The Company is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program which could have a material adverse effect on the Company's business, financial condition and results of operations. UPCIC's private market reinsurance costs are subject to increases or decreases if changes in its earned premiums or the

total insured value under its in-force policies as of August 31, 2010, are outside of ranges specified in certain of its reinsurance contracts.

Effective June 1, 2010 through December 31, 2010, the Company obtained $60,000,000 of coverage via a catastrophe risk-linked transaction contract in the event UPCIC's catastrophe coverage is exhausted. The total cost of the Company's risk-linked transaction contract is $8,250,000.

UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on UPCIC's and the Company's business, financial condition and results of operations. UPCIC estimates based upon its in-force exposures as of September 30, 2010, that it had coverage to approximately the 125-year Probable Maximum Loss (PML), modeled using AIR CLASIC/2 v.11.0, long term, without demand surge and without loss amplification. PML is a general concept applied in the insurance industry for defining high loss scenarios that should be considered when underwriting insurance risk. Catastrophe models produce loss estimates that are qualified in terms of dollars and probabilities. Probability of exceedance or the probability that the actual loss level will exceed a particular threshold is a standard catastrophe model output. For example, the 100-year PML represents a 1.00% Annual Probability of Exceedance (the 125-year PML represents a 0.800% Annual Probability of Exceedance). It is estimated that the 100-year PML is likely to be equaled or exceeded in one year out of 100 on average, or 1 percent of the time. It is the 99th percentile of the annual loss distribution.

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 on an automatic basis under reinsurance contracts. The reinsurance arrangements are intended to provide UPCIC with the ability to limit its exposure to losses within its capital resources. Such reinsurance includes quota share, excess of loss and catastrophe forms of reinsurance. UPCIC submits the reinsurance program for regulatory review to the OIR.

The Company's reinsurance arrangements had the following effect on certain items in the condensed consolidated Statements of Operations:

| | Nine Months Ended September 30, 2010 | | | Nine Months Ended September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Premiums Written | Premiums Earned | Loss and Loss Adjustment Expenses | Premiums Written | Premiums Earned | Loss and Loss Adjustment Expenses |
| Direct | $ 520,781,570 | $ 452,847,668 | $ 156,537,023 | $ 436,610,689 | $ 401,605,845 | $ 139,259,179 |
| Ceded | (357,411,323) | (329,342,164) | (78,680,293) | (328,518,186) | (293,713,719) | (70,563,627) |
| Net | $ 163,370,247 | $ 123,505,504 | $ 77,856,730 | $ 108,092,503 | $ 107,892,126 | $ 68,695,552 |

| | Three Months Ended September 30, 2010 | | | Three Months Ended September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Premiums Written | Premiums Earned | Loss and Loss Adjustment Expenses | Premiums Written | Premiums Earned | Loss and Loss Adjustment Expenses |
| Direct | $ 152,662,238 | $ 162,093,491 | $ 59,511,679 | $ 134,626,400 | $ 139,207,538 | $ 48,330,038 |
| Ceded | (108,539,124) | (113,262,337) | (30,141,553) | (104,152,022) | (106,449,802) | (24,561,309) |
| Net | $ 44,123,114 | $ 48,831,154 | $ 29,370,126 | $ 30,474,378 | $ 32,757,736 | $ 23,768,729 |

Other Amounts:

Prepaid reinsurance premiums and reinsurance recoverables as of September 30, 2010 and December 31, 2009 were as follows:

| | As of Sept. 30, 2010 | As of December 31, 2009 |
|---|---|---|
| Prepaid reinsurance premiums | $ 228,363,400 | $ 200,294,241 |
| Reinsurance recoverable on unpaid losses and LAE | $ 67,151,722 | $ 62,900,913 |
| Reinsurance recoverable on paid losses | 184,511 | 28,915,520 |
| Reinsurance recoverables | $ 67,336,233 | $ 91,816,433 |

The Company has determined that a right of offset exists between UPCIC and its reinsurers. Reinsurance payable to reinsurers has been offset by ceding commissions and inuring premiums receivable from reinsurers as follows:

| | As of Sept. 30, 2010 | As of December 31, 2009 |
|---|---|---|
| Reinsurance payable, net of ceding commissions due from reinsurers | $ 109,972,621 | $ 105,536,847 |
| Inuring premiums receivable | (42,040,290 ) | (32,432,252 ) |
| Reinsurance payable, net | $ 67,932,331 | $ 73,104,595 |

5. Investments

During the three-month period ended September 30, 2010, the Company evaluated the trading activity in its investment portfolio, its investing strategy, and its overall investment program. As a result of this evaluation, the Company reclassified its available-for-sale portfolio as a trading portfolio effective July 1, 2010. As a result of the reclassification, pre-tax net unrealized losses in the amount of $656,307 on the available-for-sale portfolio, as of July 1, 2010, were recognized in current period revenues as a reduction of unrealized gains on investments. During the three-month period ended September 30, 2010, the market value of the Company's trading portfolio increased by $9,253,540 before income taxes. The increase in market value was recorded in current period revenues as unrealized gains on investments. The Company will continue to record future changes in the market value of its trading portfolio directly to revenues as unrealized gains or losses on investments. The net unrealized gain on investments relating to the trading portfolio of $8,597,233 is recorded in the Condensed Consolidated Statement of Operations caption "Unrealized Gains on Investments."

Major sources of net investment income, are summarized as follows:

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| Cash and cash equivalents | $ 109,150 | $ 253,073 |
| Fixed maturities | 710,325 | 1,136,568 |
| Equity securities | 36,530 | 634,362 |
| Total investment income | 856,005 | 2,024,003 |
| Less investment expenses | (479,430 ) | (638,996 ) |
| Net investment income | $ 376,575 | $ 1,385,007 |

As of September 30, 2010 and December 31, 2009, the Company's investments consisted of cash and cash equivalents, and investments with carrying values of $399,328,039 and $307,721,301, respectively.

Concentrations of credit risk with respect to cash on deposit are limited by the Company's policy of investing excess cash in money market accounts and repurchase agreements backed by the US Government and US Government Agency Securities with major national banks. These accounts are held by the Institutional Trust & Custody division of U.S. Bank, the Trust Department of SunTrust Bank and Evergreen Investment Management Company, LLC.

Cash and cash equivalents consisted of checking, repurchase, and money market accounts with carrying values of $294,972,027 and $192,924,291 as of September 30, 2010 and December 31, 2009, respectively, held at the following financial institutions:

| | As of September 30, 2010 | | | |
|---|---|---|---|---|
| Financial Institution | Cash | Money Market Funds | Total | % |
| U. S. Bank IT&C (1) | $0 | $71,454,904 | $71,454,904 | 24.2% |
| Evergreen Investment Management Company, L.L.C. | 0 | 2,909 | 2,909 | 0.0% |
| SunTrust Bank | 1,203,993 | 0 | 1,203,993 | 0.4% |
| SunTrust Bank Institutional Asset Services | 0 | 197,938,069 | 197,938,069 | 67.2% |
| Wachovia Bank, N.A. | 660,389 | | 660,389 | 0.2% |
| Bank of New York Trust Fund | 0 | 23,276,955 | 23,276,955 | 7.9% |
| All Other Banking Institutions | 434,808 | 0 | 434,808 | 0.1% |
| | $2,299,190 | $292,672,837 | $294,972,027 | 100.0% |

(1) Funds invested with Evergreen Investment Management Company, L.L.C.

| | As of December 31, 2009 | | | |
|---|---|---|---|---|
| Financial Institution | Cash | Money Market Funds | Total | % |
| U. S. Bank IT&C (1) | $0 | $71,977,371 | $71,977,371 | 37.3% |
| Evergreen Investment Management Company, L.L.C. | 0 | 26,909 | 26,909 | 0.0% |
| SunTrust Bank | 1,063,785 | 0 | 1,063,785 | 0.5% |
| SunTrust Bank Institutional Asset Services | 0 | 102,257,833 | 102,257,833 | 53.0% |
| Wachovia Bank, N.A. | 489,051 | 0 | 489,051 | 0.3% |
| Bank of New York Trust Fund | 0 | 16,515,181 | 16,515,181 | 8.6% |
| All Other Banking Institutions | 594,161 | 0 | 594,161 | 0.3% |
| | $2,146,997 | $190,777,294 | $192,924,291 | 100.0% |

(1) Funds invested with Evergreen Investment Management Company, L.L.C.

Effective July 1, 2010, the Company's investments are classified as trading securities. These securities are reported at fair value, with unrealized gains and losses included in earnings.

The following table shows the realized gains and losses for fixed maturities and equity securities, for the nine-month and three-month periods ended September 30, 2010.

| | For the Nine Months Ended September 30, 2010 | For the Three Months Ended September 30, 2010 |
|---|---|---|
| Fixed maturities | $4,498,755 | $2,602,654 |
| Equity securities | 11,187,280 | 3,993,320 |

| | | |
|---|---|---|
| Total realized gains | $15,686,035 | $6,595,974 |
| | | |
| Fixed maturities | $(365,171) | $(81,269) |
| Equity securities | (3,177,480) | (167,665) |
| Other Investments | (150,025) | (98,025) |
| Total realized losses | $(3,692,676) | $(346,959) |
| | | |
| Net realized gains on investments | $11,993,359 | $6,249,015 |

The Company's investment portfolio as of September 30, 2010 consisted of trading securities carried at fair value. A summary of the available-for-sale amortized cost (fixed maturities), cost (equity securities), estimated fair value, gross unrealized gains, and gross unrealized losses of fixed maturities and equity securities at December 31, 2009 follows.

