UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-K
March 31, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

or

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

For the transition period from ______________ to ______________

Commission File Number 001-33251

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 Par Value	NYSE Amex LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer o	Accelerated filer þ	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 Act). o Yes þ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold as of June 30, 2010: $94,450,277.

Indicate the number of shares outstanding of Common Stock of Universal Insurance Holdings, Inc. as of March 24, 2011: 39,387,998

UNIVERSAL INSURANCE HOLDINGS, INC.
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DOCUMENTS INCORPORATED BY REFERENCE

Information called for in PART III of this Form 10-K is incorporated by reference to the registrant s definitive Proxy Statement to be filed within 120 days of the close of the registrant s fiscal year in connection with the registrant s annual meeting of shareholders.

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PART I

ITEM 1. BUSINESS

THE COMPANY

Universal Insurance Holdings, Inc. (UIH or the Company) was originally organized as Universal Heights, Inc. under the laws of the State of Delaware on November 13, 1990. The Company changed its name to Universal Insurance Holdings, Inc. on January 12, 2001. Its principal executive offices are located at 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309, and its telephone number is (954) 958-1200.

In April 1997, the Company organized a subsidiary, Universal Property & Casualty Insurance Company (UPCIC), as part of its strategy to take advantage of what management believed to be profitable business and growth opportunities in the residential property and casualty insurance 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 Florida Office of Insurance Regulation (OIR) on May 14, 1997 and approved on October 29, 1997. UPCIC s proposal to begin operations through the acquisition of homeowners insurance policies issued by the JUA was approved by the JUA on May 21, 1997, subject to certain minimum capitalization and other requirements.

The Florida Insurance Code requires that companies must maintain capitalization equivalent to the greater of ten percent of the insurer s total liabilities or $4.0 million. UPCIC s statutory capital and surplus was $115,926,200 at December 31, 2010 and exceeded the minimum capital and surplus requirements. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios.

In September 2006, the Company initiated the process of acquiring all of the outstanding common stock of Atlas Florida Financial Corporation, which owned all of the outstanding common stock of Sterling Premium Finance Company, Inc. (Sterling), from the Company s Chief Executive Officer and Chief Operating Officer for $50,000, which approximated Sterling s book value. The Company received approval of the acquisition from the OIR. Sterling has been renamed Atlas Premium Finance Company and commenced offering premium finance services in November 2007.

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

The Company filed an application with the OIR on June 23, 2008 to open a second property and casualty insurance subsidiary, Infinity Property and Casualty Insurance Company (Infinity), in the State of Florida. Infinity was renamed American Platinum Property and Casualty Insurance Company (American Platinum). On October 1, 2008, the Company signed a consent order agreeing to the terms and conditions for the issuance of a certificate of authority to American Platinum. The final approval and issuance of the certificate of authority was granted by the OIR on December 2, 2008.

The Company has evolved into a vertically integrated insurance holding company, which through its various subsidiaries, covers substantially all aspects of insurance underwriting, distribution and claims processing.

INSURANCE BUSINESS

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. Ninety-eight percent of UPCIC s in-force policies as of December 31, 2010 were policies with coverage including wind risks in the states of Florida, North Carolina, South Carolina and Hawaii. The average premium for a policy with wind coverage is approximately $1,155.

UPCIC is evaluating possible participation with the National Flood Insurance Program (NFIP) to become authorized to write and service flood insurance policies under the Write Your Own (WYO) Program and continues to evaluate policy administration requirements for the program in light of expected updates. Management may consider underwriting other types of policies in the future, subject to approval by the appropriate regulatory

authorities. See Item 1, *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.

As of December 31, 2010, UPCIC was licensed to transact insurance business in the seven states of Florida, North Carolina, South Carolina, Hawaii, Georgia, Maryland and Massachusetts. 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. There is no assurance that UPCIC will be successful in obtaining licenses in additional states and no prediction of when, if licensed, the Company will commence operations in any of these states.

As of December 31, 2010, the geographical distribution of UPCIC s policies-in-force and total insured values were as follows:

Geographical area	Policies-In-Force	%	Total Insured Value	%
Florida Counties				
Miami-Dade, Broward & Palm Beach	184,486	31.6%	$ 40,319,049,846	31.4%
Pinellas & Hillsborough	72,596	12.5%	15,800,306,880	12.3%
Lee & Collier	65,207	11.2%	12,707,136,792	9.9%
Brevard & Indian River	31,653	5.4%	6,547,873,339	5.1%
Manatee & Sarasota	36,753	6.3%	7,020,463,634	5.4%
Escambia	24,100	4.1%	6,592,853,082	5.1%
St. Lucie & Martin	28,977	5.0%	6,295,296,072	4.9%
Duval	13,623	2.3%	2,863,557,920	2.2%
All Other Counties	116,964	20.0%	26,976,468,284	21.0%
Florida-Totals	574,359	98.4%	$ 125,123,005,848	97.3%
All other states	9,519	1.6%	3,428,605,294	2.7%
Total	583,878	100.0%	$ 128,551,611,142	100.0%

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. 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. This rate increase had a positive impact on results during 2010 which the Company expects will continue into 2011.

UPCIC filed a premium rate change for homeowners insurance programs with the Florida OIR on November 5, 2010. The rate increase, which will result in an average premium increase of approximately 14.9 percent statewide, was approved by the OIR on February 3, 2011. The effective dates for the rate increase are February 7, 2011 for new business and March 28, 2011 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.

OPERATIONS

The Company is a vertically integrated insurance holding company. The Company, through its wholly owned subsidiaries, is currently engaged in insurance underwriting, distribution and claims. UPCIC generates revenues primarily from the collection of premiums. Universal Risk Advisors, Inc. (URA), the Company s managing general agent, generates revenue through policy fee income and other administrative fees from the marketing of UPCIC s insurance products through the Company s distribution network. All underwriting, rating, policy issuance, reinsurance

negotiations, and certain administration functions for UPCIC are performed by URA. The Company formed a claims adjusting company, Universal Adjusting Corporation, which adjusts UPCIC claims, and an inspection company, Universal Inspection Corporation, which performs property inspections for homeowners insurance policies underwritten by UPCIC.

Atlas Premium Finance Company offers premium finance services to policyholders of UPCIC. BARC performs reinsurance negotiations on behalf of URA for UPCIC. Universal Logistics Corporation assists with operational duties associated with the day-to-day business of the Company.

American Platinum is authorized to write homeowners, multi peril and inland marine coverage on homes valued in excess of $1.0 million. Additionally, the new subsidiary may write excess flood insurance on homes valued in excess of $250,000. As of December 31, 2010, American Platinum had not yet underwritten any policies.

The Company also generates income by investing available funds in accordance with investment policies adopted by the Board of Directors. The Company s principal investment objective is to maximize total rate of return after federal income taxes while maintaining liquidity and minimizing risk consistent with and subject to certain regulatory requirements and limitations.

AGENCY OPERATIONS

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

FACTORS AFFECTING OPERATING RESULTS AND MARKET PRICE OF STOCK

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

Nature of the Company s Business

Factors affecting the sectors of the insurance industry in which the Company operates may subject the Company to significant fluctuations in operating results. These factors include competition, catastrophe losses and general economic conditions including interest rate changes, as well as legislative initiatives, the regulatory environment, the frequency of litigation, the size of judgments, severe weather conditions, climate changes or cycles, the role of federal or state government in the insurance or financial markets, 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.

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 by 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 qualified 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 Company s 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. In addition, Florida has been, and is currently experiencing an economic downturn and diminution of real estate values that could affect the premium rates the Company charges for homeowner s insurance. There can also be no assurance that the Company will be able to obtain the required regulatory approvals to offer additional insurance products. UPCIC is also required to maintain minimum surplus to support its underwriting program. The surplus requirement affects UPCIC s potential growth. In addition, there can be

no assurance that current state or federal laws applicable to the Company s business will

not be amended in the future. Any such amendment could have an adverse effect on the Company s financial condition or operations.

Insurance Operations

Management has implemented several rate increases over the past several years to strengthen UPCIC s financial condition. The positive impact of these rate increases has been partially offset by rate decreases and discounts mandated by the Florida Legislature, including wind mitigation credits which became effective in 2007. Recent rate increases include two premium rate changes filed by UPCIC for HO and DP with the Florida OIR in the calendar year 2009, which were both approved. The first requested statewide average rate increase of 4.8% HO was approved by the OIR and was implemented in UPCIC s rates on February 27, 2009 for new business and April 19, 2009 for renewal business. The first requested statewide average rate increase of 4.7% DP was approved by the OIR and was implemented in UPCIC s rates on March 2, 2009 for new business and April 21, 2009 for renewal business. The second requested statewide average rate increase of 14.6% HO was approved by the OIR and was implemented in UPCIC s rates on October 22, 2009 for new business and December 11, 2009 for renewal business. The second requested statewide average rate increase of 14.8% DP was approved by OIR and was implemented in UPCIC s rates on November 5, 2009 for new business and December 29, 2009 for renewal business. Finally, UPCIC filed a premium rate change for HO with the Florida OIR on November 5, 2010. The statewide average rate increase of 14.9% HO was approved by the OIR on February 3, 2011 and was implemented in UPCIC s rates on February 7, 2011 for new business and March 28, 2011 for renewal business.

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 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 negative 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
6/1/2007	1.9%	$ 6,284,697	$ 487,866,319	1.3%
12/31/2007	11.8%	$ 31,951,623	$ 500,136,287	6.0%
3/31/2008	16.9%	$ 52,398,215	$ 501,523,343	9.5%
6/30/2008	21.3%	$ 74,185,924	$ 508,411,721	12.7%
9/30/2008	27.3%	$ 97,802,322	$ 515,560,249	16.0%
12/31/2008	31.1%	$ 123,524,911	$ 514,011,138	19.4%
3/31/2009	36.3%	$ 158,229,542	$ 530,029,572	23.0%
6/30/2009	40.4%	$ 188,053,342	$ 544,646,437	25.7%
9/30/2009	43.0%	$ 210,291,783	$ 554,378,761	27.5%
12/31/2009	45.2%	$ 219,974,130	$ 556,577,449	28.3%
3/31/2010	47.8%	$ 235,717,892	$ 569,870,173	29.3%
6/30/2010	50.9%	$ 281,386,124	$ 620,276,858	31.2%
9/30/2010	52.4%	$ 291,306,407	$ 634,285,246	31.5%
12/31/2010	54.2%	$ 309,858,168	$ 648,408,227	32.3%

Insurers like UPCIC fully experience the impact of rate or discount changes more than 12 months after they are implemented because their policies renew throughout the year. Although insurers may seek to rectify any problems through subsequent rate increase filings with the OIR, there is no assurance that the OIR and the insurers will agree on

the amount of rate change that is needed. In addition, any adjustments to the insurers rates similarly take more than 12 months to be fully integrated into the insurers business.

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. However, there is no assurance UPCIC will be able to charge prices commensurate with the potential losses that may result from catastrophic events.

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UPCIC s exposure to catastrophic losses arises principally out of hurricanes and windstorms. Through the use of standard industry modeling techniques that are susceptible to change, UPCIC manages its exposure to such losses on an ongoing basis from an underwriting perspective. UPCIC also continues to actively explore and analyze credible scientific evidence, including the potential impact of global climate change, that may affect the ability to manage exposure under its policies as well as the potential impact of laws and regulations intended to combat climate change.

UPCIC protects itself against the risk of catastrophic loss by obtaining annual 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 or cost-effectively obtain reinsurance. 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.

For the 2010, 2009 and 2008 hurricane seasons, UPCIC purchased reinsurance coverage up to and above the 100-year Probable Maximum Loss (PML). PML is a general concept applied in the insurance industry for defining high loss scenarios that should be considered when underwriting insurance risk. Catastrophe models such as AIR/CLASIC/2, produce loss estimates that are qualified in terms of dollars and probabilities. UPCIC s PML amounts are modeled using the AIR/CLASIC/2 version in effect at the date of the calculation. 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. 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.

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. As UPCIC writes policies throughout the year, its 100-year PML will change. It is possible that the reinsurance in place may not always surpass the 100-year PML at every point in time. 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 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. There is no assurance UPCIC will be able to obtain current levels of reinsurance in the future, which could potentially result in a material adverse effect to the Company should a catastrophic event occur.

Reinsurance

The property and casualty reinsurance industry is subject to the same market conditions as the property and casualty insurance market as a whole, 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 Florida Hurricane Catastrophe Fund (FHCF). There is no guaranty the FHCF will be able to provide reimbursements at levels or with the speed 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.

On October 29, 2010, the State Board of Administration (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 elected to purchase 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.

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 (LAE) 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. The inherent degree of uncertainty involved in the establishment of liabilities for losses and loss adjustment expenses can be more pronounced during periods of rapid growth in written premiums such as UPCIC has experienced during recent years. 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 changes 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 development. The profitability and financial condition of UPCIC and the Company could be adversely affected to the extent that its liabilities are inadequate.

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

When a claim involving a probable loss is reported, UPCIC establishes a liability for the estimated amount of UPCIC s ultimate loss and LAE payments. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions. All newly reported claims received are set up with an initial average liability. That claim is then evaluated and the liability is adjusted upward or downward according to the facts

and damages of that particular claim. In addition, management provides for a liability on an aggregate basis to provide for losses incurred but not reported (IBNR). 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 become available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for unpaid losses and LAE. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

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 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.

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

	Year Ended December 31, 2010	Year Ended December 31, 2009
Balance at beginning of year	$ 127,197,753	$ 87,947,774
Less reinsurance recoverable	(62,900,913)	(43,384,469)
Net balance at beginning of year	64,296,840	44,563,305
Incurred related to:		
Current year	107,424,191	97,630,002
Prior years	5,931,284	8,503,133
Total incurred	113,355,475	106,133,135
Paid related to:		
Current year	54,216,243	52,388,374
Prior years	43,621,652	34,011,226
Total paid	97,837,896	86,399,600
Net balance at end of year	79,814,419	64,296,840
Plus reinsurance recoverable	79,114,418	62,900,913
Balance at end of year	$ 158,928,837	$ 127,197,753

As a result of changes in estimates of insured events in prior years, the provision for losses and LAE, net of related reinsurance recoverables, increased by $5,931,284 and $8,503,133 in 2010 and 2009, respectively, principally as a result of actual loss development on prior year non-catastrophe losses during the years ended December 31, 2010 and 2009.

The Company has created a proprietary claims analysis tool (P2P) to analyze and calculate reserves. P2P is a custom built application by UPCIC that aggregates, analyzes and forecasts reserves based on historical data that spans more than a decade. It identifies historical claims data using same like kind and quality variables that exist in present claims and sets forth appropriate, more accurate reserves on current claims. P2P is reviewed by UPCIC management on a weekly basis in reviewing the topography of existing and incoming claims. P2P will be analyzed at each quarters end and adjustments to reserves are made at an aggregate level when appropriate.

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P2P was initially used for 2010 third quarter reserve analysis resulting in an increase in 2010 loss year reserves. Further refinements were put into place in 2010 fourth quarter which included inflation adjustments for past claims into 2010 dollars (inflation guard). P2P was reviewed by an independent third party for data integrity and system reliability. The program was used for 2010 fourth quarter analysis and supported the company s independent actuary s best figures for development in prior years. The system indicated reserves for the 2010 loss year that exceeded actuary s best figures and system figures were used at year end. This program will be used for quarterly reviews on an ongoing basis.

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

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

	Years Ended	
	December 31, 2010	December 31, 2009
Unpaid Loss and LAE, net	$ 23,385,670	$ 15,164,583
IBNR loss and LAE, net	56,428,749	49,132,256
Total unpaid loss and LAE, net	$ 79,814,419	$ 64,296,840
Reinsurance recoverable on unpaid loss and LAE	22,973,458	15,810,646
Reinsurance recoverable on IBNR loss and LAE	56,140,960	47,090,267
Total reinsurance recoverable on unpaid loss and LAE	$ 79,114,418	$ 62,900,913

The following Liability for Unpaid Losses and LAE re-estimates table illustrates the change over time of the direct reserves established for unpaid losses and LAE for UPCIC at the end of the last eleven calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section, reading down, shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section, reading down, shows retroactive re-estimates of the original recorded reserve as of the end of each successive year which is the result of UPCIC s expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest re-estimated reserve to the reserve originally established, and indicates whether the original reserve was adequate to cover the estimated costs of unsettled claims. The table also presents the gross re-estimated liability as of the end of the latest re-estimation period, with separate disclosure of the related re-estimated reinsurance recoverable. The Liability for Unpaid Losses and LAE re-estimates table is cumulative and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. Unfavorable reserve re-estimates are shown in this table in parentheses. Amounts in the table are shown in thousands.