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Amortized Cost / Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Fixed maturities: | | | | |
| US government and agency obligations | $ 42,296,727 | $ 37,623 | $ (945,342) | $ 41,389,008 |
| Total fixed maturities | $ 42,296,727 | $ 37,623 | $ (945,342) | $ 41,389,008 |
| | | | | |
| Equity securities: | | | | |
| Commodities | $ 53,098,484 | $ 4,079,387 | $ (216,691) | $ 56,961,180 |
| Common stock | 18,437,549 | 199,045 | (2,189,772) | 16,446,822 |
| Total equity securities | $ 71,536,033 | $ 4,278,432 | $ (2,406,463) | $ 73,408,002 |

The following tables summarize, by type, the Company's investments as of September 30, 2010 and December 31, 2009:

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Percent of Total | Carrying Amount | Percent of Total |
| Available for sale | | | | |
| Fixed maturities, at fair value: | | | | |
| US government and agency obligations | $ - | 0.0 % | $ 41,389,008 | 36.1 % |
| | | | | |
| Equity securities, at fair value: | | | | |
| Commodities | - | 0.0 % | 56,961,180 | 49.6 % |
| Common stock | - | 0.0 % | 16,446,822 | 14.3 % |
| | | | | |
| Total investments | $ - | 0.00 % | $ 114,797,010 | 100.00 % |

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Percent of Total | Carrying Amount | Percent of Total |
| Trading | | | | |
| Fixed maturities, at fair value: | | | | |
| US government and agency obligations | $3,465,332 | 3.3 % | $- | 0.0 % |
| Foreign obligations | 6,173,911 | 5.9 % | - | 0.0 % |
| | | | | |
| Equity securities, at fair value: | | | | |
| Commodities | 84,388,400 | 80.9 % | - | 0.0 % |
| Common stock | 10,328,369 | 9.9 % | - | 0.0 % |
| | | | | |
| Total investments | $ 104,356,012 | 100.00 % | $ - | 0.00 % |

Below is a summary of fixed maturities at September 30, 2010 and December 31, 2009 by contractual or expected periods.

| Available-for-sale | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| Contractual or Expected Period: | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ - | $ - | $ - | $ - |
| Due after one year through five years | - | - | 176,350 | 180,901 |
| Due after five years through ten years | - | - | 2,909,446 | 2,942,497 |
| Due after ten years | - | - | 39,210,931 | 38,265,610 |
| | | | | |
| Total | $ - | $ - | $ 42,296,727 | $ 41,389,008 |

| Trading | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| Contractual or Expected Period: | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ 3,356,843 | $ 3,393,067 | $ - | $ - |
| Due after one year through five years | 2,889,897 | 2,961,866 | - | - |
| Due after five years through ten years | 3,019,144 | 3,284,310 | - | - |
| Due after ten years | - | - | - | - |
| | | | | |
| Total | $ 9,265,884 | $ 9,639,243 | $ - | $ - |

The Company has made an assessment of its invested assets for fair value measurement as further described in Note 16 – Fair Value Disclosure.

6. Loans Payable and Long-Term Debt

Surplus Note

In 2006, UPCIC entered into a $25.0 million surplus note with the SBA under the ICBUI Program which was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in Florida. The SBA matched UPCIC's funds of $25.0 million that were earmarked for participation in the program. The $25.0 million is invested in a U.S. treasury money market account.

The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, UPCIC was required to pay interest only. All payments of principal or interest by UPCIC on the surplus note must be approved by the Commissioner of the OIR. Equal quarterly principal installment payments of $367,647 commenced on January 1, 2010.

As of September 30, 2010 and December 31, 2009, the balances due under the surplus note are shown in the Company's condensed consolidated Balance Sheets as Long-Term Debt with carrying values of $23,529,412 and $24,632,353, respectively.

Future repayments of principal are due as follows:

| | |
|---|---|
| 2010 | $ - |
| 2011 | 1,470,588 |
| 2012 | 1,470,588 |
| 2013 | 1,470,588 |
| 2014 | 1,470,588 |
| Thereafter | 17,647,060 |
| Total | $23,529,412 |

In May 2008, the Florida Legislature passed a law providing participants in the Program an opportunity to amend the terms of their surplus notes based on law changes. The new law contains methods for calculating compliance with the writing ratio requirements that are more favorable to UPCIC than prior law and the prior terms of the existing surplus note. On November 6, 2008, UPCIC and the SBA executed an addendum to the surplus note ("the addendum") that reflected these law changes. The terms of the

addendum were effective July 1, 2008. In addition to other less significant changes, the addendum modified the definitions of Minimum Required Surplus, Minimum Writing Ratio, Surplus, and Gross Written Premium, respectively, as defined in the original surplus note.

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

The original surplus note provided for increases in interest rates for failure to meet the Minimum Writing Ratio. Under the terms of the surplus note, as amended, the net written premium to surplus requirement and gross written premium to surplus requirement have been modified. As of September 30, 2010, UPCIC's net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC was not subject to increases in interest rates.

Finance Facility

In November 2007, the Company commenced offering premium finance services through Atlas Premium Finance Company, a wholly-owned subsidiary. To fund its operations, Atlas agreed to a Sale and Assignment Agreement with Flatiron Capital Corp., ("Flatiron") a premier funding partner to the commercial property and casualty insurance industry owned by Wells Fargo Bank, N.A. The agreement provides for Atlas' sale of eligible premium finance receivables to Flatiron.

In September 2009, Atlas received notification that, effective September 27, 2010, Flatiron will not be renewing the funding and servicing agreement with Atlas. Flatiron stated in the notice to Atlas that its business environment and goals had changed and it had made a strategic decision to exit this particular business activity. Accordingly, on September 17, 2010, Atlas paid off its loan with Flatiron in full and the parties terminated the Sale and Assignment Agreement and other related agreements. The Company recorded a corresponding loan to Atlas which was eliminated in consolidation.

Interest Expense

Interest expense, comprised primarily of interest on the surplus note, was $710,517 and $573,323, respectively, for the nine month periods ended September 30, 2010 and 2009 and $206,768 and $235,786 respectively, for the three-month periods ended September 30, 2010 and 2009.

7. Regulatory Requirements and Restrictions

UPCIC is subject to comprehensive regulation by the OIR. The Florida Insurance Code (the "Code") requires UPCIC to maintain minimum statutory surplus of the greater of 10% of its total liabilities or

$4,000,000. UPCIC is also required to adhere to prescribed premium-to-surplus ratios required by the Code and to maintain approved securities on deposit with the state of Florida. UPCIC's statutory surplus as of September 30, 2010 is $106,000,341, which satisfies the minimum statutory surplus required by the Code.

The maximum amount of dividends which can be paid by Florida insurance companies without prior approval of the Florida Commissioner is subject to certain statutory restrictions. 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 the nine-month periods ended September 30, 2010 and 2009, UPCIC did not pay dividends to the Company.

UPCIC is required annually to comply with the National Association of Insurance Commissioners ("NAIC") Risk-Based Capital ("RBC") requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in relation to its size and risk profile. NAIC's RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers that show signs of a weak or deteriorating condition. As of December 31, 2009, based on the calculations using the appropriate NAIC RBC formula, UPCIC's reported total adjusted capital was in excess of the requirements.

8. Related Party 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, Chief Operating Officer and Senior Vice President of UPCIC. During the nine-month periods ended September 30, 2010 and 2009, the Company expensed claims adjusting fees of $360,000 and $345,000, respectively, to Downes and Associates.

During the fourth quarter of 2009, the Company overpaid non-equity incentive plan compensation to the Chief Executive Officer and Chief Operating Officer in the amounts of $217,169 and $162,876, respectively. These amounts were repaid to the Company during February 2010.

9. Income Tax Provision

Deferred income taxes represent the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The tax effects of temporary differences are as follows:

| | As of September 30, 2010 | As of December 31, 2009 |
|---|---|---|
| Deferred income tax assets: | | |
| Unearned premiums | $ 9,099,152 | $ 6,023,587 |
| Advanced premiums | 1,557,207 | 1,266,152 |
| Unpaid losses | 1,987,558 | 1,836,061 |
| Regulatory assessments | 535,240 | 1,605,884 |
| Executive compensation | - | 181,992 |
| Shareholder compensation | 446,550 | 327,553 |
| Stock option expense | 3,334,872 | 3,037,961 |
| Accrued wages | 338,543 | 423,190 |
| Allowance for uncollectible receivables | 644,143 | 1,042,228 |
| Additional tax basis of securities | 180,184 | 140,878 |
| Restricted stock grant | 276,193 | 9,882 |
| Recognition of OTTI | 306,897 | - |
| Other | - | 3,876 |
| Total deferred income tax assets | 18,706,539 | 15,899,244 |
| Deferred income tax liabilities: | | |
| Deferred policy acquisition costs, net | (4,957,986) | (3,650,979) |
| Net unrealized gains on investments | (3,414) | (353,976) |
| Market value gains on trading securities | (3,278,569) | - |
| Total deferred income tax liabilities | (8,239,969) | (4,004,955) |
| Net deferred income tax asset | $ 10,466,570 | $ 11,894,289 |

A valuation allowance was deemed unnecessary as of September 30, 2010 and December 31, 2009, respectively, as 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.

The State of Florida income tax is included in the Company’s income taxes at a statutory rate of 5.5%.

The 2006 consolidated federal income tax return for Universal Insurance Holdings, Inc & Subsidiaries was examined by the Internal Revenue Service in 2009. The audit was completed and settled in October 2009 with no major issues. The combination of positive and negative adjustments resulted in an agreed upon assessment of $3,144, which was paid by the Company in January 2010.

The Company’s earliest open tax year for purposes of examination of its income tax liability due to taxing authorities is the year ended December 31, 2007.

10. Stockholders’ Equity

Cumulative Preferred Stock

During the nine month period ended September 30, 2010, preferred stockholders converted 950 shares of Series M Preferred Stock into 1,187 shares of Common Stock. During the nine month period ended September 30, 2009, preferred stockholders converted 30,000 shares of Series A Preferred Stock into

75,000 shares of Common Stock. As of September 30, 2010 the Company had 19,950 and 87,740 shares of issued and outstanding Series A and Series M Preferred Stock, respectively.

Each share of Series A Preferred Stock is convertible by the Company into 2.5 shares of Common Stock, into an aggregate of 49,875 common shares. Each share of Series M Preferred Stock is convertible by the Company into 1.25 shares of Common Stock, into an aggregate of 110,863 common shares. The Series A Preferred Stock pays a cumulative dividend of $.25 per share per quarter.

Equity Compensation Plan

On October 13, 2009, the Company's Board of Directors approved, and recommended that the Company's stockholders approve, the 2009 Omnibus Incentive Plan ("Incentive Plan"). On November 16, 2009, the Company's stockholders approved the Incentive Plan by written consent.

An aggregate of 1,800,000 shares of the common stock, $0.01 par value per share ("Common Stock") is reserved for issuance and available for awards under the Incentive Plan. Awards under the Incentive Plan may include incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares of Common Stock, restricted stock units, performance share or unit awards, other stock-based awards and cash-based incentive awards. Awards under the Incentive Plan may be granted to employees, directors, consultants or other persons providing services to the Company or its affiliates. The Incentive Plan also provides for awards that are intended to qualify as "performance-based compensation" in order to preserve the deductibility of such compensation by the Company under Section 162(m) of the Internal Revenue Code. The Incentive Plan shall have a term of ten years expiring on November 16, 2019.