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	Years Ended December 31,										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Balance Sheet Liability	158,929	127,198	87,948	68,806	49,454	66,866	57,823	7,521	6,962	5,795	2,516
Cumulative paid as of:											
One year later		88,364	70,066	52,666	42,546	79,374	66,213	4,195	4,113	7,311	3,073
Two years later			91,264	71,207	54,815	103,362	81,025	5,470	5,156	7,263	3,720
Three years later				78,321	64,781	111,799	92,616	6,074	5,447	7,798	3,773
Four years later					69,262	118,509	95,087	6,883	5,731	7,991	4,066
Five years later						122,575	97,757	7,176	5,860	8,139	4,099
Six years later							99,219	7,356	5,897	8,152	4,112
Seven years later								7,384	6,015	8,180	4,167
Eight years later									6,017	8,188	4,194
Nine years later										8,189	4,200
Ten years later											4,200
Balance Sheet Liability	158,929	127,198	87,948	68,806	49,454	66,866	57,823	7,521	6,962	5,795	2,516
One year later		142,999	107,656	80,123	68,075	118,656	73,897	6,674	5,762	8,294	4,005
Two years later			115,486	87,289	69,623	125,112	95,165	5,907	6,154	7,797	4,167
Three years later				90,868	73,612	124,092	101,182	6,536	5,585	8,319	4,158
Four years later					77,767	125,249	100,823	7,149	5,856	8,056	4,328
						129,914	101,435	7,394	5,993	8,158	4,110

Five years later										
Six years later						101,242	7,530	6,012	8,241	4,112
Seven years later							7,436	6,067	8,244	4,207
Eight years later								6,019	8,230	4,209
Nine years later									8,189	4,203
Ten years later										4,200
Cumulative redundancy (deficiency)	(15,801)	(27,538)	(22,062)	(28,313)	(63,048)	(43,419)	85	943	(2,394)	(1,684)

The following Liability for Unpaid Losses and LAE re-estimates table illustrates the change over time of the reserves, net of reinsurance, established for unpaid losses and LAE for UPCIC at the end of the last eleven calendar years.

	Years Ended December 31,										
	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
ss Reserves Unpaid ims and ims Expense	158,929	127,198	87,948	68,806	49,454	66,866	57,823	7,521	6,962	5,795	2,51
nsurance overable	79,114	62,901	43,385	37,583	32,314	60,792	56,266	6,249	5,502	3,091	1,59
ance Sheet bility	79,814	64,297	44,563	31,223	17,140	6,074	1,557	1,272	1,460	2,704	92
nulative paid of:											
e year later		43,860	34,171	23,709	20,023	12,886	1,210	935	631	3,586	1,12
o years later			44,015	31,751	23,362	23,795	11,497	1,132	941	3,557	1,37
ee years later				34,472	26,956	25,469	21,732	1,298	1,058	3,774	1,39
r years later					28,585	27,993	23,118	1,407	1,192	3,867	1,50
e years later						29,450	25,446	1,444	1,232	3,940	1,51
years later							26,721	1,475	1,244	3,937	1,52
en years later								1,479	1,269	3,948	1,54
ht years later									1,270	3,951	1,55
e years later										3,952	1,55
years later											1,55
ance Sheet bility	79,814	64,297	44,563	31,223	17,140	6,074	1,557	1,272	1,460	2,704	92
e year later		70,468	53,226	37,573	29,167	25,246	4,056	1,442	1,134	4,032	1,42
o years later			55,005	39,948	30,501	30,943	22,644	1,209	1,295	3,785	1,55
ee years later				39,441	31,285	31,178	28,169	1,395	1,105	4,010	1,55
r years later					31,303	31,482	28,524	1,482	1,254	3,898	1,60
e years later						31,645	28,594	1,509	1,293	3,950	1,52
years later							28,568	1,510	1,298	3,976	1,52
en years later								1,530	1,292	3,978	1,55
ht years later									1,271	3,971	1,55
e years later										3,952	1,55
years later											1,55
		(6,171)	(10,442)	(8,218)	(14,163)	(25,571)	(27,011)	(258)	189	(1,248)	(62

nulative undancy ficiency) cent	-9.6%	-23.4%	-26.3%	-82.6%	-421.0%	-1734.8%	-20.3%	12.9%	-46.2%	-68.
ss stimated bility-Latest	142,999	115,486	90,868	77,767	129,914	101,242	7,436	6,019	8,189	4,20
stimated overy-Latest	72,531	60,481	51,427	46,464	98,269	72,674	5,906	4,748	4,237	2,64
Reestimated bility-Latest	70,468	55,005	39,441	31,303	31,645	28,568	1,530	1,271	3,952	1,55
ss nulative undancy ficiency)	(15,801)	(27,538)	(22,062)	(28,313)	(63,048)	(43,419)	85	943	(2,394)	(1,68

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

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

The following table sets forth the statutory loss ratios, expense ratios and combined ratios for the periods indicated for UPCIC. The ratios are net of reinsurance, including catastrophe reinsurance premiums which comprise a significant cost, and inclusive of loss adjustment expenses. The ratios shown in the table below are computed based upon statutory accounting principles. The expense ratio includes management fees and commissions paid by UPCIC to an affiliate in the amount of $52,689,347 in 2010 and $46,437,196 in 2009.

	Years Ended December 31,	
	2010	2009
Loss Ratio	73%	83%
Expense Ratio	40%	56%
Combined Ratio	113%	139%

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

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 National Association of Insurance Commissioners (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. Actions by the OIR could have a material adverse effect on 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 s possible participation in the NFIP s Write Your Own (WYO) Program of the NFIP will be governed by federal laws and regulations.

Legislative Initiatives

The State of Florida operates the Citizens Property Insurance Corporation (Citizens) to provide insurance to Florida homeowners in high-risk areas and to others without private insurance options. As of February 28, 2011, there were 1,308,857 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 permits insurance customers to opt into Citizens when the price of a privately-offered insurance policy is 15% more than the Citizens rate, compared to the previous opt-in threshold of 25%. 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. 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. 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 federal or state legislation or initiatives may have on the financial condition or operations of the Company or the Company s ability to expand its business.

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 and by retained professionals.

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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 may be affected by political or regulatory factors outside of UPCIC s control, which may 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 the Company s 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 features or other windstorm loss reduction features. The level of required premium discounts may exceed the expected reduction in losses associated with the construction features 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 either 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. 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. Increased competition could have a material adverse effect on the Company.

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 Á (A double prime) to L (licensed by state regulatory authorities). On March 30, 2011, Demotech, Inc. affirmed UPCIC s financial stability rating of A, which is the third 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 March 2010, to help address questions and concerns regarding 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. 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 it to maintain its A rating. 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.

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

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

Employees

As of February 24, 2011, the Company had 252 full-time employees. None of the Company s employees are represented by a labor union. The Company has an employment agreement with Bradley I. Meier, President and Chief Executive Officer of the Company, Sean P. Downes, Senior Vice President and Chief Operating Officer of the Company and George R. De Heer, Chief Financial Officer of the Company. See Executive Compensation-Employment Agreements. The Company also has employment agreements with certain employees that do not serve in an executive capacity at the Company.

Available Information

Our internet address is http://www.universalinsuranceholdings.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports are available, free of charge, through our website as soon as reasonably practicable after their filing with the Securities and Exchange Commission (SEC). The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

ITEM 1A. RISK FACTORS

This document contains forward-looking statements that anticipate results based on our estimates, assumptions and plans that are subject to uncertainty. These statements are made subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. We assume no obligation to update any forward-looking statements as a result of new information or future events or developments.

These forward-looking statements do not relate strictly to historical or current facts and may be identified by their use of words like plans, seeks, expects, will, should, anticipates, estimates, intends, believes, like words with similar meanings. These statements may address, among other things, our strategy for growth, catastrophe exposure management, product development, investment results, regulatory approvals, market position, expenses, financial results, litigation and reserves. We believe that these statements are based on reasonable estimates, assumptions and plans. However, if the estimates, assumptions or plans underlying the forward-looking statements prove inaccurate or if other risks or uncertainties arise, actual results could differ materially from those communicated in these forward-looking statements.

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below, which apply to us as an insurer. These risks constitute our cautionary statements under the Private Securities Litigation Reform Act of 1995 and readers should carefully review such cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and historical trends. These cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this document, in our filings with the Securities and Exchange Commission (SEC) or in materials incorporated therein by reference.

Risks Relating to the Property-Casualty business

As a property and casualty insurer, we may face significant losses from catastrophes and severe weather events

Because of the exposure of our property and casualty business to catastrophic events, our operating results and financial condition may vary significantly from one period to the next. Catastrophes can be caused by various natural and man-made disasters, including wildfires, tornadoes, hurricanes, tropical storms and certain types of

terrorism. We may incur catastrophe losses in excess of those experienced in prior years, those that modeling estimate would be incurred based on certain levels of probability, the average expected level used in pricing, and our current reinsurance coverage limits. Despite our catastrophe management programs, we are exposed to catastrophes that could have a material adverse effect on operating results and financial condition. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which result in extraordinary losses or a downgrade of our financial strength rating.

In addition, we are subject to claims arising from weather events such as rain, hail and high winds. The incidence and severity of weather conditions are largely unpredictable. There is generally an increase in the frequency and severity of property claims when severe weather conditions occur. The nature and level of catastrophes in any period cannot be predicted and could be material to our operations. In addition, impacts of catastrophes and our catastrophe management strategy may adversely affect premium growth.

Unanticipated increases in the severity or frequency of claims may adversely affect our profitability and financial condition

Changes in the severity or frequency of claims may affect the profitability of our Company. Changes in homeowner s claim severity are driven by inflation in the construction industry, in building materials and in home furnishings and by other economic and environmental factors, including increased demand for services and supplies in areas affected by catastrophes. However, changes in the level of the severity of claims are not limited to the effects of inflation and demand surge in these various sectors of the economy. Increases in claim severity can arise from unexpected events that are inherently difficult to predict. Although we pursue various loss management initiatives in order to mitigate future increases in claim severity, there can be no assurances that these initiatives will successfully identify or reduce the effect of future increases in claim severity.

Our Company may experience declines in claim frequency from time to time. The short-term level of claim frequency we experience may vary from period to period and may not be sustainable over the longer term. A significant long-term increase in claim frequency could have an adverse effect on our operating results and financial condition.

Actual claims incurred may exceed current reserves established for claims and may adversely affect our operating results and financial condition

Recorded claim reserves in the property-casualty business are based on our best estimates of losses, both reported and incurred but not reported (IBNR), after considering known facts and interpretations of circumstances. Internal factors are considered including our experience with similar cases, actual claims paid, historical trends involving claim payment patterns, pending levels of unpaid claims and contractual terms. External factors are also considered which include but are not limited to law changes, court decisions, changes to regulatory requirements and economic conditions. Because reserves are estimates of the unpaid portion of losses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophes, is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded reserves and such variance may adversely affect our operating results and financial condition.

Predicting claim expense relating to environmental liabilities is inherently uncertain and may have a material adverse effect on our operating results and financial condition

The process of estimating environmental liabilities is complicated by complex legal issues concerning, among other things, the interpretation of various insurance policy provisions and whether those losses are, or were ever intended to be covered; and whether losses could be recoverable through reinsurance. Litigation is a complex, lengthy proceeding that involves substantial uncertainty for insurers. Actuarial techniques and databases used in estimating environmental net loss reserves may prove to be inadequate indicators of the extent of probable loss. Ultimate net losses from environmental liabilities could materially exceed established loss reserves and expected recoveries and have a material adverse effect on our operating results and financial condition.

The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations

We utilize a number of strategies to mitigate our risk exposure, such as:

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engaging in rigorous underwriting;

carefully evaluating terms and conditions of our policies; and

ceding reinsurance.

However, there are inherent limitations in all of these tactics and no assurance can be given that an event or series of events will not result in loss levels in excess of our probable maximum loss models, which could have a material adverse effect on our financial condition or results of operations. It is also possible that losses could manifest themselves in ways that we do not anticipate and that our risk mitigation strategies are not designed to address. Such a manifestation of losses could have a material adverse effect on our financial condition or results of operations.

These risks may be heightened during difficult economic conditions such as those currently being experienced in the Florida and elsewhere.

Regulation limiting rate increases and requiring us to participate in loss sharing may decrease our profitability

From time to time, political dispositions affect the insurance market, including efforts to effectively suppress rates at a level that may not allow us to reach targeted levels of profitability. Despite efforts to remove politics from insurance regulation, facts and history demonstrate that public policymakers, when faced with untoward events and adverse public sentiment, can act in ways that impede a satisfactory correlation between rates and risk. Such acts may affect our ability to obtain approval for rate changes that may be required to attain rate adequacy along with targeted levels of profitability and returns on equity. Our ability to afford reinsurance required to reduce our catastrophe risk may be dependent upon the ability to adjust rates for its cost.

Additionally, the Company is required to participate in guaranty funds for impaired or insolvent insurance companies. The funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

The potential benefits of implementing our profitability model may not be fully realized

We believe that our profitability model has allowed us to be more competitive and operate more profitably. However, because many of our competitors have adopted underwriting criteria and sophisticated models similar to those we use and because other competitors may follow suit, our competitive advantage could decline or be lost. Competitive pressures could also force us to modify our profitability model. Furthermore, we cannot be assured that the profitability model will accurately reflect the level of losses that we will ultimately incur from the business generated.

UPCIC s financial condition and operating results may be adversely affected by the cyclical nature of the property and casualty business

The property and casualty market is cyclical and has experienced periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively lower levels of competition, more selective underwriting standards and relatively high premium rates. A downturn in the profitability cycle of the property and casualty business could have a material adverse effect on our financial condition and results of operations.

Risks Relating to Investments

We may experience reduced returns or losses on our investments especially during periods of heightened volatility, which could have a material adverse effect on our results of operations or financial condition.

The returns on our investment portfolio may be reduced or we may incur losses as a result of changes in general economic conditions, interest rates, real estate markets, fixed income markets, metals markets, energy markets, agriculture markets, equity markets, alternative investment markets, credit markets, exchange rates, global capital market conditions and numerous other factors that are beyond our control.

The worldwide financial markets experience high levels of volatility during certain periods, which could have an increasingly adverse impact on the U.S. and foreign economies. The financial market volatility and the resulting negative economic impact could continue and it is possible that it may be prolonged, which could adversely affect our current investment portfolio, make it difficult to determine the value of certain assets in our portfolio and/or make it difficult for us to purchase suitable investments that meet our risk and return criteria. These factors could cause us to realize less than expected returns on invested assets, sell investments for a loss or write off or write down investments, any of which could have a material adverse effect on our results of operations or financial condition.

We are subject to market risk which may adversely impact investment income

Our primary market risk exposure is to changes in interest rates. A decline in market interest rates could have an adverse effect on our investment income as we invest cash in new investments that may yield less than the portfolio s average rate. A decline could also lead us to purchase longer-term or riskier assets in order to obtain adequate investment yields resulting in a duration gap when compared to the duration of liabilities. An increase in market interest rates could have an adverse effect on the value of our investment portfolio by decreasing the fair values of the fixed income securities that comprise a portion of our investment portfolio. A decline in the quality of our investment portfolio as a result of adverse economic conditions or otherwise could cause additional realized losses on securities.

Concentration of our investment portfolios in any particular segment of the economy may have adverse effects on our operating results and financial condition

The concentration of our investment portfolios in any particular industry, collateral types, group of related industries or geographic sector could have an adverse effect on our investment portfolios and consequently on our results of operations and financial condition. Events or developments that have a negative impact on any particular industry, group of related industries or geographic region may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated rather than diversified.

Risks Relating to the Insurance Industry

Our future results are dependent in part on our ability to successfully operate in an insurance industry that is highly competitive

The insurance industry is highly competitive. Many of our competitors have well-established national reputations and market similar products. Because of the competitive nature of the insurance industry, including competition for producers such as independent agents, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressures will not have a material adverse effect on our business, operating results or financial condition. Furthermore, certain competitors operate using a mutual insurance company structure and therefore, may have dissimilar profitability and return targets. Our ability to successfully operate may also be impaired if we are not effective in filling critical leadership positions, in developing the talent and skills of our human resources, in assimilating new executive talent into our organization, or in deploying human resource talent consistently with our business goals.