Stock Options

Summaries of the option activity for the nine-month periods ended September 30, 2010 and 2009 are presented below:

| | Number of Shares | Option Price per Share Low | High | Weighted Avg. | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| Outstanding January 1, 2010 | 6,345,000 | $ 0.50 | $ 6.50 | $ 3.21 | $ 17,888,900 |
| Granted | 1,665,000 | $ 4.87 | $ 5.84 | $ 5.07 | |
| Exercised | (2,230,000) | $ 0.70 | $ 3.90 | $ 1.49 | |
| Expired | - | | | | |
| Outstanding September 30, 2010 | 5,780,000 | $ 0.50 | $ 6.50 | $ 4.41 | $ 4,613,100 |
| | | | | | |
| Outstanding January 1, 2009 | 6,650,000 | $ 0.50 | $ 6.50 | $ 3.15 | $ 3,795,250 |
| Granted | - | | | | |
| Exercised | (65,000 ) | $ 1.10 | $ 3.90 | $ 3.00 | |
| Expired | - | | | | |
| Outstanding September 30, 2009 | 6,585,000 | $ 0.50 | $ 6.50 | $ 3.15 | $ 14,685,300 |

On February 2, 2010, the Company granted non-qualified stock options for an aggregate 350,000 shares of Common Stock to Sean P. Downes, the Company's Chief Operating Officer and Senior Vice President in consideration for services rendered pursuant to terms of an employment agreement and to provide Mr. Downes with a continued incentive to share in the success of the Company. The options have an exercise price of $5.84 and expire on February

2, 2015.

On May 19, 2010, the Company granted options to purchase an aggregate of 1,315,000 shares of common stock to the Company's directors (225,000 shares), executive officers (775,000 shares) and management (315,000 shares) of which 50% of the options vested immediately and 50% are expected to vest on May 19, 2011. The options have an exercise price of $4.87 per share and expire on May 19, 2015. The options granted to Bradley I. Meier, the Company's President and Chief Executive Officer and to Sean P. Downes, the Company's Chief Operating Officer and Senior Vice President, are only exercisable on such date or dates as the fair market value, as defined in 2009 Omnibus Incentive Plan, of the Company's common stock is and has been at least one-hundred fifty percent (150%) of the exercise price for the previous twenty (20) consecutive trading days.

The Company estimated the fair value of all stock options awards as of the grant date by applying the Black-Scholes-Merton option pricing model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate.

Of the 2,230,000 aggregate number of options exercised during the nine-month period ended September 30, 2010, options to purchase 10,000 shares of Common Stock were settled in cash and 2,220,000 were cashless exercises in which the Company retained treasury shares as settlement of the optionees' cost of exercise and required payroll taxes.

As of September 30, 2010, there were 5,780,000 options outstanding with an aggregate intrinsic value of $4,613,100 and a weighted average remaining contractual life of 2.82 years. Of the total number of options outstanding, 4,782,500 options are fully vested and exercisable.

As of September 30, 2009, there were 6,585,000 options outstanding with an aggregate intrinsic value of $14,685,300 and a weighted average remaining contractual life of 2.34 years. Of the total number of options outstanding, 4,265,000 options were fully vested and exercisable.

Common Stock

As of September 30, 2010, the Company had 40,877,087 shares of issued Common Stock consisting of 1,711,054 treasury shares, and 39,166,033 shares outstanding.

The following table summarizes the activity relating to shares of the Company's Common Stock during the nine-month period ended September 30, 2010:

| | Issued Shares | Treasury Shares | Shares Held in Trust | Outstanding Shares |
|---|---|---|---|---|
| Balance, January 1, 2010 | 40,214,884 | (1,809,119) | (631,000) | 37,774,765 |
| Issued Shares | 2,394 | - | - | 2,394 |
| Options exercised | 1,599,000 | - | 631,000 | 2,230,000 |
| Shares applied to exercise price and payroll taxes: | | | | |
| Shares held in trust | - | (1,141,126) | - | (1,141,126) |
| Shares cancelled | (1,239,190) | 1,239,190 | - | - |
| Restricted stock grant | 300,000 | - | - | 300,000 |
| Balance, September 30, 2010 | 40,877,088 | (1,711,055) | - | 39,166,033 |

Restricted Stock Grants

Effective February 2, 2010, the Company issued 300,000 shares of restricted common stock at a price of $5.84 per share to Sean Downes, Senior Vice President, Chief Operating Officer and Director, in consideration for services rendered pursuant to terms of an employment agreement and to provide to Mr. Downes with a continued incentive to share in the success of the Company. The stock vests over a three-year period as follows: 100,000 shares each on the first, second and third anniversaries of the grant date. The Company recorded deferred compensation of $1,752,000 at the time the stock was issued and is amortizing that amount ratably over the vesting period.

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

Income Tax Benefit

The Company realized actual income tax benefits from the tax deductible expense relating to the exercise of stock options and the vesting of restricted stock totaling $4,020,789, and $49,549 during the nine-month periods ended September 30, 2010 and 2009, respectively.

Dividends Declared

During the nine-month periods ended September 30, 2010 and 2009, the Company declared dividends on its outstanding shares of Common Stock to its shareholders of record as follows:

| | For the nine-month period ended September 30, 2010 | | For the nine-month period ended September 30, 2009 | |
|---|---|---|---|---|
| | Per Share Amount | Aggregate Amount | Per Share Amount | Aggregate Amount |
| First Quarter | $ 0.12 | $ 4,699,926 | $ 0.22 | $ 8,268,278 |
| Second Quarter | $ 0.10 | $ 3,916,724 | $ 0.12 | $ 4,516,461 |
| Third Quarter | - | - | - | - |

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 Common Stock. In exchange, the SGT delivered $29,000 and a promissory note to the Company for approximately $2,320,000 which together represented the purchase price of the shares. Amounts owed by the SGT to the Company are repaid by cash received by the SGT, which results 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 Company's 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.

The agreement governing the operation of the SGT provides that the SGT shall terminate upon the upon the later of the date that (i) all shares of Common Stock available for issuance under the SGT have been distributed or (ii) the promissory note is paid in full. The promissory note was paid in full on March 15, 2010, and promptly thereafter all shares of Common Stock remaining in the SGT were distributed to holders of Company options in satisfaction of the Company's obligations under certain of its stock option agreements. The SGT was terminated upon this final distribution of shares of Common Stock from the SGT, and as of March 31, 2010, the SGT did not hold any shares of Common Stock.

Stock Issuances - other than compensatory

On March 29, 2010, preferred stockholders converted 950 shares of Series M Preferred Stock into 1,187 shares of Common Stock

On March 9, 2009, preferred stockholders converted 30,000 shares of Series A Preferred Stock into 75,000 shares of Common Stock.

11. Commitments and Contingencies

Employment Agreements and Potential Payments Upon Termination Of Employment

The Company has employment agreements with its three executive officers that provide for certain payments to the executives upon termination of employment or a change in control. The Company reported the terms of these provisions in its proxy statement.

Operating Leases

The Company has leases for certain computer equipment, software and office space. The Company reported in its Annual Report on Form 10-K for the year ended December 31, 2009 a schedule of future minimum rental payments required under the non-cancelable operating leases.

12. Litigation

Certain lawsuits have been filed against the Company. In the opinion of management, none of these lawsuits is 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.

13. Earnings Per Share

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Basic earnings per share ("EPS") is based on the weighted average number of shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution that could occur if securities to issue common stock were exercised.

The following table reconciles the numerator (i.e., income) and denominator (i.e., shares) of the basic and diluted earnings per share computations for net income for the nine-month and three-month periods ended September 30, 2010 and 2009.

| | Nine Months Ended September 30, 2010 | | | Nine Months Ended September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Income Available to Common Stockholders | Shares | Per-Share Amount | Income Available to Common Stockholders | Shares | Per-Share Amount |
| Net income | $ 32,155,662 | | | $ 31,590,908 | | |
| Less: preferred stocks dividends | (14,963) | | | (22,463) | | |
| Income available to common stockholders | $ 32,140,699 | 39,075,571 | $ 0.82 | $ 31,568,445 | 37,601,409 | $ 0.84 |
| Effect of dilutive securities: | | | | | | |
| Stock options and warrants | - | 1,150,946 | (0.02) | - | 2,593,855 | (0.05) |
| Preferred stock | 14,963 | 159,928 | - | 22,463 | 179,145 | (0.01) |
| Income available to common stockholders and assumed conversion | $ 32,155,662 | 40,386,445 | 0.80 | $ 31,590,908 | 40,374,409 | $ 0.78 |

| | Three Months Ended September 30, 2010 | | | Three Months Ended September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Income Available to Common Stockholders | Shares | Per-Share Amount | Income Available to Common Stockholders | Shares | Per-Share Amount |
| Net income | $ 14,444,685 | | | $ 11,514,520 | | |
| Less: preferred stocks dividends | (4,988) | | | (4,988) | | |
| Income available to common stockholders | $ 14,439,697 | 39,167,241 | $ 0.37 | $ 11,509,532 | 37,625,013 | $ 0.31 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Effect of dilutive securities: | | | | | | | | | | | |
| Stock options and warrants | | - | 949,485 | | (0.01 | ) | | - | 2,885,758 | | (0.03 | ) |
| Preferred stock | | 4,988 | 159,550 | | - | | | 4,988 | 160,738 | | 0.00 | |
| Income available to common stockholders and assumed conversion | $ | 14,444,685 | 40,276,276 | $ | 0.36 | | $ | 11,514,520 | 40,671,509 | $ | 0.28 | |