Difficult conditions in the economy generally could adversely affect our business and operating results

The United States economy has experienced widespread job losses, higher unemployment, lower consumer spending, continued declines in home prices and substantial increases in delinquencies on consumer debt, including defaults on home mortgages. Moreover, recent disruptions in the financial markets, particularly the reduced availability of credit and tightened lending requirements, have affected the ability of borrowers to refinance loans at more affordable rates. We cannot predict the length and severity of a recession, but as with most businesses, we believe a longer or more severe recession could have an adverse effect on our business and results of operations.

A general economic slowdown could adversely affect us in the form of consumer behavior and pressure on our investment portfolio. Consumer behavior could include decreased demand for insurance. In 2008 and 2009, weakness in the housing market and a highly competitive environment contributed to reduced growth in policies in force. Our investment portfolio could be adversely affected as a result of deteriorating financial and business conditions.

There can be no assurance that actions of the U.S. federal government, Federal Reserve and other governmental and regulatory bodies for the purpose of stabilizing the financial markets and stimulating the economy will achieve the intended effect

In response to the financial crises affecting the banking system, the financial markets and the broader economy, the U.S. federal government, the Federal Reserve and other governmental and regulatory bodies have taken or are considering taking action to address such conditions including, among other things, purchasing mortgage-backed and other securities from financial institutions, investing directly in banks, thrifts and bank and savings and loan holding companies and increasing federal spending to stimulate the economy. There can be no assurance as to what impact such actions will have on the financial markets or on economic conditions. Such continued volatility and economic deterioration could materially and adversely affect our business, financial condition and results of operations.

We are subject to extensive regulation and potential further restrictive regulation may increase our operating costs and limit our growth

As an insurance company, we are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Moreover, they are administered and enforced by a number of different governmental authorities, including state insurance regulators, state securities administrators, the SEC, the U.S. Department of Justice, and state attorneys general, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator s or enforcement authority s interpretation of a legal issue may not result in compliance with another s interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator s or enforcement authority s interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment may, even absent any particular regulator s or enforcement authority s interpretation of a legal issue changing, cause us to change our views regarding the actions we need to take from a legal risk management perspective, thus necessitating changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business. Furthermore, in some cases, these laws and regulations are designed to protect or benefit the interests of a specific constituency rather than a range of constituencies. For example, state insurance laws and regulations are generally intended to protect or benefit purchasers or users of insurance products, not holders of securities issued by the Company. In many respects, these laws and regulations limit our ability to grow and improve the profitability of our business.

In recent years, the state insurance regulatory framework has come under public scrutiny and members of Congress have discussed proposals to provide for federal chartering of insurance companies. We can make no assurances regarding the potential impact of state or federal measures that may change the nature or scope of insurance regulation.

Reinsurance may be unavailable at current levels and prices, which may limit our ability to write new business

Our reinsurance program was designed, utilizing our risk management methodology, to address our exposure to catastrophes. Market conditions beyond our control determine the availability and cost of the reinsurance we purchase. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms and rates as are currently available. For example, our ability to afford reinsurance to reduce our catastrophe risk may be dependent upon our ability to adjust premium rates for its cost, and there are no assurances that the terms and rates for our current reinsurance program will continue to be available next year. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our exposure risk, reduce our insurance writings, or develop or seek other alternatives.

Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses arising from ceded insurance, which could have a material adverse effect on our operating results and financial condition

The collectability of reinsurance recoverables is subject to uncertainty arising from a number of factors, including changes in market conditions, whether insured losses meet the qualifying conditions of the reinsurance contract and whether reinsurers, or their affiliates, have the financial capacity and willingness to make payments under the terms of a reinsurance treaty or contract. Our inability to collect a material recovery from a reinsurer could have a material

adverse effect on our operating results and financial condition.

The continued threat of terrorism and ongoing military actions may adversely affect the level of claim losses we incur and the value of our investment portfolio

The continued threat of terrorism, both within the United States and abroad, and ongoing military and other actions and heightened security measures in response to these types of threats, may cause significant volatility and losses from declines in the equity markets and from interest rate changes in the United States, Europe and elsewhere, and result in loss of life, property damage, disruptions to commerce and reduced economic activity. Some of the assets in our investment portfolio may be adversely affected by reduced economic activity caused by the continued threat of terrorism. Additionally, in the event that terrorist acts occur, the Company could be adversely affected, depending on the nature of the event.

A downgrade in our financial strength ratings may have an adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition

Financial strength ratings are important factors in establishing the competitive position of insurance companies and generally have an effect on an insurance company s business. On an ongoing basis, rating agencies review the financial performance and condition of insurers and could downgrade or change the outlook on an insurer s ratings due to, for example, a change in an insurer s statutory capital; a change in a rating agency s determination of the amount of risk-adjusted capital required to maintain a particular rating; an increase in the perceived risk of an insurer s investment portfolio; a reduced confidence in management or a host of other considerations that may or may not be under insurer s control. The current insurance financial strength rating of UPCIC is from Demotech, Inc. The assigned rating is A. Because this rating is subject to continuous review, the retention of this rating cannot be assured. A downgrade in this rating could have a material adverse effect on our sales, our competitiveness, the marketability of our product offerings, and our liquidity, operating results and financial condition.

Adverse capital and credit market conditions may significantly affect our ability to meet liquidity needs or our ability to obtain credit on acceptable terms

The capital and credit markets have been experiencing extreme volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity. In the event that we need access to additional capital to pay our operating expenses, make payments on our indebtedness, pay for capital expenditures or fund acquisitions, our ability to obtain such capital may be limited and the cost of any such capital may be significant. Our access to additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to our industry, and credit capacity, as well as lenders perception of our long- or short-term financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. If a combination of these factors were to occur, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain financing on favorable terms.

Changing climate conditions may adversely affect our financial condition, profitability or cash flows

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophic losses have had a significant impact on our historical results. Catastrophes can be caused by various events, including hurricanes, tsunamis, windstorms, earthquakes, hailstorms, explosions, flooding, severe winter weather and fires and may include man-made events, such as terrorist attacks. The incidence, frequency and severity of catastrophes are inherently unpredictable.

Longer-term weather trends may be changing and new types of catastrophe losses may be developing due to climate change, a phenomenon that has been associated with extreme weather events linked to rising temperatures, including effects on global weather patterns, greenhouse gases, sea, land and air temperature, sea levels, rain and snow. The emerging science regarding climate change and its connection to extreme weather events is far from conclusive. If a connection to increased extreme weather events related to climate change is ultimately proven true, this could increase the frequency and severity of catastrophe losses we experience in both coastal and non-coastal areas.

Loss of key executives could affect our operations

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UPCIC s operations also 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 either Mr. Meier or Mr. Downes could have a material adverse effect on UPCIC s and the Company s financial condition and results of operations. In addition, if Mr. Meier were to become incapacitated or elect to reduce his responsibilities with the Company, we would expect that Mr. Downes would assume his responsibilities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On July 31, 2004, the Company purchased a building located in Fort Lauderdale, Florida that became its headquarters on July 1, 2005. The building is 100% occupied by the Company. There is no mortgage or lease arrangement. The building is adequately covered by insurance.

On April 30, 2010, the Company purchased a 9,000 square foot building located in Fort Lauderdale, Florida contiguous to its existing headquarters that it intends to use as additional home office space.

The Company believes that those buildings will be suitable for their intended use and adequate to meet the Company s current and future needs. The building will be 100% utilized by the Company. The building is currently unoccupied. There is no mortgage or lease arrangement. The building is adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in certain lawsuits. In the opinion of management, 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 4. RESERVED

PART II

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

The Company s Common Stock, par value $0.01 per share (Common Stock), is quoted on the NYSE Amex LLC (NYSE Amex) formerly known as the American Stock Exchange, under the symbol UVE. The Company s common shares were quoted and traded on the OTC Bulletin Board under the symbol UVIH prior to April 30, 2007 when the Company commenced trading on the NYSE Amex. The following table sets forth prices of the Common Stock, as reported by the NYSE Amex.

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For year ended December 31, 2010	High	Low	Dividends Declared
First Quarter	$ 6.72	$ 4.59	$ 0.12
Second Quarter	$ 5.30	$ 4.01	$ 0.10
Third Quarter	$ 4.75	$ 3.98	$ 0.00
Fourth Quarter	$ 5.15	$ 4.17	$ 0.10

For year ended December 31, 2009	High	Low	Dividends Declared
First Quarter	$ 4.58	$ 2.40	$ 0.22
Second Quarter	$ 5.96	$ 3.65	$ 0.12
Third Quarter	$ 5.70	$ 4.45	$ 0.00
Fourth Quarter	$ 6.45	$ 4.90	$ 0.20

As of March 15, 2011, there were approximately 41 shareholders of record of the Company s Common Stock.

As of December 31, 2010, there were 2 and 4 shareholders of the Company s Series A and Series M Preferred Stock (Preferred Stock) respectively. During the year ended December 31, 2010, shareholders converted 950 shares of Series M Preferred Stock into 1,187 shares of Common Stock. During the year ended December 31, 2009, shareholders converted 30,000 shares of Series A Preferred Stock into 75,000 shares of Common Stock.

During 2010 and 2009, respectively, the Company declared and paid aggregate dividends of $19,950 and $27,450 on the Company s Series A Preferred Stock.

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

Equity Compensation Plan Information

The following table sets forth certain information with respect to all of the Company s equity compensation plans in effect as of fiscal year ended December 31, 2010.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in first column)

Equity compensation plans approved by security holders	1,665,000	$	5.07	135,000
Equity compensation plans not approved by security holders	3,720,000	$	4.50	N/A
Total	5,385,000	$	4.68	135,000

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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.

The total number of shares issuable under the incentive plan is 1,800,000 shares of common stock, par value, $0.01 per share. 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 Performance Graph

The following graph compares the cumulative total stockholder return of the Company s Common Stock from December 31, 2005 through December 31, 2010 with the cumulative total return of the SNL Insurance P&C and the Amex Composite. SNL Insurance P&C includes all publicly traded insurance underwriters in the property and casualty sector and was prepared by SNL Financial, Charlottesville, Virginia. The graph assumes the investment of $100 in the Company s Common Stock and in each of the two indices on December 31, 2005 with all dividends being reinvested on the ex-dividend date. The closing price of the Company s Common Stock on December 31, 2005 (the last trading day of the year) was 0.770 per share. The stock price performance on the graph is not necessarily indicative of future price performance.

			Period Ending			
Index	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**
Universal Insurance Holdings, Inc.	100.00	393.76	1085.47	411.72	1117.46	989.91
SNL Insurance P&C	100.00	116.57	125.86	97.42	105.33	125.60
Amex Composite	100.00	119.94	145.36	86.56	117.36	147.40

(1) The stock prices used to calculate total shareholder return for Universal Insurance Holdings, Inc. are based upon the prices of the Company s common shares quoted and traded on the OTC Bulletin Board under the symbol UVIH prior to April 30, 2007 and the NYSE Amex on subsequent dates.

Future Dividend Policy

Future cash dividend payments are subject to business conditions, the Company s financial position, and requirements for working capital and other corporate purposes.

Stock Repurchases

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The following table presents information related to repurchases of our Common Stock during the three months ended December 31, 2010:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the Plans or Programs
October 1-31, 2010				
November 1-30, 2010				
December 1-31, 2010	173,035	4.82		
Total	**173,035**	**$ 4.82**		**$**

(1) All shares acquired represent shares tendered in connection with cashless exercises of stock options and vested shares of restricted stock. Amounts tendered were to cover either the strike price for option exercises or tax withholdings on the intrinsic value of stock option exercises and fair value of vested shares of restricted stock. These shares were subsequently cancelled by the Company.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in the Annual Report on Form 10-K.

	Years Ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Income statement data:					
Direct premiums written	$ 666,309,262	$ 562,671,620	$ 511,369,676	$ 498,748,778	$ 371,754,514
Ceded premiums written	(466,694,053)	(428,384,278)	(360,581,696)	(358,405,016)	(230,718,709)
Net premiums written	199,615,209	134,287,342	150,787,980	140,343,762	141,035,805
(Increase) decrease in net unearned premium	(29,172,312)	7,366,383	(3,374,283)	14,074,690	(86,899,853)
Premiums earned, net	170,442,897	141,653,725	147,413,697	154,418,452	54,135,952
Total revenue	239,923,232	210,642,129	182,667,296	188,514,481	65,147,750
Total expenses	177,645,429	164,479,305	116,660,531	98,964,692	38,426,441
Income from continuing operations before income taxes	62,277,803	46,162,824	66,006,765	89,549,789	26,721,309
Income taxes, net	25,294,041	17,375,526	25,969,442	35,547,501	9,477,240

Discontinued Operations										(57,209)
Net Income	$	36,983,762	$	28,787,298	$	40,037,323	$	54,002,288	$	17,186,860
Balance sheet data:										
Total assets	$	766,230,240	$	678,247,300	$	544,636,912	$	491,193,365	$	481,610,424
Total liabilities	$	626,440,612	$	564,972,843	$	443,083,257	$	418,618,180	$	459,562,506
Unpaid losses and loss adjustment expenses	$	158,928,837	$	127,197,753	$	87,947,774	$	68,815,500	$	49,564,514
Unearned premiums	$	328,334,547	$	278,370,544	$	258,489,460	$	254,741,198	$	230,346,266
Long-term debt	$	23,161,764	$	24,632,353	$	25,000,000	$	25,000,000	$	25,057,266
Total stockholders equity	$	139,789,628	$	113,274,457	$	101,553,655	$	72,575,185	$	22,047,918
Earnings per share data										
Basic net income per common share from continuing operations	$	0.95	$	0.76	$	1.07	$	1.52	$	0.50
Fully diluted net income per common share from continuing operations	$	0.92	$	0.71	$	0.99	$	1.31	$	0.44
Dividends declared per common share	$	0.32	$	0.54	$	0.40	$	0.24	$	0.18

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A number of statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties that could cause actual results

to differ materially from those expressed or implied in the applicable statements. These risks and uncertainties include but are not limited to the costs and the uncertainties associated with the Risk Factors set forth in Item 1 above. Investors are cautioned that these forward-looking statements are not guarantees of future performance or results.

OVERVIEW

The Company is 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 which it currently provides in four states. Florida represented 98% of its in-force policies as of December 31, 2010. 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 in-force policies as of December 31, 2010 include 572,435 policies with coverage for wind risks and 11,443 policies without wind risks. The average premium for a policy with wind coverage was $1,155, and the average premium for a policy without wind coverage was $507. UPCIC had in-force premiums of approximately $667.1 million as of December 31, 2010.

The Company generates revenues primarily from the collection of premiums and the investment of those premiums. Other significant sources of revenue include commissions collected from reinsurers and policy fees.

The Company joined the Russell 3000® Index on June 26, 2009 and remains a member as of the most recent reconstitution date. According to publicly available information provided on Russell s Website, 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

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company s primary areas of estimate are described below.

Recognition of Premium Revenues. Property and liability premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, *Revenue Recognition in Financial Statements*.

Insurance Liabilities. Reserves are established to provide for the estimated costs of paying losses and LAE under insurance policies UPCIC has issued. Underwriting results are significantly influenced by estimates of losses and LAE reserves. These reserves are an estimate of amounts necessary to settle all outstanding claims, including claims that have been incurred but not reported (IBNR), as of the financial statement date.

Characteristics of Reserves. Reserves are established based on estimates of the ultimate cost to settle claims, less losses that have been paid. Claims are typically reported promptly with relatively little reporting lag between the date of occurrence and the date the loss is reported. UPCIC s claim settlement data suggests that homeowners property losses have an average settlement time of less than one year, while homeowners liability losses generally take an average of about two years to settle.

Reserves are the difference between the estimated ultimate cost of losses incurred and the amount of paid losses as of the reporting date. Reserves are estimated for both reported and unreported claims, and include estimates of all expenses associated with processing and settling all incurred claims. We update reserve estimates quarterly as new information becomes available or as events emerge that may affect the resolution of unsettled claims. Changes in prior year reserve estimates (reserve re-estimates), which may be material, are determined by comparing updated

estimates of ultimate losses to prior estimates, and the differences are recorded as losses and LAE in the Consolidated Statements of Income in the period such changes are determined. Estimating the ultimate cost of losses and LAE is an inherently uncertain and complex process involving a high degree of judgment and is subject to the evaluation of numerous variables.

The Actuarial Methods used to Develop Reserve Estimates. Reserves for losses and LAE are determined in three separate steps. These steps are the estimation of reserves for non-catastrophe loss and defense and cost containment (DCC) expenses (hereafter referred to simply as losses), estimation of reserves for hurricane experience, and estimation of reserves for Adjusting and Other (AO) expenses. These three steps are further separated into the analysis of data groupings of like exposure. These groups are property damage on homeowner policy forms HO-3 and HO-8 combined, property damage on homeowner policy forms HO-4 and HO-6 combined, dwelling fire property damage, all homeowner liability exposure, other liability (the optional liability coverage offered to dwelling fire policyholders), and all hurricane experience combined.

Reserve estimates for non-catastrophe losses are derived using several different actuarial estimation methods that are variations on one primary actuarial technique. That actuarial technique is known as a chain ladder estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves established by claim adjusters) for an accident year to create an estimate of how losses are likely to develop over time. This technique forms the basis of the six actuarial methods described below. An accident year refers to classifying claims based on the year in which the claims occurred, regardless of the date it was reported to UPCIC. This analysis is used to prepare estimates of required reserves for payments to be made in the future. The key data elements used to determine our reserve estimates include claim counts, paid losses, paid DCC, case reserves, and the related development factors applicable to this data.

The first method for estimating unpaid amounts for non-hurricane losses is the reported development method. This method is based upon the assumption that the relative change in a given year s reported loss estimates from one evaluation point to the next is similar to the relative change in prior years reported loss estimates at similar evaluation points. In utilizing this method, actual annual historical reported loss data is evaluated. Successive years can be arranged to form a triangle of data. Report-to-report (RTR) development factors are calculated to measure the change in cumulative reported losses from one evaluation point to the next. These historical RTR factors form the basis for selecting the RTR factors used in projecting the current valuation of losses to an ultimate basis. In addition, a tail factor is selected to account for loss development beyond the observed experience. The tail factor is based on trends shown in the data and consideration of industry loss development benchmarks. This method s implicit assumption is that the relative adequacy of case reserves has been consistent over time, and that there have been no material changes in the rate at which claims have been reported.

The second method is the paid development method. This method is similar to the reported development method; however, case reserves are excluded from the analysis. While this method has the disadvantage of not recognizing the information provided by current case reserves, it has the advantage of avoiding potential distortions in the data due to changes in case reserving methodology. This method s implicit assumption is that the rate of payment of claims has been relatively consistent over time.

The third method is the reported Bornhuetter-Ferguson (B-F) method. This method is essentially a blend of two other methods. The first method is the loss development method (described above), whereby actual reported losses are multiplied by an expected loss development factor. For slow reporting coverages, the loss development method can lead to erratic and unreliable projections, because a relatively small swing in early reporting periods can result in a large swing in ultimate projections. The second method is the expected loss method (a description of the expected loss method follows the description of the reported B-F method), whereby the IBNR estimate equals the difference between a predetermined estimate of expected losses and actual reported losses. This has the advantage of stability, but it does not respond to actual results as they emerge. The reported B-F method combines these two methods by setting ultimate losses equal to actual reported losses plus expected unreported losses. As an experience year matures and expected unreported losses become smaller, the initial expected loss assumption becomes gradually less important. Two parameters are needed to apply the B-F method: the initial expected loss ratio and the expected reporting pattern. The initial expected loss ratio for each accident year other than the current year is set equal to the

estimated ultimate loss ratio from the prior analysis. The initial expected loss ratio for the current year is determined based on trends in historical ratios, rate changes, and underlying loss trends. The expected reporting pattern is based on the reported loss development method described above. This method is often used for long-tail lines and in situations where the reported loss experience is relatively immature or lacks sufficient credibility for the application of other methods.

As mentioned above, one component of the B-F method is the expected loss method. In this method, ultimate loss projections are based upon some prior measure of the anticipated losses, usually relative to some measure of

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exposure, such as premiums, revenues, or payroll. An expected loss ratio (or loss cost/pure premium) is applied to the measure of exposure to determine estimated ultimate losses for each year. Actual losses are not considered in this calculation. This method has the advantage of stability over time because the ultimate loss estimates do not change unless the exposures or pure premiums change. However, this advantage of stability is offset by a lack of responsiveness, since this method does not consider actual loss experience as it emerges. This method is based on the assumption that the pure premium per unit of exposure is a good indication of ultimate losses. It is entirely dependent on pricing assumptions.

The fourth method is the paid B-F method. This method is analogous to the reported B-F method using paid losses and development patterns in place of reported losses and patterns.

The fifth method is the reported counts and averages method. In this method, an estimate of unpaid losses is determined by separately projecting ultimate reported claim counts and ultimate reported claim severities (cost per reported claim) for each accident period. Typically, loss development methods are used to project ultimate claim counts and claim severities based on historical data using the same methodology described in the reported development method above. Estimated ultimate losses are then calculated as the product of the two items. This method is intended to avoid data distortions that may exist with the other methods for the most recent years as a result of changes in case reserve levels, settlement rates, etc. In addition, it may provide insight into the drivers of loss experience.

The sixth method is the paid counts and averages method. This method is analogous to the reported counts and averages method using paid claims counts and paid claim severities and their related development patterns in place of reported data.

In selecting the RTR development factors described above, due consideration is given to how the RTR development factors change from one year to the next over the course of several consecutive years of recent history. In addition to the loss development triangles cited above, various diagnostic triangles, such as triangles showing historical patterns in the ratio of paid to reported losses and paid to reported claim counts are typically prepared as a means of determining the stability of various determinants of loss development, such as consistency in claims settlement and case reserving.

The implicit assumption of these techniques is that the selected RTR factors combine to form loss development patterns that are predictive of future loss development. The effects of inflation are implicitly considered in the reserving process, the implicit assumption being that the selected development factors includes an adequate provision. Occasionally, unusual aberrations in loss patterns are caused by external and internal factors such as changes in claim reporting, settlement patterns, unusually large losses, an unusually large amount of catastrophe losses, process changes, legal or regulatory changes, and other influences. In these instances, analyses of alternate development factor selections are performed to evaluate the effect of these factors, and actuarial judgment is applied to make appropriate development factor assumptions needed to develop a best estimate of ultimate losses.

The six methods described above all produce an estimate of ultimate losses. Based on the results of these six methods, a single estimate (commonly referred to as a actuarial point/central estimate) of the ultimate loss is selected. Estimated IBNR reserves are determined by subtracting the reported loss from the selected ultimate loss. The estimated IBNR reserves are added to case reserves to determine the total estimated unpaid losses.

Estimates of unpaid losses for hurricane experience are not developed using company specific development patterns, due to the relatively infrequent nature of storms and the high severity typically associated with them. Both the reported development method and the paid development method were used to estimate ultimate losses. However, the development patterns were based on industry data determined by our consulting actuary. There is an inherent assumption that relying on industry development patterns as opposed to company specific patterns produces more credible results for projecting hurricane losses.

Estimated unpaid amounts for non-catastrophe AO expenses are determined as the product of the estimated number of outstanding claims (whether open or unreported) times an estimate of average AO per claim. Universal s claims are handled by Universal Adjusting Corporation (UAC), a wholly owned subsidiary. UAC is compensated based on a fee schedule as follows:

Cost of Repair	Adjusting Fee
$0 to $1,500	$ 318
$1,501 to $2,500	$ 426
$2,501 to $3,500	$ 534
$3,501 to $5,000	$ 607
$5,001 to $7,500	$ 715
$7,501 to $10,000	$ 783

In cases where a claim exceeds $10,000, UAC is compensated on a time and expense basis based on the following fee schedule:

Category	Fee
Non-Clerical	$70/hour
Clerical	$45/hour
Mileage	$0.45/mile
Photographs	$2.25/each

UAC is compensated at the time a claim is closed (whether with or without payment).

The procedure we followed was to begin by developing a history of average AO expenses per closed claim (whether with or without payment) for each line of business. Since average fees have increased dramatically in the last two years, we placed reliance primarily on the indications from those two years in making our selections. The selected average AO expense was then multiplied by the estimated number of claims to be closed in the future (whether with or without payment) to determine an estimated liability. The estimated number of claims to be closed in the future was determined by projecting reported claims for each accident year to an estimated ultimate basis using the traditional development factor method, then subtracting the total number of claims that have closed as of December 31, 2010 (whether with or without payment).

In the case of the AO liabilities associated with hurricane exposure, a similar procedure was used to determine an estimate of the average AO expense per closed claim as was used for the non-catastrophe AO liabilities. However, a different procedure was used to estimate the number of claims to be closed in the future since the reported claim count development method would not produce a reliable estimate of ultimate hurricane claims. Three separate estimates of outstanding claims were determined. In one method, estimated outstanding claims were determined as the ratio of estimated unpaid losses to estimated claim severity, where claim severity was estimated as the ratio of paid losses to closed claims. In the second method, estimated outstanding claims were determined as the ratio of estimated unpaid losses to estimated claim severity, where estimated claim severity was determined as the ratio of reported losses to reported claims. In the third method, estimated outstanding claims were determined as the ratio of estimated unpaid losses to estimated claim severity, where claim severity was determined as the ratio of case reserves to open claims. Based on these three methods a final selection was made on estimated outstanding claim counts. The final selection is multiplied by estimated average AO expense per claim to derive the estimated liability.

How Reserve Estimates are Established and Updated. Reserve estimates are developed for both open claims and IBNR claims. The actuarial methods described above are used to derive claim settlement patterns by determining development factors to be applied to specific data elements. Development factors are calculated for data elements such as claim counts reported and settled, paid losses and paid losses combined with case reserves. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates.

Often, different estimates are prepared for each detailed component, incorporating alternative analyses of changing claim settlement patterns and other influences on losses, from which we select our best estimate for each component, occasionally incorporating additional analyses and actuarial judgment, as described above. These estimates are not based on a single set of assumptions. Based on our review of these estimates, our best estimate of required reserves is recorded for each accident year, and the required reserves are summed to create the reserve balance carried on our Consolidated Balance Sheets.

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Reserves are re-estimated quarterly, by combining historical results with current actual results. This process incorporates the historic and latest trends, and other underlying changes in the data elements used to calculate reserve estimates. When actual development of claims reported, paid losses or case reserve changes are different than the historical development pattern used in a prior period reserve estimate, a new reserve is determined. The difference between indicated reserves based on new reserve estimates and recorded reserves (the previous estimate) is the amount of reserve re-estimate and an increase or decrease in losses and LAE will be recorded in the Consolidated Statements of Income. Total reserve re-estimates, after-tax, as a percent of net income, in 2010, 2009 and 2008 were 9.9%, 18.1%, and 9.5%, respectively, which are consistent within a reasonable actuarial tolerance for our business Reserve re-estimates were primarily the result of actual loss development on prior year non-catastrophe losses during the years ending December 31, 2009 and 2008, and from higher than expected 2004 hurricane losses and actual loss development on prior year non-catastrophe losses during the year ended December 31, 2007. Reserve re-estimates on non-catastrophe losses, which have been well within acceptable ranges, are a result of settling homeowner s losses established in the prior year for amounts that were more than expected. These reserve re-estimates were primarily the result of claim severity development that was worse than expected and late reported loss development that was worse than expected due to higher frequency trends. These trends are consistent with the trends of other carriers in the industry, which we believe are related to increased publicity and awareness of coverage and litigation. These trends are primarily responsible for revisions to loss development factors, as previously described, to predict how losses are likely to develop from the end of the reporting period until all claims have been paid. Because these trends cause actual losses to differ from those predicted by the estimated development factors used in prior reserve estimates, reserves are revised as actuarial studies validate new trends based on indications of updated development factor calculations. Reserve re-estimates for catastrophe losses, which are associated with the high level of uncertainty related to hurricane claims are described under catastrophe losses below.

Factors Affecting Reserve Estimates. Reserve estimates are developed based on the processes and historical development trends as previously described. These estimates are considered in conjunction with known facts and interpretations of circumstances and factors including our experience with similar cases, actual claims paid, differing payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. When we experience changes of the type previously mentioned, we may need to apply actuarial judgment in the determination and selection of development factors considered more reflective of the new trends, such as combining shorter or longer periods of historical results with current actual results to produce development factors. For example, if a legal change is expected to have a significant impact on the development of claim severity, actuarial judgment is applied to determine appropriate development factors that will most accurately reflect the expected impact on that specific estimate. Another example would be when a change in economic conditions is expected to affect the cost of repairs to property; actuarial judgment is applied to determine appropriate development factors to use in the reserve estimate that will most accurately reflect the expected impacts on severity development.

As claims are reported, for certain liability claims of sufficient size and complexity, the field adjusting staff establishes case reserve estimates of ultimate cost, based on their assessment of facts and circumstances related to each individual claim. For other claims which occur in large volumes and settle in a relatively short time frame, it is not practical or efficient to set case reserves for each claim, and an initial case reserve of $2,500 is set for these claims. In the normal course of business, we may also supplement our claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims.

Changes in homeowners current year claim severity are generally influenced by inflation in the cost of building materials, the cost of construction and property repair services, the cost of replacing home furnishings and other contents, the types of claims that qualify for coverage, deductibles and other economic and environmental factors. We employ various loss management programs to mitigate the effect of these factors.

As loss experience for the current year develops for each type of loss, it is monitored relative to initial assumptions until it is judged to have sufficient statistical credibility. From that point in time and forward, reserves are re-estimated using statistical actuarial processes to reflect the impact loss trends have on development factors incorporated into the

actuarial estimation processes. Statistical credibility is usually achieved by the end of the first calendar year; however, when trends for the current accident year exceed initial assumptions sooner, they are usually given credibility, and reserves are increased accordingly.

Key assumptions that materially affect the estimate of the reserve for loss and LAE relate to the effects of emerging claim and coverage issues. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claim and coverage may emerge. These issues may adversely

affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. Key assumptions as of December 31, 2010 that are premised on future emergence that are inconsistent with historical loss reserve development patterns include but are not limited to:

- adverse changes in loss cost trends, including inflationary pressures in home repair costs;
- judicial expansion of policy coverage and the impact of new theories of liability; and
- plaintiffs targeting property and casualty insurers, in purported class action litigation related to claims-handling and other practices.

By applying standard actuarial methods to consolidated historic accident year loss data for homeowner losses, we develop variability analyses consistent with the way we develop reserves by measuring the potential variability of development factors, as described in the section titled, Potential Reserve Estimate Variability below.

Causes of Reserve Estimate Uncertainty. Since reserves are estimates of the unpaid portions of claims and claims expenses that have occurred, including IBNR losses, the establishment of appropriate reserves, including reserves for catastrophes, requires regular reevaluation and refinement of estimates to determine our ultimate loss estimate.

At each reporting date, the highest degree of uncertainty in estimates of losses arises from claims remaining to be settled for the current accident year and the most recent preceding accident year and claims that have occurred but have not been reported (pure IBNR claims). The greatest degree of uncertainty exists in the current accident year because the current accident year contains the greatest proportion of losses that have not been reported or settled but must be estimated as of the current reporting date. Most of these losses are related to damaged homes. During the first year after the end of an accident year, a large portion of the total losses for that accident year are settled. When accident year losses paid through the end of the first year following the initial accident year are incorporated into updated actuarial estimates, the trends inherent in the settlement of claims emerge more clearly. Consequently, this is the point in time at which we tend to make our largest re-estimates of losses for an accident year. After the second year, the losses that we pay for an accident year typically relate to claims that are more difficult to settle, such as those involving litigation.

Reserves for Catastrophe Losses. Loss and LAE reserves also include reserves for catastrophe losses. Catastrophe losses are an inherent risk of the property-casualty insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in our results of operations and financial position. A catastrophe is an event that produces significant pre-tax losses before reinsurance and involves multiple first party policyholders, or an event that produces a number of claims in excess of a preset, per-event threshold of average claims in a specific area, occurring within a certain amount of time following the event. Catastrophes are caused by various natural events including high winds, tornadoes, wildfires, tropical storms and hurricanes. The nature and level of catastrophes in any period cannot be predicted.