14. Other Comprehensive Income

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The components of other comprehensive income on a pre-tax and after-tax basis for the nine-month and three-month periods ended September 30, 2010 and 2009 are as follows:

| | For the Nine Months Ended September 30, 2010 | | | For the Nine Months Ended September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Pretax | Tax | After-tax | Pretax | Tax | After-tax |
| Net unrealized gains on available-for-sale investments arising during the periods | $ 4,979,278 | $ (1,920,757) | $ 3,058,521 | $ 27,219,627 | $ (10,499,972) | $ 16,719,655 |
| Less: realized gains on investments | 5,744,344 | (2,215,881) | 3,528,463 | 13,588,681 | (5,241,834) | 8,346,847 |
| Less: reclassification of unrealized losses relating to the reclassification of investment portfolio to trading from available-for-sale | (656,307) | 253,170 | (403,137) | - | - | - |
| Less: realized foreign currency gains on investments | 809,050 | (312,091) | 496,959 | 6,156,945 | (2,375,042) | 3,781,903 |
| Less: other | (9,031) | 3,484 | (5,547) | - | - | - |
| Change in net unrealized gains on available-for-sale investments | (908,778) | 350,561 | (558,217) | 7,474,001 | (2,883,096) | 4,590,905 |
| Other comprehensive (loss) income | $ (908,778) | $ 350,561 | $ (558,217) | $ 7,474,001 | $ (2,883,096) | $ 4,590,905 |

| | For the Three Months Ended September 30, 2010 | | | For the Three Months Ended September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Pretax | Tax | After-tax | Pretax | Tax | After-tax |
| Net unrealized gains on available-for-sale investments arising during the periods | $- | $- | $- | $12,243,930 | $(4,689,936) | $7,553,994 |
| | - | - | - | 12,136,072 | (4,681,490) | 7,454,582 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Less: realized gains on investments | | | | | | |
| Less: reclassification of unrealized losses relating to the reclassification of investment portfolio to trading from available-for-sale | (656,307) | 253,170 | (403,137) | - | - | - |
| Less: realized foreign currency gains on investments | | - | - | 6,084,629 | (2,347,146) | 3,737,483 |
| Less: other | (9,031) | 3,484 | (5,547) | - | - | - |
| Change in net unrealized gains on available-for-sale investments | 665,338 | (256,654) | 408,684 | (5,976,771) | 2,338,700 | (3,638,071) |
| Other comprehensive income (loss) | $665,338 | $(256,654) | $408,684 | $(5,976,771) | $2,338,700 | $(3,638,071) |

15. Subsequent Events

The Company performed an evaluation of subsequent events through the date the financial statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the condensed consolidated financial statements as of September 30, 2010.

On October 6, 2010, the Company's Board of Directors declared a dividend of $0.10 per share on its outstanding common stock. The dividend is payable on November 5, 2010 to stockholders of record as of October 22, 2010 in the aggregate amount of $3,916,724.

On October 18, 2010, the Company announced that UPCIC received approval from the Massachusetts Division of Insurance to write property and casualty insurance in the Commonwealth of Massachusetts and withdrew its application to provide property and casualty insurance in the Commonwealth of Virginia.

16. Fair Value Disclosure

Financial assets and financial liabilities recorded on the condensed consolidated Balance Sheets at fair value as of September 30, 2010 are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2: Financial assets and financial liabilities whose values are based on inputs that utilize other than quoted prices included in Level I that are observable for similar assets, or unobservable inputs that are corroborated by market data.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The following table presents information about the Company's invested assets measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

| | Fair Value Measurements | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | As of September 30, 2010 | | | |
| US government obligations and agencies | $3,465,332 | $- | $- | $3,465,332 |
| Foreign obligations | 6,173,911 | - | - | 6,173,911 |
| Equity securities | 94,716,769 | - | - | 94,716,769 |
| Total invested assets | $104,356,012 | $- | $- | $104,356,012 |
| | As of December 31, 2009 | | | |
| US government obligations and agencies | $41,389,008 | $- | $- | $41,389,008 |
| Equity securities | 73,408,002 | - | - | 73,408,002 |
| Total invested assets | $114,797,010 | $- | $- | $114,797,010 |

The fair value of the securities determined to be Level I inputs are derived from readily available market prices.

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

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

### Forward-Looking Statements

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

### Overview

The Company 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 its subsidiary 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"). 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

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by the JUA was approved by the JUA on May 21, 1997, subject to certain minimum capitalization and other requirements.

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'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 September 30, 2010 includes approximately 565,000 policies with coverage for wind risks and 11,000 policies without wind risks. The average premium for a policy with wind coverage is approximately $1,142 and the average premium for a policy without wind coverage is approximately $502. UPCIC had in-force premiums of approximately $651.2 million as of September 30, 2010.

The Code requires applicants to have a minimum capitalization of $5.0 million to become licensed as an insurance company in the State of Florida. Upon being issued an insurance license, companies must maintain capitalization of the greater of ten percent of the insurer's total liabilities or $4.0 million. If an insurance company's capitalization falls below the minimum requirements, then the company will be deemed out of compliance with the Code, which could result in revocation of the participant's license to operate as an insurance company in the State of Florida. UPCIC's statutory capital and surplus was $106,000,341 at September 30, 2010 and exceeded the minimum capital and surplus requirements. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios.

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.

In an effort to further grow its insurance operations, in 1998 the Company began to solicit business actively in the open market. To improve underwriting and manage risk, the Company utilizes standard industry modeling techniques for hurricane and windstorm exposure. In February 2008, UPCIC filed a request with the National Flood Insurance Program ("NFIP") to become authorized to write and service flood insurance policies under the WYO Program. The Company did not immediately pursue opportunities to transact flood insurance as the NFIP considered changes to its policy administration and reporting systems. However, the Company recently has resumed its evaluation of these requirements. Management may consider underwriting other types of policies in the future. Any such program will require OIR approval. See Item 2 below, Competition under "Factors Affecting Operating 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.

On July 16, 2008, August 18, 2008, September 30, 2008, and January 29, 2009, UPCIC was licensed to transact insurance business within the States of South Carolina, Hawaii, North Carolina, and Georgia, respectively. The State of North Carolina Department of Insurance has restricted UPCIC to writing no more than $12.0 million of direct premiums in each of the first two full calendar years after which such restriction may be lifted. UPCIC commenced writing homeowners policies in South Carolina in 2008 and North Carolina and Hawaii in 2009. During the three-month periods ended September 30, 2010 and 2009, direct written premiums in these states aggregated approximately $4.4 million and $2.5 million, respectively.

On March 5, 2010, the Company's Board of Directors approved the Company's plans for UPCIC to apply for expansion in five additional states including Maryland, Massachusetts, New Jersey, New York, and

Virginia. On October 18, 2010, the Company announced that UPCIC received approval from the Massachusetts Division of Insurance to write property and casualty insurance in the Commonwealth of Massachusetts and withdrew its application to provide property and casualty insurance in the Commonwealth of Virginia. There is no assurance that the Company will be successful in obtaining licenses in the remaining states and no prediction of when, if licensed, the Company will commence operations in any of these states.

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

On October 19, 2009, UPCIC received approval for a premium rate increase for its homeowner's program within the State of Florida. The premium rate increase averaged approximately 14.6 percent statewide. The effective dates for the premium rate increase were October 22, 2009 for new business and December 11, 2009 for renewal business. UPCIC expects the approved premium rate increases to have a favorable effect on premiums written and earned in future months as new and renewal policies are written at the higher rates.

On November 3, 2009, UPCIC received approval for a premium rate increase for its dwelling fire program within the State of Florida. The premium rate increase averaged approximately 14.8 percent statewide. The effective dates for the premium rate increase were November 5, 2009 for new business and December 29, 2009 for renewal business. UPCIC expects the approved premium rate increases to have a favorable effect on premiums written and earned in future months as new and renewal policies are written at the higher rates.

In December 2008, the Company obtained regulatory approval for another Florida-domiciled property and casualty insurance company, American Platinum Property & Casualty Insurance Company ("APPCIC"). APPCIC currently does not have any active insurance business. Management continues to evaluate business opportunities for APPCIC.

The Company joined the Russell 3000® Index on June 26, 2009. According to publicly available information provided on Russell's Web site, annual reconstitution of Russell's U.S. indices captures the 3,000 largest U.S. stocks as of the end of May, ranking them by total market capitalization. Membership in the Russell 3000, which remains in place for one year, means automatic inclusion in the large-cap Russell 1000® Index or small-cap Russell 2000® Index as well as the appropriate growth and value style indices. Russell determines membership for its equity indices primarily by objective, market-capitalization rankings and style attributes. Russell indices are widely used by investment managers and institutional investors for index funds and as benchmarks for both passive and active investment strategies. The Company believes that its inclusion in the Russell 3000® Index will lead to additional visibility in the investment community.

Critical Accounting Policies and Estimates

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

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements during the nine-month period ended September 30, 2010.

Related Parties

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Chief Operating Officer and Senior Vice President of UPCIC. During the nine month periods ended September 30, 2010 and 2009, the Company expensed claims adjusting fees of $360,000 and $345,000, respectively, to Downes and Associates.

During the fourth quarter of 2009, the Company overpaid non-equity incentive plan compensation to the Chief Executive Officer and Chief Operating Officer in the amounts of $217,169 and $162,876, respectively. These amounts were repaid to the Company during February 2010.

Analysis of Financial Condition - As of September 30, 2010 Compared to December 31, 2009

The source of liquidity for possible claim payments consists of the collection of net premiums after deductions for expenses, reinsurance recoverables and short-term loans. The Company held cash and cash equivalents at September 30, 2010 and December 31, 2009 of $294,972,027 and $192,924,291, respectively.

The Company believes that premiums will be sufficient to meet the Company’s working capital requirements for at least the next twelve months. The Company’s policy is to invest amounts considered to be in excess of current working capital requirements.

The Company reduced its aggregate investments in fixed maturities and equity securities to $104,356,012 as of September 30, 2010 from $114,797,010 as of December 31, 2009 in response to market conditions.

The following table summarizes, by type, the carrying values of the Company’s investments:

| Type of Investment | | As of September 30, 2010 | | As of December 31, 2009 |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 294,972,027 | $ | 192,924,291 |
| Fixed maturities, available-for-sale | | - | | 41,389,008 |
| Equity securities, available-for-sale | | - | | 73,408,002 |
| Fixed maturities, trading | | 9,639,243 | | - |
| Equity securities, trading | | 94,716,769 | | - |
| Real estate, net | | 4,100,540 | | 3,289,893 |
| | | | | |
| Total Investments | $ | 403,428,579 | $ | 311,011,194 |

The Company’s liability for Reinsurance Payable decreased $5,172,264 to $67,932,331 during the nine-month period ended September 30, 2010 from $73,104,595 as of year-end 2009, primarily due to the timing of settlements with reinsurers.

Results of Operations – Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

The Company's operating results for the nine-month period ended September 30, 2010 continued to be adversely affected by broader conditions in the Florida residential insurance market. The Florida legislature expanded the reimbursement coverage available from the Florida Hurricane Catastrophe Fund in 2007, and required residential insurers in Florida to reduce rates based upon presumptive costs savings as calculated by the Florida Office of Insurance Regulation (OIR) and later based upon a true-up filing using their own data. In 2007, the Florida Financial Services Commission increased then-existing discounts available for homes built with certain windstorm loss reduction devices. We believe these cumulative discounts result in premium reductions that are greater than the estimated reductions in losses.