The estimation of claims and claims expense reserves for catastrophes also comprises estimates of losses from reported claims and IBNR, primarily for damage to property. In general, our estimates for catastrophe reserves are based on claim adjuster inspections and the application of historical loss development factors as described previously. However, depending on the nature of the catastrophe, as noted above, the estimation process can be further complicated. For example, for hurricanes, complications could include the inability of insureds to be able to promptly report losses, limitations placed on claims adjusting staff affecting their ability to inspect losses, determining whether losses are covered by our homeowners policy (generally for damage caused by wind or wind driven rain), or specifically excluded coverage caused by flood, estimating additional living expenses, and assessing the impact of demand surge, exposure to mold damage, and the effects of numerous other considerations, including the timing of a catastrophe in relation to other events, such as at or near the end of a financial reporting period, which can affect the availability of information needed to estimate reserves for that reporting period. In these situations, we may need to adapt our practices to accommodate these circumstances in order to determine a best estimate of our losses from a catastrophe.

Key Actuarial Assumptions That Affect the Loss and LAE Estimate. The aggregation of estimates for reported losses and IBNR forms the reserve liability recorded in the Consolidated Balance Sheets.

To develop a statistical indication of potential reserve variability within reasonably likely possible outcomes, actuarial techniques are applied to the data elements for paid losses and reported losses separately for homeowners

losses excluding catastrophe losses and catastrophe losses to estimate the potential variability of our reserves, within a reasonable probability of outcomes.

At any given point in time, our loss reserve represents our best estimate of the ultimate settlement and administration cost of our insured claims incurred and unpaid. Since the process of estimating loss reserves requires significant judgment due to a number of variables, such as fluctuations in inflation, judicial decisions, legislative changes and changes in claims handling procedures, our ultimate liability may exceed or be less than these estimates. We revise reserves for losses and LAE as additional information becomes available, and reflect adjustments, if any, in earnings in the periods in which they are determined.

On an annual basis, our independent actuary provides a Statement of Actuarial Opinion (SAO) that certifies the carried reserves make a reasonable provision for all of UPCIC s unpaid loss and LAE obligations under the terms of our contracts and agreements with our policyholders. We review the SAO and compare the projected ultimate losses and LAE per the SAO to our own projection of ultimate losses and LAE to ensure that loss and LAE reserves recorded at each annual balance sheet date are based upon our analysis of all internal and external factors related to known and unknown claims against us and to ensure our reserves are within National Association of Insurance Commissioners (NAIC) guidelines. We compare our recorded reserves to the indicated range provided in the report accompanying the SAO. At December 31, 2010, the recorded amount for net loss and LAE falls within the range determined by our independent actuaries and is higher than their best estimate.

In selecting the RTR development factors described above in the section titled *The Actuarial Methods used to Develop Reserve Estimates*, due consideration is given to how the RTR development factors change from one year to the next over the course of several consecutive years of recent history. In addition to the loss development triangles cited above, various diagnostic triangles, such as triangles showing historical patterns in the ratio of paid to reported losses and paid to reported claim counts, are typically prepared as a means of determining the stability of various determinants of loss development, such as consistency in claims settlement and case reserving.

With respect to Universal s primary exposure, Florida personal property coverage, the hurricanes in 2004 and 2005 required Universal to place more focus on adjusting hurricane claims during 2004, 2005 and into 2006. Universal then experienced a surge in non-hurricane claims which led the loss development patterns for non-catastrophe losses to increase substantially in the years during and following the active hurricane seasons of 2004 and 2005.

Potential Reserve Estimate Variability. Given the nature of Universal s business (catastrophe-exposed personal property coverage), the methods employed by actuaries include a range of estimated unpaid losses reflecting a level of uncertainty. The range of estimated ultimate losses is typically smaller for older, more mature accident periods and greater for more recent, less mature accident periods. The greatest level of uncertainty is associated with accident years during which catastrophe events occurred. For example, the increased uncertainty associated with accident years 2004 and 2005 increases the bounds of the range.

In selecting the range of reasonable estimates, the assumptions used to select development factors and initial expected loss ratios are not changed. Rather, the range of indications produced by the various methods is inspected, the relative strengths and weaknesses of each method are considered, and from those inputs a range of estimates can be selected.

Projections of loss and LAE liabilities are subject to potentially large errors of estimation since the ultimate disposition of claims incurred prior to the financial statement date, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, public attitudes, and social/economic conditions such as inflation. Any estimate of future costs is subject to the inherent limitation on one s ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and LAE will vary, perhaps materially, from any estimate.

The inherent uncertainty associated with UPCIC s loss and LAE liability is magnified due to UPCIC s concentration of property business in catastrophe-exposed coastal states, primarily Florida. The 2004 and 2005 hurricanes created great uncertainty in determining ultimate losses for these natural catastrophes. Issues related to applicability of deductibles, availability and cost of repair services and materials, and other factors have increased the variability in estimates of the related loss reserves. UPCIC has experienced unanticipated unfavorable loss development on catastrophe losses from claims related to 2004 and 2005 being reopened and new claims being opened due to public adjusters encouraging policyholders to file new claims, and from assessments related to condominium policies. Due to the

inherent uncertainty, the parameters of the loss estimation methodologies are updated on an annual basis as new information emerges.

Adequacy of Reserve Estimates. We believe our net loss and LAE reserves are appropriately established based on available methodology, facts, technology, laws and regulations. We calculate and record a single best reserve estimate, in conformance with generally accepted actuarial standards, for reported losses and IBNR losses and as a result we believe no other estimate is better than our recorded amount.

The Company has created a proprietary claims analysis tool (P2P) to analyze and calculate reserves. P2P is a custom built application by UPCIC that aggregates, analyzes and forecasts reserves based on historical data that spans more than a decade. It identifies historical claims data using same like kind and quality variables that exist in present claims and sets forth appropriate, more accurate reserves on current claims. P2P is reviewed by UPCIC management on a weekly basis in reviewing the topography of existing and incoming claims. P2P will be analyzed at each quarters end and adjustments to reserves are made at an aggregate level when appropriate.

P2P was initially used for 2010 third quarter reserve analysis resulting in an increase in 2010 loss year reserves. Further refinements were put into place in 2010 fourth quarter which included inflation adjustments for past claims into 2010 dollars (inflation guard). P2P was reviewed by an independent third party for data integrity and system reliability. The program was used for 2010 fourth quarter analysis and supported the company s independent actuary s best figures for development in prior years. The system indicated reserves for the 2010 loss year that exceeded actuary s best figures and system figures were used at year end. This program will be used for quarterly reviews on an ongoing basis.

Due to the uncertainties involved, the scenarios described and quantified above are reasonably likely, but the ultimate cost of losses may vary materially from recorded amounts, which are based on our best estimates. The net reserve for unpaid losses and LAE at December 31, 2010 is $79,814,419.

Deferred Policy Acquisition Costs/Deferred Ceding Commissions. Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they are related. Determination of costs other than commissions that vary with and are primarily related to the production of new and renewal business requires estimates to allocate certain operating expenses. As of December 31, 2010, deferred policy acquisition costs were $50,127,539 and deferred ceding commissions were $40,681,860. Deferred policy acquisition costs were reduced by deferred ceding commissions and shown net on the Consolidated Balance Sheet in the amount of $9,445,679.

Provision for Premium Deficiency. It is the Company s policy to evaluate and recognize losses on insurance contracts when estimated future claims and maintenance costs under a group of existing contracts will exceed anticipated future premiums and investment income. The determination of the provision for premium deficiency requires estimation of the costs of losses, catastrophic reinsurance and policy maintenance to be incurred and investment income to be earned over the remaining policy period. The Company has determined that a provision for premium deficiency was not warranted as of December 31, 2010.

Reinsurance. In the normal course of business, the Company seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. While ceding premiums to reinsurers reduces the Company s risk of exposure in the event of catastrophic losses, it also reduces the Company s potential for greater profits should such catastrophic events fail to occur. The Company believes that the extent of its reinsurance is typical of a company of its size in the homeowners insurance industry. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreement and consistent with the establishment of the liability of the Company. UPCIC s reinsurance policies do not relieve the UPCPC from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. No such allowance was deemed necessary as of December 31, 2010.

New Accounting Pronouncements Issued But Not Yet Adopted

In September 2010, the Financial Accounting Standards Board (FASB) issued amendments to existing guidance on accounting for costs associated with acquiring or renewing insurance contracts. The amendments modify the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. Under this guidance, these deferred acquisition costs are varied and related to the acquisition of new and renewal

insurance contracts. Those costs include agent and broker commissions, salaries of certain employees involved in underwriting and policy issuance, and medical and inspection fees. The amendments are effective for interim and annual periods beginning after December 15, 2011. Therefore, the Company is required to

adopt this guidance on January 1, 2012. The Company is currently evaluating the requirements of the amendments and the potential impact, if any, on the Company s financial position and results of operations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements during 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 2010, 2009 and 2008, the Company expensed claims adjusting fees of $480,000, $605,000, and $410,000, 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.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2010 COMPARED TO YEAR ENDED DECEMBER 31, 2009

Net income was $36,983,762 for the year ended December 31, 2010 compared to $28,787,298 for the year ended December 31, 2009. The Company s earnings per diluted share were $0.92 for the 2010 period versus $0.71 in the same period last year. The following discussion provides comparative information for each component of net income and comprehensive income for 2010 compared to 2009.

Direct premiums written increased 18.4% to $666,309,262 for the year ended December 31, 2010 from $562,671,620 for the year ended December 31, 2009. The year ended December 31, 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 strengthened 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. As of December 31, 2010 and 2009, UPCIC was servicing 583,878 and 541,001 homeowners and dwelling fire insurance policies with in-force premiums of $667,105,596 and $567,081,204, respectively. The wind mitigation discounts mandated by the Florida Legislature in 2007 continue to adversely affect UPCIC s premiums compared to historical rates. However, the rate of decrease in premiums due to the wind mitigation discounts was less in 2010 than 2009.

Net premiums earned increased 20.3% to $170,442,897 for the year ended December 31, 2010, from $141,653,725 for the year ended December 31, 2009. The increase is due to an increase in direct premiums earned and a proportionally lower increase in ceded premiums earned related to changes in the reinsurance program as described in Note 3 REINSURANCE in the accompanying notes to the Company s consolidated financial statements in Part II, Item 8 below.

Insurers like UPCIC experience the impact of rate or discount changes up to 12 months after they are implemented because the changes are effective as policies renew throughout the year. Although insurers may seek to rectify any rate discrepancies through subsequent rate increase filings with the OIR, there is no assurance that the OIR and the insurers will agree on the amount of rate change that is needed. In addition, any adjustments to the insurers rates similarly take up to 12 months to be fully integrated into the insurers business.

Net investment income decreased 31.7% to $992,235 for the year ended December 31, 2010 from $1,453,599 for the year ended December 31, 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 2010.

Realized gains on investments increased to $27,691,623 for the year ended December 31, 2010 from $24,175,045 for the year ended December 31, 2009 due to sales of securities.

Unrealized gains on investments of $1,753,919 include a transfer of $656,307 of unrealized losses upon the reclassification of the available-for-sale investment portfolio as a trading portfolio effective July 1, 2010, unrealized

gains of $2,669,321 from trading securities during the six-month period ended December 31, 2010, and unrealized losses of $259,095 on exchange traded derivatives. Prior to July 1, 2010, 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 $1,122,603 for the year ended December 31, 2010 from $6,808,419 for the year ended December 31, 2009. The decrease is due to changes in the composition of the Company s investment portfolio containing foreign-denominated securities.

Commission revenue increased 5.4% to $17,894,967 for the year ended December 31, 2010 from $16,984,447 for the year ended December 31, 2009. Commission revenue is comprised principally of reinsurance commission sharing agreements, and commissions generated from agency operations. The increase is attributable to an increase in reinsurance commission sharing of approximately $911,000.

Policy fees revenue increased 6.9% to $15,149,369 for the year ended December 31, 2010 from $14,174,000 for the year ended December 31, 2009. Policy fee revenue is compromised principally of the managing general agent s policy fee income and service fee income from insurance policies. The increase is primarily due to an increase in the number of policies to 583,879 at December 31, 2010 from 541,001 at December 31, 2009.

Other revenue decreased 9.6% to $4,875,618 for the year ended December 31, 2010 from $5,392,894 for the year ended December 31, 2009. The decrease is primarily due to a decrease in finance charges paid by policy holders.

Net losses and LAE increased 6.8% to $113,355,475 for the year ended December 31, 2010 from $106,133,135 for the year ended December 31, 2009. The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 66.5% and 74.9% during the years ended December 31, 2010 and 2009, respectively, and were comprised of the following components:

	Year ended December 31, 2010		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$ 229,044,188	$ 115,688,713	$ 113,355,475
Premiums earned	$ 616,345,258	$ 445,902,361	$ 170,442,897
Loss & LAE ratios	37.2%	25.9%	66.5%

	Year ended December 31, 2009		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$ 214,981,546	$ 108,848,411	$ 106,133,135
Premiums earned	$ 542,790,538	$ 401,136,813	$ 141,653,725
Loss & LAE ratios	39.6%	27.1%	74.9%

The direct loss and LAE ratio for the year ended December 31, 2010 was 37.2% compared to 39.6% for the year ended December 31, 2009. The decrease in the direct loss and LAE ratio is attributable to the increase in direct earned premium outpacing the increase in direct loss and LAE incurred in the 2010 period.

Direct premiums earned increased 13.6% in the year ended December 31, 2010 compared to the same period in 2009 as a result of an increase in the number of in-force policies and average premiums on those policies. The average premium of in-force policies for 2010 increased 9.0% to $1,143 compared to $1,048 for 2009 due to premium rate increases that went into effect during the fourth quarter of 2009, partially offset by the increase in wind mitigation discounts in 2010 versus 2009.

The ceded loss and LAE ratio for the year ended December 31, 2010 was 25.9% compared to 27.1% for the year ended December 31, 2009. The ceded loss and LAE ratio was influenced by greater direct incurred loss and LAE ceded under the Company s quota share reinsurance treaty offset by proportionately lower catastrophe premiums ceded to reinsurers in the 2010 period compared to the 2009 period.

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 years ended December 31, 2010 and 2009, respectively, the Company did not experience any catastrophic events. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and

financial position of UPCIC and the Company. While management believes

UPCIC s and the Company s catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses, including catastrophic losses that may exceed the limits of the Company s reinsurance program.

General and administrative expenses increased 10.2% to $64,289,954 for the year ended December 31, 2010 from $58,346,170 for the year ended December 31, 2009. The increase in general and administrative expenses was due to several factors including an increase in direct commissions in correlation with the increase in direct premiums written, partially offset by an increase in ceded commissions paid, and an increase in state taxes on premiums directly related to the increase on written premiums.

Federal and state income taxes increased 45.6% to $25,294,041 for the year ended December 31, 2010 from $17,375,526 for the year ended December 31, 2009. Federal and state income taxes were 40.6% of pretax income for the year ended December 31, 2010, and 37.6% for the year ended December 31, 2009. The increase in the effective tax rate is due primarily to non-deductible compensation.

Net income increased 28.5% to $36,983,762 for the year ended December 31, 2010 from $28,787,298 for the year ended December 31, 2009. The Company s earnings per diluted share were $0.92 for the 2010 period versus $0.71 in the same period last year.

Comprehensive income increased 24.2% to $36,420,108 for year ended December 31, 2010 from $29,326,118 for the year ended December 31, 2009 as a result of the $8,196,464 increase in net income, offset by a decrease due to the change in net unrealized gains on investments, net of tax, of $563,654. The change in net unrealized gains on investments is attributable to the reclassification of net unrealized gains outstanding at December 31, 2009 to current period revenue in connection with the reclassification of the Company s available-for-sale investment portfolio to a trading securities portfolio during 2010.

YEAR ENDED DECEMBER 31, 2009 COMPARED TO YEAR ENDED DECEMBER 31, 2008

The Company s operating results in 2009 were 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 causing residential insurers in Florida to reduce rates based upon presumptive costs savings as calculated by the (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 in 2009 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 would pay the depreciated amount 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 not repairing damage. Although UPCIC seeks to review diligently 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 year ended December 31, 2009 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 new agents, a new web-based policy administration system, and the disruption in the marketplace following the windstorm catastrophes in 2004 and 2005.

Despite growth in the number of policies in-force during the year ended December 31, 2009, the Company experienced a decrease in net income in the current period primarily as a result of the effects of state mandated rate reductions and discounts, and increased losses and loss adjustment expenses incurred.

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.

For the reinsurance contract years commencing June 1, 2007 and June 1, 2008, UPCIC purchased the maximum additional coverage available to the Company under the expanded FHCF, allowing UPCIC to maximize its cost savings from the new law. For the June 1, 2007 reinsurance contract year, UPCIC elected to purchase Florida Hurricane Catastrophe Fund Recovery Shortfall Reinsurance (FHCF Recovery Shortfall Reinsurance) in the event the FHCF could not fulfill its payment obligations for the 2007-2008 Hurricane Season. For the June 1, 2008 reinsurance contract year, a similar FHCF Recovery Shortfall Reinsurance product was unavailable in the marketplace. For the June 1, 2009 contract year 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 decision to forego the purchase of the Temporary Increase in Coverage Limit Option offered to insurers by the FHCF was based on the FHCF s potential lack of loss reimbursement capacity. Prior to the June 1, 2009 reinsurance contract year, the Florida State Board of Administration (SBA) published its most recent estimate of the FHCF s loss reimbursement capacity in the Florida Administrative Weekly on May 29, 2009. The SBA estimated that the FHCF s total loss reimbursement capacity under the then current market conditions for the 2009-2010 contract year was $15.830 billion over the 12 month period following the estimate. The SBA also referred to its report, entitled, May 2009 Estimated Loss Reimbursement Capacity (Report) as providing greater detail regarding the FHCF s loss reimbursement capacity. The Report estimated that the FHCF s minimum 12-month loss reimbursement capacity was $12.460 billion and its maximum 12-month loss reimbursement capacity was $17.960 billion. UPCIC s FHCF Mandatory Layer of Coverage for the contract year commencing June 1, 2009, corresponds to FHCF loss reimbursement capacity of $17.175 billion. Further, on October 30, 2009, the Florida State Board of Administration (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 loss reimbursement capacity under current market conditions for the 2009 2010 contract year is projected to be $18.998 billion over the 12-month period following the estimate. The SBA also referred to its report entitled, October 2009 Estimated Claims Paying Capacity Report (Report) as providing greater detail regarding the FHCF s loss reimbursement capacity. The Report estimated that the FHCF s minimum 12-month loss reimbursement capacity is $14.998 billion and its maximum 12-month loss reimbursement capacity is $21.998 billion.

By law, the FHCF s obligation to reimburse insurers is limited to its actual claims-paying capacity. In addition, the cost of UPCIC s reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF s loss reimbursement capacity.

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

Net income decreased 28.1% to $28,787,298 for the year ended December 31, 2009 from $40,037,323 for the year ended December 31, 2008. The Company s earnings per diluted share were $0.71 for the 2009 period versus $0.99 in the same period last year.

Comprehensive income decreased 26.8% to $29,326,118 for year ended December 31, 2009 from $40,062,157 for the year ended December 31, 2008 as a result of the aforementioned decrease in net income and an increase in the change in net unrealized gains on investments, net of tax, of $538,820 that comprises an increase in net unrealized gains of $877,201, net of taxes of $338,380. The change in net unrealized gains on investments, net of tax, relate to market value fluctuations within the Company s investment portfolio during the year ended December 31, 2009. The Company had net realized gains on investments of $24,175,405 during the year ended December 31, 2009. The Company had no realized gains on investments and had unrealized gains on investments of $40,429 during the year-ended December 31, 2008.

Direct premiums written increased 10.0% to $562,671,620 for the year ended December 31, 2009 from $511,369,676 for the year ended December 31, 2008. As of December 31, 2009 and 2008, UPCIC was servicing

approximately 541,000 and 461,000, respectively, homeowners and dwelling fire insurance policies with in-force premiums of approximately $567,100,000 and $518,200,000, respectively. The 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 adverse effect on UPCIC s premium. As of June 1, 2007, 1.9% of UPCIC policyholders were

receiving wind mitigation credits totaling $6,284,697 (a 1.3% reduction of in force premium). As of 12/31/07, 11.8% of UPCIC policyholders were receiving wind mitigation credits totaling $31,951,623 (a 6.0% reduction of in force premium). As of 12/31/08, 31.1% of UPCIC policyholders were receiving wind mitigation credits totaling $123,524,911 (a 19.4% reduction of in force premium). As of 12/31/09, 45.2% of UPCIC policyholders were receiving wind mitigation credits totaling $219,974,130 (a 28.3% reduction of in force premium).

Net premiums earned decreased 3.9% to $141,653,725 for the year ended December 31, 2009 from $147,413,697 for the year ended December 31, 2008. The decrease is due to an increase in direct premiums earned (net of previously discussed rate decreases and implementation of wind mitigation credits) and a proportionally higher increase in ceded premiums earned related to changes in the reinsurance program as described in Note 3 REINSURANCE in the accompanying notes to the Company s consolidated financial statements in Part II, Item 8 below. The higher volume of state-required wind mitigation premium discounts had a significant negative effect on the Company s premium volume and net income.

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, which will average approximately 14.6 percent statewide, was approved by the OIR. The effective dates for the premium rate increase are 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, which will average approximately 14.8 percent statewide, was approved by the OIR. The effective dates for the premium rate increase are 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.

Insurers like UPCIC fully experience the impact of rate or discount changes more than 12 months after they are implemented because their policies renew throughout the year. Although insurers may seek to rectify any problems through subsequent rate increase filings with the OIR, there is no assurance that the OIR and the insurers will agree on the amount of rate change that is needed. In addition, any adjustments to the insurers rates similarly take more than 12 months to be fully integrated into the insurers business.

Net investment income decreased 60.9% to $1,453,599 for the year ended December 31, 2009 from $3,721,029 for the year ended December 31, 2008. The decrease is primarily due to a lower interest rate environment during the year ended December 31, 2009.

Realized gains on investments increased to $24,175,045 for the year ended December 31, 2009 from $0 for the year ended December 31, 2008. The increase is due to the expansion of the Company s investment portfolio into fixed maturities and equity securities and the related sales of certain of these securities.

Foreign currency gains on investments increased to $6,808,419 for the year ended December 31, 2009 from $0 for the year ended December 31, 2008. The increase is due to the expansion of the Company s investment portfolio into foreign-denominated fixed maturities and equity securities and the related sales of certain of these securities.

Commission revenue increased 16.1% to $16,984,447 for the year ended December 31, 2009 from $14,426,773 for the year ended December 31, 2008. Commission revenue is comprised principally of reinsurance commission sharing agreements, and commissions generated from agency operations. The increase is attributable to an increase in reinsurance commission sharing of approximately $2.4 million.

Policy fees revenue increased 16.3% to $14,174,000 for the year ended December 31, 2009 from $12,188,345 for the year ended December 31, 2008. Policy fee revenue is compromised principally of the managing general agent s policy fee income and service fee income on all new and renewal insurance policies. The increase is primarily due to an increase in the number of policies to 541,001 at December 31, 2009 from 461,000 at December 31, 2008.

Other revenue increased 14.3% to $5,392,894 for the year ended December 31, 2009 from $4,717,492 for the year ended December 31, 2008. The increase is primarily due to fees earned on payment plans offered to policyholders by UPCIC.

Net losses and LAE increased 30.5% to $106,133,135 for the year ended December 31, 2009 from $81,338,126 for the year ended December 31, 2008. The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 74.9% and 55.2% during the years ended December 31, 2009 and 2008, respectively, and were comprised of the following components:

	Year ended December 31, 2009		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$ 214,981,546	$ 108,848,411	$ 106,133,135
Premiums earned	$ 542,790,538	$ 401,136,813	$ 141,653,725
Loss & LAE ratios	39.6%	27.1%	74.9%

	Year ended December 31, 2008		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$ 160,615,643	$ 79,277,517	$ 81,338,126
Premiums earned	$ 507,621,388	$ 360,207,691	$ 147,413,697
Loss & LAE ratios	31.6%	22.0%	55.2%

The direct loss and LAE ratio for the year ended December 31, 2009 was 39.6% compared to 31.6% for the year ended December 31, 2008. The increase in the direct loss and LAE ratio is attributable to the increase in direct loss and LAE incurred outpacing the increase in direct earned premium in the 2009 period.

Although total direct premiums earned increased 6.9% in the year ended December 31, 2009 compared to the same period in 2008, the average premium per policy decreased significantly due to the previously described rate decreases and wind mitigation credits. As of December 31, 2009, UPCIC was servicing approximately 541,000 homeowners and dwelling fire insurance policies with in-force premiums of approximately $567,100,000, or an average of $1,048 per policy. The comparable average in-force premium per policy as of December 31, 2008 was $1,125. Consequently, the direct loss and LAE ratio increased for the 2009 period. However, except for direct incurred losses and LAE of approximately $11.9 million, or 2.2% of direct earned premium, related to Tropical Storm Fay in 2008, the Company s loss experience did not vary significantly during the 2009 year compared to the 2008 year. Direct incurred losses and LAE related to Tropical Storm Fay were ceded to UPCIC s quota share reinsurer at 50%, or $5,950,000.

The ceded loss and LAE ratio for the year ended December 31, 2009 was 27.1% compared to 22.0% for the year ended December 31, 2008. The ceded loss and LAE ratio was influenced by greater direct incurred loss and LAE ceded under the Company s quota share reinsurance treaty and higher catastrophe premiums ceded to reinsurers in the 2009 period compared to the 2008 period.

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 years ended December 31, 2009 and 2008, respectively, neither UPCIC nor the Company experienced any catastrophic events. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position of UPCIC and the Company. While management believes UPCIC s and the Company s catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses, including catastrophic losses that may exceed the limits of the Company s reinsurance program.

General and administrative expenses increased 65.2% to $58,346,170 for the year ended December 31, 2009 from $35,322,405 for the year ended December 31, 2008. The increase in general and administrative expenses was due to several factors. Direct commissions paid increased in correlation with the increase in direct premiums written. In addition, state taxes on premiums were affected by the increase in written premiums. Salaries increased for existing employees and higher employee count due to business growth. Also, ceding commissions decreased as a result of the quota share reinsurance commission rate reduction associated with the 2009 2010 contract year quota share reinsurance contract. Deferred policy acquisition costs were also affected by this rate reduction. Assessment expenses increased due to a FIGA assessment of approximately $4.1 million during 2009.

Federal and state income taxes decreased 33.1% to $17,375,526 for the year ended December 31, 2009 from $25,969,442 for the year ended December 31, 2008. Federal and state income taxes were 37.6% of pretax income for the year ended December 31, 2009, and 39.3% for the year ended December 31, 2008. The decrease is primarily due to lower income before income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity is a measure of a company s ability to generate sufficient cash flows to meet its short and long -term obligations.

The balance of cash and cash equivalents as of December 31, 2010 was $147.6 million. Most of this amount is available to pay claims in the event of a catastrophic event pending reimbursement amounts recoverable under reinsurance agreements.

UIH s liquidity requirements primarily include the payment of dividends to shareholders and interest and principal on debt obligations. The declaration and payment of future dividends to shareholders will be at the discretion of the Company s Board of Directors and will depend upon many factors, including the Company s operating results, financial condition, capital requirements and any regulatory constraints.

The maximum amount of dividends, which can be paid by Florida insurance companies without prior approval of the Commissioner of the OIR, is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by UPCIC to the UIH 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. During the years ended December 31, 2010 and 2009, UPCIC did not pay dividends to UIH. During 2010, UIH contributed $30 million to UPCIC in the form of a capital contribution.

The Company s insurance operations provide liquidity in that premiums are generally received months or even years before losses are paid under the policies sold by the Company. Historically, cash receipts from operations, consisting of insurance premiums, commissions, policy fees and investment income, have provided more than sufficient funds to pay loss claims and operating expenses. The Company maintains substantial investments in highly liquid, marketable securities. Liquidity can also be generated by funds received upon the sale of marketable securities in the Company s investment portfolio.

Effective July 1, 2010, the Company elected to classify its securities investment portfolio as trading. Accordingly, purchases and sales of investment securities are included in cash flows from operations beginning July 1, 2010. The Company used $9.2 million in cash to fund operations during the year ended December 31, 2010 compared to $37.3 million and $50.3 million of cash generated by operating activities for the years ended December 31, 2009 and 2008. The use of cash during the year ended December 2010 reflects purchases of investment securities, net of proceeds from sales, of $68.7 million since July 1, 2010.

UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC s reinsurance programs and for losses that otherwise are not covered by the reinsurance programs, which could have a material adverse effect on UPCIC s and the Company s business, financial condition, results of operations and liquidity (see Note 3 to the Company s Consolidated Financial Statements in Part II, Item 8 of this Form 10-K for a discussion of the Company s reinsurance programs). UPCIC obtained coverage from the FHCF, which is administered by the SBA. 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. Fortunately, no

hurricanes made landfall in Florida during the 2010-2011 contract year and no reimbursement payments for the 2010-2011 contract year were required from the FHCF

to participating companies. Accordingly, the effect of the change in the *FHCF s estimate* had no effect on the Company s financial position, results of operations and liquidity.

Funds from operations generated by the Company have generally been sufficient to meet liquidity requirements and we expect that in the future funds from operations will continue to meet such requirements.

Capital Resources

Capital resources provide protection for policyholders, furnish the financial strength to support the business of underwriting insurance risks and facilitate continued business growth. At December 31, 2010, the Company had total capital of $162,951,392 comprised of shareholders equity of $139,789,628 and total debt of $23,161,764. The Company s debt to total capital ratio and debt to equity ratio were 14.2% and 16.6%, respectively, at December 31, 2010.

UPCIC is required annually to comply with the NAIC Risk-Based Capital (RBC) requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC s RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2010, based on calculations using the appropriate NAIC RBC formula, UPCIC s reported total adjusted capital was in excess of the requirements. Failure by UPCIC to maintain the required level of statutory capital and surplus could result in the suspension of UPCIC s authority to write new or renewal business, other regulatory actions or ultimately, in the revocation of UPCIC s certificate of authority by the OIR.

On November 9, 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration (SBA) under Florida s Insurance Capital Build-Up Incentive Program (ICBUI). The surplus note has a twenty-year term and accrues interest, adjusted quarterly based on the 10-year Constant Maturity Treasury Index. For the first three years of the term of the surplus note, UPCIC was required to pay interest only.

In May 2008, the Florida Legislature passed a law providing participants in the ICBUI 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 surplus note. On November 6, 2008, UPCIC and the SBA executed an addendum to the surplus note (Addendum) that reflects these law changes. The terms of the addendum were effective July 1, 2008. In addition to other less significant changes, the Addendum modifies the definitions of Minimum Required Surplus, Minimum Writing Ratio, Surplus, and Gro Written Premium, as defined in the original surplus note.

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

As of December 31, 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 is not subject to increases in interest rates.

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

laws. In total, the Company repurchased 808,900 shares under its repurchase plan at

an aggregate cost of $2,999,788. On August 26, 2008, the Company announced the completion of the repurchase program.

Ratings

UPCIC s financial strength is rated by a rating agency to measure UPCIC s ability to meet its financial obligations to its policyholders. The agency maintains a letter scale financial stability rating system ranging from Á (A double prime) to L (licensed by state regulatory authorities). On December 1, 2010, the agency affirmed UPCIC s financial stability rating of A, which is the third highest of six rating levels. According to the agency, 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. The rating of UPCIC is subject to at least annual review by, and may be revised downward or revoked at the sole discretion of the agency.

Ratings are an important factor in establishing our competitive position in the insurance markets. There can be no assurance that our ratings will continue for any given period of time or that they will not be changed. A downgrade in our financial strength ratings could adversely affect the competitive position of our insurance operations, including a possible reduction in demand for our products in certain markets.

Contractual Obligations and Off-Balance Sheet Arrangements

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

	($ in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	Over 5 years
Unpaid losses and LAE, direct	$ 158,929	$ 125,554	$ 20,661	$ 11,125	$ 1,589
Long-term debt	27,977	1,541	4,007	3,858	18,571
Operating leases	1,569	535	742	292	
Employment Agreements (1)	34,882	10,386	23,978	528	
Total contractual obligations	$ 223,357	$ 138,016	$ 49,388	$ 15,803	$ 20,160

(1) The Company has entered into employment agreements with certain employees which are in effect as of December 31, 2010. The agreements provide for minimum salaries, which may be subject to annual percentage increases, and non-equity incentive compensation for certain executives based on pre-tax or net income levels attained by the Company.

The Company does not have any off-balance sheet arrangements that are reasonably likely to have a material effect on the Company s financial condition, results of operations, liquidity or capital resources, other than as disclosed in Note (16) of the Notes to Consolidated Financial Statements.