The Company's operating results for the nine-month period ended September 30, 2010 were also influenced by legislative enactments relating to claims payments. Following the 2004 and 2005 hurricane seasons, the Florida legislature required all insurers issuing replacement cost policies to pay the full replacement cost of damaged properties without deducting depreciation whether or not the insureds repaired or replaced the damaged property. Under prior law, insurers could pay the depreciated value of the property until insureds commenced repairs or replacement. The new law has led to an increase in disagreements regarding the scope of damage and has resulted in insureds receiving claims payments and not repairing the damage. Although UPCIC seeks to diligently review claims and promptly pay meritorious amounts, the Company's operating results may be affected by a claims environment in Florida that produces opportunities for fraudulent or overstated claims.

The nine-month period ended September 30, 2010 saw continued growth in policy count for UPCIC, the Company's wholly-owned regulated insurance subsidiary. The increase in the number of policies in-force continued to be the result of heightened relationships with existing agents, an increase in the number of new agents, and continued expansion within Florida and in South Carolina, North Carolina, and Hawaii.

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

Florida's Legislature also has implemented strategies to improve the ability of residential structures to withstand hurricanes. New construction must meet stronger building codes. An increasing number of insureds have qualified for insurance premium discounts as new homes were built and existing homes retrofitted. These premium discounts result from homes' supposed reduced vulnerability to hurricane losses due to the mitigation efforts, which UPCIC takes into account in its underwriting and profitability models.

The Florida legislature considered several issues affecting the Florida property insurance market during the 2010 legislative session, including mitigation credits, public adjusters, sinkhole claims and replacement cost methodology. However, the Governor vetoed the bill that contained most of the significant property insurance reforms. The legislature subsequently announced that its staff will conduct interim studies on sinkhole claims, alternatives to reinsurance, and public adjusters in anticipation of the 2011 legislative session.

During the three-month period ended September 30, 2010, the Company evaluated the trading activity in its investment portfolio, its investing strategy, and its overall investment program. As a result of this evaluation, the Company reclassified its available-for-sale portfolio as a trading portfolio effective July 1, 2010. As a result of the reclassification, pre-tax net unrealized losses in the amount of $656,307 on the available-for-sale portfolio, as of July 1, 2010, were recognized in current period revenues as a reduction of unrealized gains on investments. During the three-month period ended September 30, 2010, the market value of the Company’s trading portfolio increased by $9,253,540 before income taxes. The increase in market value was recorded in current period revenues as unrealized gains on investments. The Company will continue to record future changes in the market value of its trading portfolio directly to revenues as unrealized gains or losses on investments.

Net income increased 1.8% to $32,155,662 for the nine-month period ended September 30, 2010 from $31,590,908 for the nine-month period ended September 30, 2009. The Company’s earnings per diluted share were $0.80 for the 2010 period versus $0.78 in the same period last year. The Company continues to experience an increase in the number of homeowners and dwelling fire insurance policies written by UPCIC and increases in direct premium written during the nine-month period ending September 30, 2010. The aforementioned reclassification of the Company’s available-for-sale investment portfolio to a trading securities portfolio increased net income by $5,280,850, and basic net income per common share and fully diluted net income per common share by $0.13, during the nine-month period ended September 30, 2010.

Comprehensive income decreased 12.7% to $31,597,445 for the nine-month period ended September 30, 2010 from $36,181,813 for the nine-month period ended September 30, 2009 as a result of the $564,754 increase in net income and a decrease in the change in net unrealized gains on investments of $5,149,122, net of taxes. The increase in the change in net unrealized gains on investments is attributable to the reclassification of net unrealized losses of $403,705 to current period revenue, relating to the aforemention reclassification of the Company’s available-for-sale investment portfolio to a trading securities portfolio, during the 2010 period. In addition, during the 2010 period, realized gains and foreign currency gains exceeded unrealized gains on available-for-sale investments arising during the period by $966,901 as compared to realized gains and foreign currency gains being less than net unrealized gains and foreign currency gains arising during the period by $4,590,905 in the 2009 period.

Direct premiums written increased 19.3% to $520,781,570 during the nine-month period ending September 30, 2010 from $436,610,689 in the same period of 2009.

Net premiums earned increased 14.5% to $123,505,504 for the nine-month period ended September 30, 2010 from $107,892,126 for the nine-month period ended September 30, 2009. The increase is due to an increase in net premiums written.

Total direct premiums earned increased 12.8% in the nine-month 2010 period compared to the same period in 2009. As of September 30, 2010, UPCIC was servicing approximately 576,000 homeowners’ and dwelling fire insurance policies with in-force premiums of approximately $651,200,000 and average in-force premiums of $947 per dwelling fire policy, $2,022 per homeowners policy and $583 per condominium/renters policy. As of September 30, 2009, UPCIC was servicing approximately 536,000 homeowners’ and dwelling fire insurance policies with in-force premiums of approximately $563,000,000 and comparable average in-force premiums by policy type of $856, $1,853, and $521 for dwelling fire, homeowners', and condominium/renters, respectively.

Net investment income decreased 72.8% to $376,575 for the nine-month period ended September 30, 2010 from $1,385,007 for the nine-month period ended September 30, 2009. Net investment income is comprised primarily of interest and dividends. The decrease is primarily due to a change in the composition of the Company's investment portfolio during the nine-month period ended September 30, 2010.

Realized gains on investments decreased to $11,993,359 for the nine-month period ended September 30, 2010 from $13,588,681 for the nine-month period ended September 30, 2009. The decrease is due to an other-than-temporary impairment on investments recognized during the first quarter of 2010 and the economic results of sales of securities during the respective periods.

Unrealized gains on investments of $8,597,233 were recognized as income during the three-month period ended September 30, 2010 relating to the previously described reclassification of the Company's investments to a trading portfolio from an available-for-sale portfolio. In previous periods, the changes in unrealized gains and losses on the Company's available-for-sale portfolio were appropriately included in Other Comprehensive Income rather than current period income.

Foreign currency gains on investments decreased to $800,990 for the nine-month period ended September 30, 2010 from $6,156,945 for the nine-month period ended September 30, 2009. The decrease is due to changes in the Company's investment portfolio in foreign-denominated fixed maturities and equity securities.

Commission revenue increased 8.8% to $25,469,318 for the nine-month period ended September 30, 2010 from $23,413,086 for the nine-month period ended September 30, 2009. Commission revenue is comprised principally of the managing general agent's policy fee income and service fee income on all new and renewal insurance policies, reinsurance commission sharing agreements, and commissions generated from agency operations. The increase is primarily attributable to an increase in managing general agent's policy fee income of approximately $767,000 and an increase in reinsurance commission sharing of $1,289,000.

Other revenue decreased 17.2% to $3,488,748 for the nine-month period ended September 30, 2010 from $4,214,347 for the nine-month period ended September 30, 2009. The decrease is primarily due to a decrease in payment plan fee revenue.

Net losses and LAE increased 13.3% to $77,856,730 for the nine-month period ended September 30, 2010 from $68,695,552 for the nine-month period ended September 30, 2009. The Company incurred an increase in net losses and LAE in connection with the servicing of additional policies.

The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 63.0% and 63.7% during the nine-month periods ended September 30, 2010 and 2009, respectively, and were comprised of the following components:

| | Nine months ended September 30, 2010 | | |
|---|---|---|---|
| | Direct | Ceded | Net |
| Loss and loss adjustment expenses | $156,537,023 | $78,680,292 | $77,856,730 |
| Premiums earned | $452,847,668 | $329,342,164 | $123,505,504 |
| Loss & LAE ratios | 34.6% | 23.9% | 63.0% |

| | Nine months ended September 30, 2009 | | |
|---|---|---|---|
| | Direct | Ceded | Net |
| Loss and loss adjustment expenses | $139,259,179 | $70,563,627 | $68,695,552 |
| Premiums earned | $401,605,845 | $293,713,719 | $107,892,126 |
| Loss & LAE ratios | 34.7% | 24.0% | 63.7% |

Catastrophes are an inherent risk of the property-liability insurance business which may contribute to material year-to-year fluctuations in UPCIC's and the Company's results of operations and financial position. During the nine-month periods ended September 30, 2010 and 2009, neither UPCIC nor the Company experienced any catastrophic events. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position of UPCIC and the Company. While management believes UPCIC's and the Company's catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses, including catastrophic losses that may exceed the limits of UPCIC's reinsurance program.

General and administrative expenses increased 19.1% to $43,820,836 for the nine-month period ended September 30, 2010 from $36,789,168 for the nine-month period ended September 30, 2009. The increase in general and administrative expenses was primarily attributable to increases in commissions on direct premiums and insurance premium taxes, which are attributable to an increase in direct written premiums from growth in the number of policies in-force and increases in the average in-force premium per policy. These increased expenses were partially offset by an increase in ceding commissions.

Federal and state income taxes increased 4.2% to $20,398,499 for the nine-month period ended September 30, 2010 from $19,574,564 for the nine-month period ended September 30, 2009. Federal and state income taxes were 38.8% of pretax income for the nine-month period ended September 30, 2010, and 38.3% for the nine-month period ended September 30, 2009. The increase in income tax expense is primarily due to higher income before income taxes.

Results of Operations - Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

During the three-month period ended September 30, 2010, the Company evaluated the trading activity in its investment portfolio, its investing strategy, and its overall investment program. As a result of this evaluation, the Company reclassified its available-for-sale portfolio as a trading portfolio effective July 1, 2010. As a result of the reclassification, pre-tax net unrealized losses in the amount of $656,307 on the available-for-sale portfolio, as of July 1, 2010, were recognized in current period revenues as a reduction of unrealized gains on investments. During the three-month period ended September 30, 2010, the market value of the Company's trading portfolio increased by $9,253,540 before income taxes. The increase in market value was recorded in current period revenues as unrealized gains on investments. The Company will continue to record future changes in the market value of its trading portfolio directly to revenues as unrealized gains or losses on investments.

Net income increased 25.4% to $14,444,685 for the three-month period ended September 30, 2010 from $11,514,520 for the three-month period ended September 30, 2009. The Company's earnings per diluted share were $0.36 for the 2010 period versus $0.28 in the same period last year. There was an increase in the number of homeowners' and dwelling fire insurance policies serviced by the Company and increases in direct premiums written during the three-month period ending September 30, 2010. The aforementioned reclassification of the Company's available-for-sale investment portfolio to a trading

securities portfolio increased net income by $5,280,850, and basic net income per common share and fully diluted net income per common share by $0.13 and $0.12, respectively, during the three-month period ended September 30, 2010.

Comprehensive income increased 88.6% to $14,853,369 for the three-month period ended September 30, 2010 from $7,876,449 for the three-month period ended September 30, 2009 as a result of the  $2,930,165 increase in net income and an increase in the change in net unrealized gains on investments of $4,046,755, net of taxes.  The increase in the change in net unrealized gains on investments is attributable to the reclassification of net unrealized losses of $403,705 to current period revenue, relating to the aforemention reclassification of the Company’s available-for-sale investment portfolio to a trading securities portfolio, during the 2010 period as compared to realized gains and foreign currency gains exceeding net unrealized gains and foreign currency gains by $3,638,071 during the 2009 period.

Direct premiums written increased 13.4% to $152,662,238 during the three-month period ending September 30, 2010 from $134,626,400 in the same period of 2009.

Net premiums earned increased 49.1% to $48,831,154 for the three-month period ended September 30, 2010 from $32,757,736 for the three-month period ended September 30, 2009. The increase is due to an increase in net premiums written.

Total direct premiums earned increased 16.4% in the three-month 2010 period compared to the same period in 2009.  As of September 30, 2010, UPCIC was servicing approximately 576,000 homeowners’ and dwelling fire insurance policies with in-force premiums of approximately $651,200,000 and average in-force premiums of $947 per dwelling fire policy, $2,022 per homeowners policy and $583 per condominium/renters policy.  As of September 30, 2009, UPCIC was servicing approximately 536,000 homeowners’ and dwelling fire insurance policies with in-force premiums of approximately $563,000,000 and comparable average in-force premiums by policy type of $856, $1,853, and $521 for dwelling fire, homeowners', and condominium/renters, respectively.

Net investment income decreased 88.7% to $66,004 for the three-month period ended September 30, 2010 from $586,525 for the three-month period ended September 30, 2009. Net investment income is comprised primarily of interest and dividends.  The decrease is primarily due to a change in the composition of the Company’s investment portfolio during the three-month period ended September 30, 2010.

Realized gains on investments decreased to $6,249,015 for the three-month period ended September 30, 2010 from $12,136,072 for the three-month period ended September 30, 2009.  The decrease is due to the economic results of sales of securities during the respective periods.

Unrealized gains on investments of $8,597,233 were recognized as income during the three-month period ended September 30, 2010 relating to the previously described reclassification of the Company’s investments to a trading portfolio from an available-for-sale portfolio.  In previous periods, the changes in unrealized gains and losses on the Company’s available-for-sale portfolio were appropriately included in Other Comprehensive Income rather than current period income.

Commission revenue decreased 1.9% to $7,948,019 for the three-month period ended September 30, 2010 from $8,105,468 for the three-month period ended September 30, 2009. Commission revenue is comprised principally of the managing general agent’s policy fee income and service fee income on all

new and renewal insurance policies, reinsurance commission sharing agreements, and commissions generated from agency operations. The decrease is primarily attributable to a decrease in reinsurance commission sharing of approximately $377,000 net of an increase in managing general agent's policy fee income of approximately $221,000.

Other revenue increased 11.9% to $1,468,416 for the three-month period ended September 30, 2010 from $1,312,617 for the three-month period ended September 30, 2009. The increase is primarily due to a higher volume of fees earned on payment plans offered to policyholders by UPCIC.

Net losses and LAE increased 23.6% to $29,370,125 for the three-month period ended September 30, 2010 from $23,768,729 for the three-month period ended September 30, 2009. The Company incurred an increase in net losses and LAE in connection with the servicing of additional policies.

The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 60.1% and 72.6% during the three-month periods ended September 30, 2010 and 2009, respectively, and were comprised of the following components:

| | Three months ended September 30, 2010 | | |
|---|---|---|---|
| | Direct | Ceded | Net |
| Loss and loss adjustment expenses | $59,511,679 | $30,141,554 | $29,370,126 |
| Premiums earned | $162,093,491 | $113,262,337 | $48,831,154 |
| Loss & LAE ratios | 36.7% | 26.6% | 60.1% |

| | Three months ended September 30, 2009 | | |
|---|---|---|---|
| | Direct | Ceded | Net |
| Loss and loss adjustment expenses | $48,330,038 | $24,561,309 | $23,768,729 |
| Premiums earned | $139,207,538 | $106,449,802 | $32,757,736 |
| Loss & LAE ratios | 34.7% | 23.1% | 72.6% |

The ceded loss and LAE ratio for the three-month period ended September 30, 2010 was 26.6% compared to 23.1% for the three-month period ended September 30, 2009. The ceded loss and LAE ratio was influenced by higher total reinsurance costs in the 2010 period compared to the 2009 period.

General and administrative expenses increased 8.4% to $20,242,856 for the three-month period ended September 30, 2010 from $18,674,744 for the three-month period ended September 30, 2009. The increase in general and administrative expenses was primarily attributable to increases in commissions paid on direct premiums and insurance premium taxes, which are attributable to an increase in direct written premiums from growth in the number of policies in-force and increases in the average in-force premium per policy. These increased expenses were partially offset by an increase in 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. As of September 30, 2010, deferred policy acquisition costs were $55,780,754 and deferred ceding commissions were $42,927,905. Deferred policy acquisition costs were reduced by deferred ceding commissions and shown net on the Condensed Consolidated Balance Sheet in the amount of $12,852,849. During the nine-month period ended September 30, 2010, the deferral of policy acquisitions costs in the amount of $11,809,468 exceeded the comparable amount

during the 2009 period by approximately $6.5 million thereby decreasing general and administrative expenses in the 2010 period by an equal amount. During the nine-month period ended September 30, 2010, the deferral of ceding commissions in the amount of $8,421,243 exceeded the comparable amount during the 2009 period by approximately $11.8 million thereby increasing general and administrative expenses in the 2010 period by an equal amount.

Federal and state income taxes increased 29.5% to $9,094,115 for the three-month period ended September 30, 2010 from $7,025,054 for the three-month period ended September 30, 2009. Federal and state income taxes were 38.6% of pretax income for the three-month period ended September 30, 2010, and 37.9% for the three-month period ended September 30, 2009. The increase in income tax expense is primarily due to higher income before income taxes.

Liquidity and Capital Resources

Overview

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

The Company expects that its current capital resources will be sufficient to meet anticipated working capital requirements for the next twelve months. There can be no assurances, however, that such will be the case.

Cash Flows From Operating Activities

For the nine-month periods ended September 30, 2010 and 2009 cash flows provided by operating activities were $131,865,898 and $77,477,868 respectively. The increase in cash flows provided by operating activities relate primarily to the following reasons.

The increase in cash provided by operating activities of $47,177,169 from net proceeds of trading securities purchased and sold during the 2010 third quarter period. As part of the previously described reclassification of the Company's available-for-sale investment portfolio to a trading portfolio, effective July 1, 2010, the net proceeds from the sales and purchases of securities in the trading portfolio are recorded as cash flows from operating activities. The comparable amounts for purchases and sales of available-for-sale securities are recorded as cash flows form investing activities.

The increase in cash provided by operating activities from net changes in unearned premiums were $67,933,901 and $35,004,845 for the nine-month periods ended September 30, 2010 and 2009, respectively. The increase of $32,929,056 relates primarily to an increase in direct written premiums.

Cash used in operating activities from net changes in reinsurance payable was $5,172,264 for the nine-month period ended September 30, 2010 compared to cash provided by operating activities from net changes in reinsurance payable of $55,964,083 for the nine-month period ended September 30, 2009. The decrease in cash provided of $61,136,347 relates primarily to the timing of the settlement of balances with UPCIC's reinsurers.

The increase in cash provided by operating activities from reinsurance recoverables was $24,480,200 for the nine months ended September 30, 2010 compared to a decrease of $4,621,514 for the nine-month period ended September 30, 2009. The increase of $29,101,714 relates primarily to the timing of the settlement of balances with UPCIC's reinsurers.

Cash flows provided by 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 of cash, cash equivalents, and readily-marketable securities.

Cash Flows From Investing Activities

For the nine-month period ended September 30, 2010, cash flows used in investing activities were $24,508,506 as compared to cash flows used in investing activities during the nine-month period ended September 30, 2009 of $55,692,975. The decrease in cash used in investing activities relates to the timing of purchases and sales of fixed maturities and equity securities in the Company's available-for-sale portfolio. The comparable amounts for the purchases and sales of securities in the trading portfolio are recorded as cash flows from operating activities.

The following table summarizes the activity in investments during the nine-month periods ended September 30, 2010 and 2009 for both trading and available-for-sale securities:

| | Nine Month Ended | |
|---|---|---|
| | September 30, 2010 | September 30,2009 |
| Balance - January 1 | $114,797,010 | $5,648,775 |
| Purchases of fixed maturities | 417,122,128 | 206,473,797 |
| Purchases of equity securities | 141,238,671 | 138,139,475 |
| Net amort of prem / accretion of discount | (404,822) | (203,653) |
| Sales of fixed maturities | (454,557,173) | (203,451,919) |
| Sales of equity securities | (134,450,698) | (84,456,340) |
| Realized gains on investments | 20,740,617 | 13,588,679 |
| Foreign currency gains on investments | 834,529 | 6,108,112 |
| Unrealized (losses) gains | (964,250) | 7,514,045 |
| Balance - September 30 | $104,356,012 | $89,360,971 |

The amounts presented in the Statement of Cash Flows differ from the amounts shown in the table summarizing investment activities above due to the timing of cash settlements and to the transfer of the Company's available-for-sale portfolio to trading.

Cash Flows From Financing Activities

Cash flows used in financing activities were $5,309,656 and $3,706,646 for the nine-month periods ended September 30, 2010 and 2009, respectively. The change in cash flows used in financing activities relates primarily to an increase of $3,707,435 used for treasury shares on option exercises, and an increase of $3,640,575 provided by tax benefit on exercise of stock options.

In 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration (“SBA”) under Florida’s ICBUI Program, which was implemented by the Florida Legislature to encourage insurance companies to write additional residential insurance coverage in Florida. 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.