IMPACT OF INFLATION AND CHANGING PRICES

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

Insurance premiums are established before the Company knows the amount of loss and LAE and the extent to which inflation may affect such expenses. Consequently, the Company attempts to anticipate the future impact of inflation when establishing rate levels. While the Company attempts to charge adequate rates, the Company may be limited in raising its premium levels for competitive and regulatory reasons. Inflation also affects the market value of the Company s investment portfolio and the investment rate of return. Any future economic changes which result

in prolonged and increasing levels of inflation could cause increases in the dollar amount of incurred loss and LAE and thereby materially adversely affect future liability requirements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential for economic losses due to adverse changes in fair value of financial instruments. Our primary market risk exposures are related to our investment portfolio and include interest rates, equity prices and commodity prices, and to a lesser extent, the Company s debt obligations. Investments in debt and equity securities held in trading and available- for- sale portfolios are carried on the balance sheet at fair value. The Company s investment portfolio as of December 31, 2010 was comprised approximately of 57% fixed income securities and 43% equity securities, all of which were held for trading. The Company s investment portfolio as of December 31, 2009 was comprised of approximately 36% fixed income securities and 64% equity securities, all of which were available for sale. As previously described in Liquidity and Capital Resources, the Company s surplus note accrues interest at an adjustable rate based on the 10-year Constant Maturity Treasury rate.

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 investment portfolio is managed by an investment committee consisting of all current directors in accordance with guidelines established by the Florida OIR. The committee reviews the Company s investment policies on a regular basis. 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.

Interest Rate Risk

Interest rate risk is the sensitivity of a fixed rate instrument to changes in interest rates. When interest rates rise, the fair value of our fixed- rate instruments decline.

The following table provides information about our fixed income investments, which are sensitive to changes in interest rates. The table presents cash flows of principal amounts and related weighted average interest rates by expected maturity dates for investments held in trading at December 31, 2010 and available for sale at December 31, 2009.

At December 31, 2010 (Trading)

	2011	2012	2013	2014	2015	Thereafter	Total Amortized Cost	Fair Value
US government and agency obligations	$	$ 173,933	$	$	$	137,792,085	$ 137,966,018	$ 130,116,007
average interest rate		2.6%				1.3%	3.9%	3.9%

At December 31, 2009 (Available for sale)

	2010	2011	2012	2013	2014	Thereafter	Total Amortized Cost	Fair Value
US government and agency obligations	$	$	$ 176,350	$	$	$ 42,120,377	$ 42,296,727	$ 41,389,008
average interest rate		0.0%	2.6%			1.8%	4.4%	4.4%

United States government and agency securities are rated from AAA to Aaa by Moody s Investors Service, Inc. and AAA by Standard and Poor s Company.

Equity and Commodity Price Risk

Equity and commodity price risk is the potential for loss in fair value of investments in Common Stock, exchange traded funds (ETF), and mutual funds from adverse changes in the prices of those instruments.

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The following table provides information about the composition of equity and commodity securities held in the Company s investment portfolio outstanding at December 31, 2010 and 2009.

	December 31, 2010 (Trading)		**December 31, 2009 (Available for Sale)**	
	Fair Value	Percent of Total	Fair Value	Percent of Total
Common stock:				
Metals and mining	25,751,909	27.3%	7,597,419	10.3%
Energy			256,053	0.3%
Other	362,520	0.4%	221,760	0.3%
Exchange-traded and mutual funds:				
Metals and mining	42,209,279	44.7%	38,753,742	52.8%
Agriculture	14,876,584	15.8%	11,754,630	16.0%
Energy	5,559,296	5.9%	3,306,815	4.5%
Indices	4,613,105	4.9%	7,963,094	10.8%
Other	1,043,704	1.1%	3,554,489	4.8%
Total equities securities	$ 94,416,397	100.0%	$ 73,408,002	100.0%

A hypothetical decrease of 10% in the market prices of each of the equity and commodity securities held at December 31, 2010 and 2009, would have resulted in a decrease of $9,441,640 and $7,340,800, respectively, in the fair value of the equity securities portfolio.

Item 8. Financial Statements and supplementary data

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Report of Independent Registered Certified Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of **Universal Insurance Holdings, Inc. and Subsidiaries** (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2010. We also have audited the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).* The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Universal Insurance Holdings, Inc. and Subsidiaries** as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

/s/ Blackman Kallick LLP
Chicago, Illinois
March 31, 2011

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 147,585,464	$ 192,924,291
Investment securities:		
Trading securities, at fair value (amortized cost - $222,519,390 in 2010 and $0 in 2009)	224,532,404	
Available-for-sale securities, at fair value (amortized cost - $0 in 2010 and $113,832,760 in 2009)		114,797,010
Prepaid reinsurance premiums	221,085,933	200,294,241
Reinsurance recoverables	79,551,875	91,816,433
Premiums receivable, net	43,622,606	37,363,110
Receivable from securities	17,555,961	6,259,973
Other receivables	2,863,757	5,068,367
Income taxes recoverable		3,211,874
Property and equipment, net	5,406,766	4,535,751
Deferred policy acquisition costs, net	9,445,679	9,464,624
Deferred income taxes	13,447,953	11,894,289
Other assets	1,131,842	617,337
Total assets	$ 766,230,240	$ 678,247,300
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 158,928,837	$ 127,197,753
Unearned premiums	328,334,547	278,370,544
Advance premium	19,839,740	17,078,558
Accounts payable	3,767,293	3,172,626
Bank overdraft	23,030,315	20,297,061
Reinsurance payable, net	37,946,484	73,104,595
Income taxes payable	8,282,030	368,968
Other accrued expenses	23,149,602	20,750,385
Long-term debt	23,161,764	24,632,353
Total liabilities	626,440,612	564,972,843
Commitments and Contigencies (Note 16)		
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	404,069	402,146

Authorized shares - 55,000,000		
Issued shares - 40,406,751 and 40,214,884		
Outstanding shares - 39,387,998 and 37,774,765		
Treasury shares, at cost - 1,018,753 and 1,809,119 shares	(3,109,255)	(7,948,606)
Common stock held in trust, at cost - 0 and 631,000 shares		(511,110)
Additional paid-in capital	33,674,697	36,666,914
Accumulated other comprehensive income, net of taxes		563,654
Retained earnings	108,819,040	84,100,372
Total stockholders equity	139,789,628	113,274,457
Total liabilities and stockholders equity	$ 766,230,240	$ 678,247,300

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

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

	For the Years Ended December 31,		
	2010	2009	2008
PREMIUMS EARNED AND OTHER REVENUES			
Direct premiums written	$ 666,309,262	$ 562,671,620	$ 511,369,676
Ceded premiums written	(466,694,053)	(428,384,278)	(360,581,696)
Net premiums written	199,615,209	134,287,342	150,787,980
(Increase) decrease in net unearned premium	(29,172,312)	7,366,383	(3,374,283)
Premiums earned, net	170,442,897	141,653,725	147,413,697
Net investment income	992,235	1,453,599	3,721,029
Net realized gains on investments	27,691,623	24,175,045	
Net unrealized gains on investments	1,753,919		
Net foreign currency gains on investments	1,122,603	6,808,419	
Commission revenue	17,894,967	16,984,447	14,626,733
Policy Fees	15,149,369	14,174,000	12,188,345
Other revenue	4,875,619	5,392,894	4,717,492
Total premiums earned and other revenues	239,923,232	210,642,129	182,667,296
OPERATING COSTS AND EXPENSES			
Losses and loss adjustment expenses	113,355,475	106,133,135	81,338,126
General and administrative expenses	64,289,954	58,346,170	35,322,405
Total operating costs and expenses	177,645,429	164,479,305	116,660,531
INCOME BEFORE INCOME TAXES	62,277,803	46,162,824	66,006,765
Income taxes, current	26,854,322	15,494,732	25,895,545
Income taxes, deferred	(1,560,281)	1,880,794	73,897
Income taxes, net	25,294,041	17,375,526	25,969,442
NET INCOME	$ 36,983,762	$ 28,787,298	$ 40,037,323
Basic net income per common share	$ 0.95	$ 0.76	$ 1.07
Weighted average of common shares outstanding Basic	39,113,302	37,617,885	37,418,253

Fully diluted net income per share	$ 0.92	$ 0.71	$ 0.99
Weighted average of common shares outstanding Diluted	40,249,677	40,471,524	40,274,507
Cash dividend declared per common share	$ 0.32	$ 0.54	$ 0.40

	For the Years Ended December 31,		
	2010	2009	2008
Comprehensive Income:			
Net income	$ 36,983,762	$ 28,787,298	$ 40,037,323
Change in net unrealized gains on investments, net of tax	(563,654)	538,820	24,834
Comprehensive Income	$ 36,420,108	$ 29,326,118	$ 40,062,157

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 and 2008

For the Year Ended December 31, 2010

	Common Shares	Preferred Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	SGT Common Stock	Treasury Stock	Tot Stockh Equ
, ber 31,	40,214,884	108,640	$ 402,146	$ 1,087	$ 36,666,914	$ 84,100,372	$ 563,654	$ (511,110)	$ (7,948,606)	$ 113,2
ption es	1,995,206		19,952		2,934,935			511,110	(7,878,150)	(4,4
ed stock	300,000		3,000		(3,000)					
d stock ion	1,187	(950)	12	(10)	(2)					
ent of shares	(2,104,526)		(21,041)		(12,696,460)				12,717,501	
ption					2,108,705					2,1
ome						36,983,762				36,9
tax on e of ptions ting of d stock					4,099,145					4,0
ar ent tax on e of ptions					(288,232)	288,232				
zation of d sation in ion with d stock					852,692					8
tion of ds						(12,553,326)				(12,5
ification tments ng -net of ct of 0							403,137			4

in net ted gains ents-net ffect of 2							(966,791)				(9
, per 31,	40,406,751	107,690	$ 404,069	$ 1,077	$ 33,674,697	$ 108,819,040	$	$	$	(3,109,255)	$ 139,7

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Year Ended December 31, 2009

	Common Shares	Preferred Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Stock Held in Trust	Treasury Stock	Total Stockhold Equit
nce, mber 31,	40,158,019	138,640	$ 401,578	$ 1,387	$ 33,587,414	$ 75,654,070	$ 24,834	$ (733,860)	$ (7,381,768)	$ 101,553
option ises rred	20,000		200		365,050			222,750	(756,375)	(168
ersion	75,000	(30,000)	750	(300)	(450)					
ement of ury s	(38,135)		(382)		(189,155)				189,537	
option nse					1,520,647					1,520
ncome						28,787,298				28,787
ss tax it on ise of options esting of cted					728,584					728
rtization ferred ensation nnection restricted					654,824					654
aration of ends						(20,340,996)				(20,340
nrealized on tments, f tax of 976								538,820		538
	40,214,884	108,640	$ 402,146	$ 1,087	$ 36,666,914	$ 84,100,372	$ 563,654	$ (511,110)	$ (7,948,606)	$ 113,274

ce,
mber 31,

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	For the Year Ended December 31, 2008									
	Common Shares	Preferred Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Stock Held in Trust	Treasury Stock	Total Stockhol Equit
ce, mber 31,	39,307,103	138,640	$ 393,072	$ 1,387	$ 24,779,798	$ 50,724,674	$	$ (2,349,000)	$ (974,746)	$ 72,575
option ises	1,816,000		15,160		2,530,700			1,615,140	(7,448,939)	(3,287
cted awards			3,000		(3,000)					
rchase of non s									(2,999,788)	(2,999
ement of ry s	(965,084)		(9,654)		(4,032,051)				4,041,705	
option se					4,271,230					4,271
ncome						40,037,323				40,037
ss tax it on ise stock ns and g of cted					5,706,778					5,706
rtization ferred ensation nnection restricted					333,959					333
ration of ends						(15,107,927)				(15,107
nrealized on tments, f tax $15,595							24,834			24

ce, mber 31,	40,158,019	138,640	$ 401,578	$ 1,387	$ 33,587,414	$ 75,654,070	$ 24,834	$ (733,860)	$ (7,381,768)	$ 101,553

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

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

	For the Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities:			
Net Income	$ 36,983,762	$ 28,787,298	$ 40,037,323
Adjustments to reconcile net income to net cash provided by operating activities:			
Bad debt expense	1,314,800	1,353,662	2,134,106
Depreciation	831,159	490,059	480,313
Amortization of cost of stock options	2,108,705	1,520,647	4,271,230
Amortization of restricted stock grants	852,692	654,824	333,959
Net realized gains on investments	(27,691,623)	(24,175,045)	
Net unrealized gains on investments	(1,753,919)		
Foreign currency gains on investments, net	(1,143,058)	(6,759,586)	
Amortization of premium / accretion of discount, net	544,837	235,842	35,095
Deferred income taxes	(1,333,361)	1,880,794	73,898
Other	(626,792)	130,118	137,571
Net change in assets and liabilities relating to operating activities:			
Prepaid reinsurance premiums	(20,791,692)	(27,247,465)	(373,981)
Reinsurance recoverables	12,264,558	(47,806,586)	2,389,418
Premiums receivable, net	(7,574,296)	1,641,948	(6,298,004)
Other receivables	2,810,472	(2,551,005)	(467,097)
Income taxes recoverable	3,211,874	(728,952)	(2,482,923)
Deferred policy acquisition costs, net	18,945	(9,056,678)	(407,946)
Deferred ceding commission, net			(2,122,269)
Purchase of fixed maturities, trading	(486,695,452)		
Proceeds from sales of fixed maturities, trading	408,983,414		
Purchase of equity securities, trading	(131,298,910)		
Proceeds from sale of equity securities, trading	140,322,216		
Other assets	(778,983)	28,656	(292,448)
Unpaid losses and loss adjustment expenses	31,731,084	39,249,979	19,132,274
Unearned premiums	49,964,003	19,881,084	3,748,262
Accounts payable	594,667	25,366	175,113
Reinsurance payable	(35,158,111)	49,120,347	(9,904,102)
Income taxes payable	7,913,062	368,968	
Other accrued expenses	2,399,217	6,069,942	(2,118,864)
Advance premium	2,761,182	4,218,357	1,824,757
Net cash (used in) provided by operating activities	(9,235,548)	37,332,574	50,305,685
Cash flows from investing activities:			
Proceeds from sale of property	32,608		2,500
Purchase of property, plant and equipment	(1,713,848)	(762,075)	(486,742)
Purchases of fixed maturities, held-to-maturity			(4,369,500)
Purchases of fixed maturities, available-for-sale	(129,140,469)	(325,673,805)	
Proceeds from sales of fixed maturities, available-for-sale	116,237,712	299,033,089	

Purchases of equity securities, available for sale	(80,730,225)	(206,053,904)	
Proceeds from sales of equity securities, available for sale	70,680,944	147,635,080	
Net cash used in investing activities	(24,633,278)	(85,821,615)	(4,853,742)
Cash flows from financing activities:			
Bank overdraft	2,733,254	4,597,131	15,699,930
Preferred stock dividend	(19,950)	(27,450)	(49,950)
Common stock dividend	(12,533,376)	(20,313,547)	(18,299,123)
Issuance of common stock	14,000	55,000	130,530
Repurchase of treasury stock			(2,999,788)
Treasury shares on option exercise	(4,292,485)	(223,376)	(3,418,469)
Excess tax benefits from stock-based compensation	4,099,145	728,584	5,706,778
Repayments of loans payable	(1,470,589)	(367,647)	(2,820)
Net cash used in financing activities	(11,470,001)	(15,551,305)	(3,232,912)
Net (decrease) increase in cash and cash equivalents	(45,338,827)	(64,040,346)	42,219,031
Cash and cash equivalents at beginning of period	192,924,291	256,964,637	214,745,606
Cash and cash equivalents at end of period	$ 147,585,464	$ 192,924,291	$ 256,964,637
Supplemental cashflow disclosures:			
Interest	$ 804,898	$ 740,118	$ 1,549,292
Income taxes	$ 11,163,437	$ 15,609,000	$ 22,266,491

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

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

NOTE 1 NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Nature of Operations

Universal Insurance Holdings, Inc. (the Company) is a Delaware corporation originally incorporated as Universal Heights, Inc. in November 1990. The Company changed its name to Universal Insurance Holdings, Inc. on January 12, 2001. The Company is a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Through its wholly-owned subsidiaries, including Universal Property & Casualty Insurance Company (UPCIC), the Company is principally engaged in the property and casualty insurance business offered primarily through a network of independent agents. The Company s primary product is homeowners insurance currently offered in five states, including Florida, which represented 98% and 99% of in force policies as of December 31, 2010 and 2009, respectively. The geographic distribution of business within Florida is broad with 32% and 32% of in force policies in Miami-Dade, Broward and Palm Beach Counties of December 31, 2010 and 2009, respectively. Risk from catastrophic losses is managed through the use of reinsurance agreements.