In 2008, the Florida Legislature passed a law providing participants in the ICBUI Program an opportunity to amend the terms of their surplus notes based on law changes. The original surplus note provided for increases in interest rates for failure to meet the Minimum Writing Ratio. Under the terms of the surplus note, as amended, the net written premium to surplus requirement and gross written premium to surplus requirement have been modified. As of September 30, 2010, UPCIC's net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC was not subject to increases in interest rates.

The balance of cash and cash equivalents as of September 30, 2010 was $294,972,027. 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 specific limits set forth in UPCIC's reinsurance agreements. For the 2010 hurricane season, UPCIC's reinsurance agreements transfer the risk of loss in excess of $22,500,000 ($75,000,000 net of $52,500,000 retained by the Company under the excess catastrophe contract) up to approximately the 125-year PML for the first event, (modeled using AIR CLASIC/2 v.11.0, long term, without demand surge and without loss amplification) $13,150,000 for the second event and $15,000,000 for the third event up to an amount that will vary depending on the coverage exhausted in the prior event(s). Catastrophic reinsurance is recoverable upon presentation to the reinsurer of evidence of claim payment.

UPCIC uses a catastrophe model to estimate its losses associated with potential hurricane events of various magnitudes. There is no assurance that the assumptions or scenarios incorporated into the model by its developers, or the assumptions or scenarios used by UPCIC or its representatives in applying the models to UPCIC's in-force portfolio, will reflect the characteristics of future hurricane events that may affect Florida or the resulting economic conditions. Further, although UPCIC uses a widely recognized, commercially available model to estimate its hurricane losses, other models exist that might produce higher or lower loss estimates. UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on UPCIC's and the Company's business, financial condition, results of operations and liquidity.

On October 29, 2010, the SBA published its most recent estimate of the FHCF's loss reimbursement capacity in the Florida Administrative Weekly. The SBA estimated that the FHCF's total claims-paying capacity under current market conditions for the 2010 - 2011 contract year is projected to be $18.776 billion over the 12-month period following the estimate. The SBA also referred to its report entitled, "October 2010 Estimated Claims Paying Capacity Report" ("Report") as providing greater detail regarding the FHCF's claims-paying capacity. The Report estimated that the FHCF's minimum 12-month claims-paying capacity is $19.414 billion and its maximum 12-month claims-paying capacity is $35.414 billion with an average claims-paying capacity of $25.414 billion. This projected claims-paying capacity exceeds the FHCF's maximum statutory obligation for 2010 of $18.776 billion. Claims-paying capacity exceeding the FHCF's maximum statutory obligation for a single contract year may be available for insurer reimbursements in future contract years. UPCIC purchased the FHCF Mandatory Layer of Coverage for the 2010 - 2011 contract year, which corresponds to FHCF loss reimbursement capacity of $17 billion. In the event the aggregate amount of reimbursement coverage requested by insurers for a particular contract year exceeds the FHCF's actual claims-paying capacity, the FHCF's obligation to reimburse insurers is limited by law to its actual claims-paying capacity. The aggregate cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's loss reimbursement capacity.

Effective June 1, 2010 through December 31, 2010, the Company obtained $60,000,000 of coverage via a catastrophe risk-linked transaction contract in the event UPCIC's catastrophe coverage is exhausted. The total cost of the Company's risk-linked transaction contract is $8,250,000.

GAAP differs in some respects from reporting practices prescribed or permitted by the OIR. To retain its certificate of authority, the Florida insurance laws and regulations require that UPCIC maintain capital and surplus equal to the statutory minimum capital and surplus requirement defined in the Florida Insurance Code as the greater of 10% of the insurer's total liabilities or $4,000,000. UPCIC's statutory capital and surplus was $106,000,341 as of September 30, 2010 and exceeded the minimum capital and surplus requirements. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios.

The maximum amount of dividends, which can be paid by Florida insurance companies without prior approval of the Commissioner of the OIR, is subject to certain statutory restrictions. The maximum dividend that may be paid by UPCIC to the Company without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or statutory unassigned surplus as of the preceding year end.

UPCIC is required annually to comply with the NAIC RBC requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations relative to its size and risk profile. NAIC's RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2009, based on calculations using the appropriate NAIC RBC formula, UPCIC's reported total adjusted capital was in excess of the requirements.

Available Cash

The Company held cash and cash equivalents at September 30, 2010 of $294,972,027. Of that amount, $254,957,239 was held by UPCIC, most of which is available to pay claims or relates to policyholder surplus. Accordingly, cash and cash equivalents in UPCIC are not available to buy back Company stock or pay Company dividends. A portion of those claims paid by the Company would be recoverable through the Company's quota share and catastrophic reinsurance upon presentation to the reinsurer of evidence of claim payment. As of December 31, 2009, the Company held cash and cash equivalents of $192,924,291.

Cash Dividends

On January 19, 2010, the Company's Board of Directors declared a dividend of $0.12 per share on its outstanding common stock. The dividend was paid on April 6, 2010 to stockholders of record as of March 19, 2010 in the aggregate amount of $4,699,926.

On May 24, 2010, the Company's Board of Directors declared a dividend of $0.10 per share on its outstanding common stock. The dividend was paid on July 15, 2010 to stockholders of record as of June 17, 2010 in the aggregate amount of $3,916,724.

Contractual Obligations

There have been no material changes during the period covered by this Report, outside of the ordinary course of the Company’s business, to the contractual obligations specified in the table of contractual obligations included in the section “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Company’s Annual Report on Form 10-K, for the year ended December 31, 2009.

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,” “p and similar expressions and variations thereof are intended to identify forward-looking statements. The Company’s actual results could differ materially from those set forth in or implied by any forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those uncertainties discussed below as well as those discussed elsewhere in this report.

Nature of the Company’s Business

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

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

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

to obtain the required regulatory approvals to offer additional insurance products. UPCIC also is required to maintain minimum surplus to support its underwriting program. The surplus requirement affects UPCIC's potential growth.

Management of Exposure to Catastrophic Losses

UPCIC is exposed to potentially numerous insured losses arising out of single or multiple occurrences, such as natural catastrophes. As with all property and casualty insurers, UPCIC expects to and will incur some losses related to catastrophes and attempts to price its policies accordingly. UPCIC's exposure to catastrophic losses arises principally out of hurricanes and windstorms. However, there is no assurance UPCIC will be able to charge prices commensurate with the potential losses that may result from catastrophic events. Through the use of standard industry modeling techniques that are susceptible to change, UPCIC manages its exposure to such losses on an ongoing basis from an underwriting perspective. UPCIC also protects itself against the risk of catastrophic loss by obtaining reinsurance coverage as of the beginning of hurricane season on June 1 of each year. UPCIC's reinsurance program consists of excess of loss, quota share and catastrophe reinsurance for multiple hurricanes. UPCIC's catastrophe reinsurance program currently covers three events, subject to the terms and limitations of the reinsurance contracts. However, UPCIC may not buy enough reinsurance to cover multiple storms going forward or be able to timely obtain reinsurance. In addition, UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, and such losses could have a material adverse effect on the business, financial condition and results of operations of UPCIC and the Company.

Although UPCIC uses a widely recognized, commercially available model to estimate its hurricane losses, other models exist that might produce higher or lower loss estimates. The loss estimates developed by the catastrophe model are dependent upon assumptions or scenarios incorporated into the model by its developer, which is a third party independent of UPCIC, and on assumptions or scenarios made by UPCIC or its representatives when using the model. There is no assurance these assumptions or scenarios will reflect the characteristics of future hurricane events that may affect Florida or the resulting economic conditions. This may result in exposure to UPCIC for losses that are not covered by the reinsurance program, which could have a material adverse effect on UPCIC's and the Company's business, financial condition, results of operations and liquidity.

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. As of September 30, 2009, UPCIC had coverage to approximately the 114-year PML (modeled using AIR CLASIC/2 v.10.0, long term, without demand surge and without loss amplification). As of September 30, 2010, UPCIC had coverage to approximately the 125-year PML (modeled using AIR CLASIC/2 v.11.0, long term, without demand surge and without loss amplification). UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on the Company's business, financial condition and results of operations should catastrophe losses exceed these amounts.

Reinsurance

The property and casualty reinsurance industry is subject to the same market conditions as the direct property and casualty insurance market, and there can be no assurance that reinsurance will be available to UPCIC to the same extent and at the same cost as currently in place for UPCIC. Future increases in catastrophe reinsurance costs are possible and could adversely affect UPCIC’s results. Reinsurance does not legally discharge an insurer from its primary liability for the full amount of the risks it insures, although it does make the reinsurer liable to the primary insurer. Therefore, UPCIC is subject to credit risk with respect to its reinsurers. In addition, UPCIC obtains a significant portion of its reinsurance coverage from the FHCF. There is no guaranty the FHCF will be able to provide reimbursements at levels requested and relied upon by UPCIC or as timely as required by UPCIC’s claims payments to policyholders. Likewise, there is no guaranty that laws, contracts or requirements relating to the FHCF will be interpreted in a manner consistent with UPCIC’s understandings or will remain unchanged in the future. In addition, the cost of UPCIC’s reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF’s claims-paying capacity.

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

Adequacy of Liabilities for Losses

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

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

When a claim involving a probable loss is reported, UPCIC establishes a liability for the estimated amount of UPCIC’s ultimate loss and LAE payments. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the

circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions.

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

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

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

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

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

Government Regulation

Florida insurance companies, such as UPCIC, are subject to regulation and supervision by the OIR. The OIR has broad regulatory, supervisory and administrative powers. Such powers relate, among other things, to the granting and revocation of licenses to transact business; the licensing of agents (through the Florida Department of Financial Services); the standards of solvency to be met and maintained; the nature of, and limitations on, investments; approval of policy forms and rates; review of reinsurance contracts; periodic examination of the affairs of insurance companies; and the form and content of required financial statements. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of investors.

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

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

Legislative Initiatives

The State of Florida created Citizens Property Insurance Corporation ("Citizens") to provide insurance to Florida homeowners in high-risk areas and to others without private insurance options. As of September 30, 2010, there were 1,237,289 Citizens policies in force. In May 2007, the State of Florida passed legislation that froze property insurance rates for Citizens customers at December 2006 levels through December 31, 2008 and permitted insurance customers to opt into Citizens when the price of a private policy is 15% more than the Citizens rate, compared to the previous opt-in threshold of 25%. In May 2008, the Florida Legislature extended a freeze on Citizens rates through January 2010. In 2009, the legislature authorized Citizens to make incremental annual changes, beginning January 1, 2010, to achieve actuarially sound rate levels, provided that the rate increase in any year did not exceed ten percent for any policyholder, excluding coverage changes and surcharges. This limitation on policyholders' rate changes has resulted in Citizens' implementing rates levels for 2010 that in the aggregate are lower than its indicated rate need. These initiatives, together with any future initiatives that seek to further relax eligibility requirements or reduce premium rates for Citizens customers, could adversely affect the ability of UPCIC and the Company to do business profitably. In addition, the Florida Legislature in 2007 expanded the capacity of the FHCF, with the intent of reducing the cost of reinsurance otherwise purchased by residential property insurers. In 2009, the Florida Legislature adopted a plan to phase-out the expanded FHCF coverage over a period extending through the 2013 hurricane season, and to increase the premiums associated with the expanded coverage. If the expanded FHCF coverage expires or if the law providing for the expanded coverage is otherwise modified, or UPCIC otherwise purchases additional private market reinsurance due to reduced estimates of the FHCF's claims-paying capacity, the cost of UPCIC's reinsurance program may increase, which could affect UPCIC's profitability until such time as UPCIC can obtain approval of appropriate rate changes. State and federal legislation relating to insurance is affected by a number of political and economic factors that are beyond the control of UPCIC and the Company, and the Florida Legislature and the NAIC from time to time consider proposals that may affect, among other things, regulatory assessments and reserve requirements. The Company cannot predict the effect that any proposed or future legislation or regulatory or administrative initiatives may have on the financial condition or operations of UPCIC or the Company.

Product Pricing

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

The premiums charged by UPCIC to policyholders are affected by legislative enactments and administrative rules, including a state-mandated program requiring residential property insurance companies like UPCIC to provide premium discounts when policyholders verify that insured properties have certain construction techniques or other windstorm loss reduction fixtures. The level of required premium discounts may exceed the expected reduction in losses associated with the construction techniques or fixtures for which the discounts are provided. Although UPCIC may submit rate filings to address any premium deficiencies, those rate filings are subject to the considerations identified in the preceding paragraph. Any inability of UPCIC to implement sufficient and timely rate adjustments to provide aggregate premiums commensurate with UPCIC’s expected losses will have a material adverse effect on UPCIC’s and the Company’s business, financial condition, results of operations and liquidity.

Dependence on Key Individuals

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

Competition

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

Financial Stability Rating

Financial stability ratings are an important factor in establishing the competitive position of insurance companies and may impact an insurance company’s sales. Demotech, Inc. maintains a letter scale financial stability rating system ranging from A (A double prime) to L (licensed by state regulatory authorities). On August 31, 2010, Demotech, Inc. reaffirmed UPCIC’s financial stability rating of A, which is the fourth highest of six rating levels. According to Demotech, Inc., A ratings are assigned to insurers that have “… exceptional ability to maintain liquidity of invested assets, quality reinsurance, acceptable financial leverage and realistic pricing while simultaneously establishing loss and loss adjustment expense reserves at reasonable levels.” With a financial stability rating of A, the Company expects that UPCIC’s property insurance policies will be acceptable to the secondary mortgage marketplace and mortgage lenders. The rating of UPCIC is subject to at least annual review by, and may be revised downward or revoked at the sole discretion of, Demotech, Inc.

In November 2008, Demotech sent UPCIC a letter entitled Recent Events Affecting Financial Stability Ratings for Florida Property and Casualty Insurance Companies Require Supplemental Information. The letter provided Demotech’s perspective and expectations relative to the reported short term liquidity issues facing the FHCF. Specifically, the letter stated that an extension of Financial Stability Ratings

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beyond May 15, 2009 would require definitive financial information regarding participation in the FHCF, documentation of bridge loans or alternative financing mechanisms that provide liquidity during a period in which the FHCF would be raising capital, and any other precaution or protection regarding reinsurance collectability or catastrophe reinsurance. UPCIC subsequently implemented plans addressing Demotech's concern with the FHCF liquidity issue and was successful in maintaining its A rating.

In March 2010, to help address questions and concerns relative to Demotech's rating and review process, Demotech published Guidance on Financial Stability Ratings and Catastrophe Reinsurance Program Reporting for Florida Property Insurers. The document contains the criteria Demotech considers when reviewing a company. The standards are some of the objective evaluation criteria applied to each insurer writing property business in Florida. On March 22, 2010, UPCIC received notice from Demotech that it would require a capital infusion of $30 million by April 16, 2010 in order for UPCIC to maintain its A rating. In order to comply with this requirement the Company contributed an aggregate amount of $30 million to UPCIC in March 2010. Demotech subsequently reaffirmed UPCIC's A rating.

UPCIC's failure to maintain a commercially acceptable financial stability rating could have a material adverse effect on the Company's ability to retain and attract policyholders and agents.   A withdrawal of the rating could cause UPCIC's insurance policies to no longer be acceptable to the secondary marketplace and mortgage lenders, which could cause a material adverse effect of the Company's results of operations and financial position.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's investment objective is to maximize total rate of return after federal income taxes while maintaining liquidity and minimizing risk.  The Company's current investment policy limits investment in non-investment grade fixed maturity securities (including high-yield bonds), and limits total investments in preferred stock and common stock.  The Company complies with applicable laws and regulations, which further restrict the type, quality and concentration of investments.  In general, these laws and regulations permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages.

The Company's investment policy is established by the Board of Directors Investment Committee and is reviewed on a regular basis.  Pursuant to this investment policy, as of September 30, 2010, the Company's trading securities portfolio comprised approximately 9.2% in fixed income securities and 90.8% in equity securities.  The Company does not use any swaps, options, futures or forward contracts to hedge or enhance the investment portfolio at this time.

The investment portfolio is managed by the Investment Committee consisting of all current directors and is in accordance with guidelines established by the Florida OIR.

The table below sets forth investment results for the nine-month periods ended September 30, 2010 and 2009:

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| Cash and cash equivalents | $ 109,150 | $ 253,073 |
| Fixed maturities | 710,325 | 1,136,568 |
| Equity securities | 36,530 | 634,362 |
| Total investment income | 856,005 | 2,024,003 |
| Less investment expenses | (479.430 ) | (638,996 ) |
| Net investment income | $ 376,575 | $ 1,385,007 |

The following tables summarize, by type, the Company's investments as of September 30, 2010 and December 31, 2009:

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Percent of Total | Carrying Amount | Percent of Total |
| Available for sale | | | | |
| Fixed maturities, at fair value: | | | | |
| US government and agency obligations | $ - | 0.0 % | $ 41,389,008 | 36.1 % |
| Foreign obligations | - | 0.0 % | - | 0.0 % |
| Equity securities, at fair value: | | | | |
| Commodities | - | 0.0 % | 56,961,180 | 49.6 % |
| Common stock | - | 0.0 % | 16,446,822 | 14.3 % |
| Total investments | $ - | 0.00 % | $ 114,797,010 | 100.00 % |

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Percent of Total | Carrying Amount | Percent of Total |
| Trading | | | | |
| Fixed maturities, at fair value: | | | | |
| US government and agency obligations | $ 3,465,332 | 3.3 % | $ - | 0.0 % |
| Foreign obligations | 6,173,911 | 5.9 % | - | 0.0 % |
| Equity securities, at fair value: | | | | |
| Commodities | 88,388,400 | 80.9 % | - | 0.0 % |
| Common stock | 10,328,369 | 9.9 % | - | 0.0 % |
| Total investments | $ 104,356,012 | 100.00 % | $ - | 0.00 % |

Fixed maturities, are carried on the balance sheet at fair value. At September 30, 2010, the fixed maturities had quality ratings of AAA by Moody's Investors Service, Inc. and Standard and Poors' Company.

Below is a summary of fixed maturities at September 30, 2010 and December 31, 2009 by contractual or expected periods.

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| Available for sale | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $- | $- | $- | $- |
| Due after one year through five years | - | - | 176,350 | 180,901 |
| Due after five years through ten years | - | - | 2,909,446 | 2,942,497 |
| Due after ten years | - | - | 39,210,931 | 38,265,610 |
| Total | $- | $- | $42,296,727 | $41,389,008 |

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| Trading | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $ 3,356,843 | $ 3,393,067 | $ - | $ - |
| Due after one year through five years | 2,889,897 | 2,961,866 | - | - |
| Due after five years through ten years | 3,019,144 | 3,284,310 | - | - |
| Due after ten years | - | - | - | - |
| Total | $ 9,265,884 | $ 9,639,243 | $ - | $ - |

At September 30, 2010, the weighted average maturity of the fixed maturities portfolio was approximately 3.9 years.

The Company's market risk generally represents the risk of gain or loss that may result from the potential change in the fair value of the Company's investment portfolio as a result of fluctuations in prices, interest rates and, to a lesser extent, the Company's debt obligations. As previously described in Note 6 "Loan Payable and Long-Term Debt", of the notes to condensed consolidated financial statements, the Company's surplus note accrues interest at an adjustable rate based on the 10-year Constant Maturity Treasury rate.

## ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of September 30, 2010 to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There was no change in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II -- OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

The Company is involved in certain lawsuits. In the opinion of management, none of these lawsuits (1) involve claims for damages exceeding 10% of the Company's cash and invested assets, (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.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Item 1A, Risk Factors, in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

| Exhibit No. | Exhibit |
|---|---|
| 3.1 | Registrant's Restated Amended and Restated Certificate of Incorporation (1) |
| 3.2 | Certificate of Designation for Series A Convertible Preferred Stock dated October 11, 1994 (2) |
| 3.3 | Certificate of Designations, Preferences, and Rights of Series M Convertible Preferred Stock dated August 13, 1997 (3) |
| 3.4 | Certificate of Amendment of Amended and Restated Certificate of Incorporation dated October 19, 1998 (2) |
| 3.5 | Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 18, 2000 (2) |
| 3.6 | Certificate of Amendment of Certificate of Designations of the Series A Convertible Preferred Stock dated October 29, 2001 (2) |
| 3.7 | Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 7, 2005 (4) |

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| 3.8 | Certificate of Amendment of Amended and Restated Certificate of Incorporation dated May 18, 2007 (4) |
| 3.9 | Amended and Restated Bylaws (5) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.1 | Schedule of Investments |

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

SIGNATURES

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

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| | | UNIVERSAL INSURANCE HOLDINGS, INC. |
| Date: | November 9, 2010 | /s/ Bradley I. Meier<br>Bradley I. Meier, President and Chief Executive Officer |
| | | /s/ George R. De Heer<br>George R. De Heer, Chief Financial Officer (Principal Accounting Officer) |

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