The Company generates revenues primarily from the collection of premiums and the investment of those premiums. Other significant sources of revenue include commissions collected from reinsurers and policy fees.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation and Consolidation. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of Universal Insurance Holdings, Inc and its wholly owned subsidiaries, and the Universal Insurance Holdings, Inc. Stock Grantor Trust. All intercompany accounts and transactions have been eliminated in consolidation.

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

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company s primary areas of estimate are the recognition of premium revenues, insurance liabilities, deferred policy acquisition costs and reinsurance. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Company includes in cash equivalents all short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of three months or less. These amounts are carried at cost, which approximates fair value.

Investments. Investment securities consist of both debt and equity securities. Investments are classified as trading, available for sale, or held to maturity, based on management s intent and ability to hold to maturity. Investment securities held in trading and available for sale are recorded at fair value on the consolidated balance sheet while investments held to maturity are recorded at costs, adjusted for amortization of premiums or discounts and other than temporary declines in fair value.

Unrealized gains and losses on trading securities are reported in current period earnings. Unrealized gains and losses on securities available for sale are excluded from earnings and are reported as a component of other comprehensive income, net of related deferred taxes until reclassified to earnings upon the consummation of sales transaction with an unrelated third party or when the decline in fair value is deemed other than temporary.

The assessment of whether the impairment of a security s fair value is other than temporary is performed using a portfolio review as well as a case-by-case review considering a wide range of factors. There are a number of assumptions and estimates inherent in evaluating impairments and determining if they are other than temporary, including: 1) the Company s ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities or cost for equity securities; 4) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect liquidity. Additionally, once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that an impairment is other than temporary, including: 1) general economic conditions that are worse than previously forecasted or that have a greater adverse effect on a particular issuer or industry sector than originally estimated; 2) changes in the facts and circumstances related to a particular issue or issuer s ability to meet all of its contractual obligations; and 3) changes in facts and circumstances obtained that causes a change in our ability or intent to hold a security to maturity or until it recovers in value.

Gains and losses realized on the disposition of investment securities are determined on the first-in-first-out basis (FIFO) and credited or charged to income. Prior to 2009, the Company used the specific identification method for determining realized gains and losses. Beginning in 2009, the Company began using the FIFO method due to the increase in size and complexity of its investment portfolio. Premium and discount on investment securities are amortized and accreted using the interest method and charged or credited to investment income.

Premiums Receivable. Generally, premiums are collected prior to providing risk coverage, minimizing the Company s exposure to credit risk. The Company performs a policy level evaluation to determine the extent the premiums receivable balance exceeds the unearned premiums balance. The Company then ages this exposure to establish an allowance for doubtful accounts based on prior experience. As of December 31, 2010 and 2009, the Company had recorded allowances for doubtful accounts in the amounts of $111,456 and $2,701,822, respectively.

Property and Equipment. Property and equipment is recorded at cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful life of the assets. Estimated useful life of all property and equipment ranges from three to twenty-seven-and-one-half years. Expenditures for improvements are capitalized and depreciated over the remaining useful life of the asset. Routine repairs and maintenance are expensed as incurred. Website development costs are capitalized and amortized over their estimated useful life. The Company reviews its property and equipment annually and whenever changes in circumstances indicate that the carrying amount may not be recoverable.

Recognition of Premium Revenues. The Company recognizes revenue when reaized or realizable and earned. Property and liability premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. The Company believes that its revenue recognition policies conform to GAAP. In the event policyholders cancel their policies, unearned premiums represent amounts that UPCIC would refund policyholders. Accordingly, UPCIC determines unearned premiums by calculating the pro rata amount that would be due to the policyholders at a given point in time based upon the premiums owed over the life of each policy.

Recognition of Commission Revenue. Commission revenue, which is comprised of the Managing General Agent (MGA) s policy fee income on all new and renewal insurance policies and commissions generated from agency operations is recognized as income upon policy inception. The Company believes that its revenue recognition policies conform to GAAP.

Recognition of Policyholder Payment Plan Fee Revenue. UPCIC offers its policyholders the option of paying their policy premiums in full at inception or in two or four installment payments. UPCIC charges fees to its policyholders that elect to pay their premium in installments and records such fees as revenue when the policyholder makes the installment payment election and UPCIC bills the fees to the policyholder. These fees are included in Other Revenue in the Company s Consolidated Statements of Income. The Company believes that its revenue recognition policies conform to GAAP.

Deferred Policy Acquisition Costs. Policy acquisition costs consist primarily of commissions, premium taxes and other costs of acquiring new and renewal insurance business. These costs are deferred and amortized over the terms of the policies to which they are related. Reinsurance ceding commissions received are deferred and amortized over the

effective period of the related insurance policies. Deferred policy acquisition costs and deferred ceding commissions are netted for balance sheet presentation purposes.

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

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

Provision for Premium Deficiency. It is the Company s policy to evaluate and recognize losses on insurance contracts when estimated future claims and maintenance costs under a group of existing contracts will exceed anticipated future premiums. No accruals for premium deficiency were considered necessary as of December 31, 2010 and 2009.

Reinsurance. In the normal course of business, the Company seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring (ceding) certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. The Company is required to pay losses to the extent reinsurers are unable to discharge their obligations under the reinsurance agreements. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreement and consistent with the establishment of the liability of the Company. Allowances are established for amounts deemed uncollectible.

Income Taxes. Income tax provisions are based on the asset and liability method. Deferred federal and state income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, net of valuation allowance. The Company reviews its deferred tax assets for recoverability.

Income (Loss) Per Share of Common Stock. Basic earnings per share is computed by dividing the Company s net income (loss), less Preferred Stock dividends, by the weighted-average number of shares of Common Stock outstanding during the period. Diluted earnings per share is computed by dividing the Company s net income (loss) by the weighted average number of shares of Common Stock outstanding during the period and the impact of all dilutive potential common shares, primarily Preferred Stock, options and warrants. The dilutive impact of stock options and warrants is determined by applying the treasury stock method and the dilutive impact of the Preferred Stock is determined by applying the if converted method.

Fair Value Measurements. Effective January 1, 2010, the Company adopted new guidance that requires the Company to report significant transfers between Level 1 and Level 2 and the reasons for those transfers, as well as disclosing the reasons for transfers in or out of Level 3, including presenting the reconciliation of the changes in Level 3 fair value measurements separately for purchases, sales and settlements on a gross basis rather than as a net amount. Additionally, the guidance requires the Company to clarify existing disclosure requirements about the level of disaggregation and inputs and valuation techniques. The adoption of this guidance did not have an impact on the Company s financial statements, other than expanded disclosures.

Disclosures about the purchases, sales, issuances and settlements in the roll forward activity in Level 3 fair value measurements will be effective for fiscal years beginning after December 15, 2010. The Company does not expect the adoption of the guidance for Level 3 activity to have a significant impact on its financial statements.

In 2009, the Company adopted the guidance for nonrecurring fair value measurements of nonfinancial assets and liabilities, which guidance had been previously deferred. The adoption of this guidance had no material effect on the Company s financial condition or results of operations.

Concentrations of Credit Risk. The Company is exposed to concentrations of credit risk, consisting principally of cash and cash equivalents, debt securities, premiums receivable and reinsurance recoverables.

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Concentrations of credit risk with respect to cash on deposit are limited by the Company s policy of investing excess cash with custodial institutions who invest primarily in money market accounts and repurchase agreements backed by the United States Government and United States 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 Bank of New York Trust Fund.

The Company maintains depository relationships with SunTrust Bank and Wachovia Bank, N.A. It is the Company s policy not to have a balance of more than $250,000 for any of its affiliates at either institution on any given day to minimize exposure to a bank failure. Cash balances in excess of $250,000 are transferred daily into custodial accounts with SunTrust Bank where cash is immediately invested into shares of Federated Treasury Obligations Money Market Funds.

Cash and cash equivalents consisted of checking, repurchase and money market accounts with carrying values of $147,585,464 and $192,924,291 as of December 31, 2010 and 2009, respectively, as follows:

	As of December 31, 2010			
Institution	Cash	Money Market Funds	Total	%
U. S. Bank IT&C	$	$ 41,454,392	$ 41,454,392	28.1%
SunTrust Bank	1,241,149		1,241,149	0.7%
SunTrust Bank Institutional Asset Services		92,323,784	92,323,784	62.6%
Wachovia Bank a division of Wlss Fargo Bank N.A.	780,180		780,180	0.5%
Bank of New York Trust Fund		11,340,000	11,340,000	7.7%
All Other Banking Institutions	443,050	2,909	445,959	0.3%
	$ 2,464,379	$ 145,121,085	$ 147,585,464	100.0%

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

All debt securities owned by the Company as of December 31, 2010 and 2009 are direct obligations of the U.S. Treasury.

Concentrations of credit risk with respect to premiums receivable are limited due to the large number of individuals comprising the Company s customer base. However, the majority of the Company s revenues are currently derived

from products and services offered to customers in Florida, which could be adversely affected by economic downturns, an increase in competition or other environmental changes.

In order to reduce credit risk for amounts due from reinsurers, UPCIC and another Company subsidiary, American Platinum Property and Casualty Insurance Company (APPCIC), seek to do business with financially sound reinsurance companies and regularly evaluate 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 December 31, 2010 and 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 December 31, 2010	2009
Everest Reinsurance Company	$ 227,941,896	$ 208,129,753
Florida Hurricane Catastrophe Fund	32,848,543	24,888,534
Total	$ 260,790,439	$ 233,018,287

Stock-based Compensation. The Company accounts for share-based compensation based on the estimated grant-date fair value. The Company recognizes these compensation costs in general and administrative expenses on a straight-line basis over the requisite service period of the award, which is the vesting term. The fair value of stock option awards are estimated using the Black-Scholes option pricing model with the grant-date assumptions discussed in Note 10. The fair value of the restricted share grants are determined based on the market price on the date of grant.

Statutory Accounting. UPCIC and APPCIC prepare statutory financial statements in conformity with accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida. Effective January 1, 2001, the Office of Insurance Regulation of the State of Florida required that insurance companies domiciled in the State of Florida prepare their statutory financial statements in accordance with the NAIC Accounting Practices and Procedures Manual (the Manual), as modified by the Office of Insurance Regulation of the State of Florida. Accordingly, the admitted assets, liabilities and capital and surplus of UPCIC and APCIC as of December 31, 2010 and 2009 and the results of operations and cash flows, for the years ended December 31, 2010, 2009 and 2008, have been determined in accordance with statutory accounting principles, but adjusted to GAAP for purposes of these financial statements. The statutory accounting principles are designed primarily to demonstrate the ability to meet obligations to policyholders and claimants and, consequently, differ in some respects from GAAP.

Other New Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued guidance on Recognition and Presentation of Other-than-Temporary Impairments , which amends the criteria for the recognition of other-than-temporary impairments (OTTI) for debt securities and requires that credit losses be recognized in earnings and losses resulting from factors other than credit of the issuer be recognized in other comprehensive income. Prior to adoption, all OTTI was recorded in earnings in the period of recognition. This guidance is effective for interim and annual periods ending after June 15, 2009, and requires a cumulative effect adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Company adopted this guidance in the second quarter of 2009. The adoption of this guidance did not have an effect on the results of operations or financial position of the Company.

In April 2009, the FASB issued guidance on Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. Under this guidance, if an entity determines that there has been a significant decrease in the volume and level of activity for the asset or the liability in relation to the normal market activity for the asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In addition, if there is evidence that the transaction for the asset or liability is not orderly, the entity shall place little, if any, weight on that transaction price as an indicator of fair value. This guidance is effective for interim and annual periods ending after June 15, 2009, and shall be applied prospectively. The Company adopted this guidance in the second quarter of 2009. The adoption of this guidance did not have an effect on the results of operations or financial position of the Company.

In April 2009, the FASB issued guidance on Interim Disclosures about Fair Value of Financial Instruments , which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This guidance requires fair value disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. This guidance is effective for interim reporting periods ending after June 15, 2009 and was adopted by the Company in the second quarter of 2009. The adoption of this guidance did not have an effect on the results of operations or financial position of the Company.

In June 2009, the FASB issued guidance on The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles , which establishes the FASB Accounting Standards Codification as the sole source of authoritative U.S. GAAP recognized by the FASB to be applied to nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) promulgated under the authority of the federal securities laws are also sources of authoritative GAAP for SEC registrants. This guidance is effective for

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financial statements issued for interim and annual periods ending after September 15, 2009 and was adopted by the Company in the third quarter of 2009. The FASB Accounting Standards Codification supersedes all existing non-SEC accounting and reporting standards. The adoption of this guidance changed the Company s references to U.S. GAAP accounting standards but did not have an effect on the results of operations or financial position of the Company.

In September 2010, the FASB issued amendments to existing guidance on accounting for costs associated with acquiring or renewing insurance contracts. The amendments modify the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. Under this guidance, these deferred acquisition costs are varied and related to the acquisition of new and renewal insurance contracts. Those costs include agent and broker commissions, salaries of certain employees involved in underwriting and policy issuance, and medical and inspection fees. The amendments are effective for interim and annual periods beginning after December 15, 2011. Therefore, the Company is required to adopt this guidance on January 1, 2012. The Company is currently evaluating the requirements of the amendments and the potential impact, if any, on the Company s financial position and results of operations.

NOTE 3 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 December 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 June 1, 2010. A replacement contract was entered into between the parties on January 1, 2011 as part of UPCIC s reinsurance program in effect for the period June 1, 2010, through May 31, 2011. In conjunction with the commutation, T25 returned $18,350,500 to UPCIC as a contractual premium adjustment. No additional collateral was required for the replacement contract, effective January 1, 2011. 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 December 31, 2010 was approximately $126.8 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 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.

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

	Year Ended December 31, 2010		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 666,309,262	$ 616,345,258	$ 229,044,188
Ceded	(466,694,053)	(445,902,361)	(115,688,713)
Net	$ 199,615,209	$ 170,442,897	$ 113,355,475

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	Year Ended December 31, 2009		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 562,671,620	$ 542,790,538	$ 214,981,546
Ceded	(428,384,278)	(401,136,813)	(108,848,411)
Net	$ 134,287,342	$ 141,653,725	$ 106,133,135

	Year Ended December 31, 2008		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 511,369,676	$ 507,621,412	$ 160,615,643
Ceded	(360,581,696)	(360,207,715)	(79,277,517)
Net	$ 150,787,980	$ 147,413,697	$ 81,338,126

Other Amounts:
Prepaid reinsurance premiums and reinsurance recoverables as December 31, 2010 and 2009 were as follows:

	As of December 31, 2010	As of December 31, 2009
Prepaid reinsurance premiums	$ 221,085,933	$ 200,294,241
Reinsurance recoverable on unpaid losses and LAE	$ 79,114,418	$ 62,900,913
Reinsurance recoverable on paid losses	437,457	28,915,520
Reinsurance recoverables	$ 79,551,875	$ 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 December 31, 2010	As of December 31, 2009
Reinsurance payable, net of ceding commissions due from reinsurers	$ 75,553,629	$ 114,286,847
Inuring premiums receivable	(37,607,145)	(41,182,252)
Reinsurance payable, net	$ 37,946,484	$ 73,104,595

2010 Reinsurance Program

Quota Share

Effective June 1, 2010 through May 31, 2011, 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, 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

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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 UPCIC s multiple line excess reinsurance program effective June 1, 2010 through May 31, 2011 is $3,500,000 of which UPCIC s cost is 50%, or $1,750,000, and the quota share reinsurers cost is the remaining 50%. The total cost of UPCIC s property per risk reinsurance program effective June 1, 2010 through May 31, 2011 is $475,000.Excess CatastropheEffective 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 January 1, 2011 through December 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 T25. The Company has secured the obligations of T25 by contributing the amount of T25 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:

	2^{nd}Event	3^{rd}Event
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 FHCF, which is administered by the 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 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. As of December 31, 2010 the estimated coverage is 90% of $1,161,179,608 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, should the contract remain in force for an annual period. 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 December 31, 2010, that it had coverage to approximately the 127-year 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 127-year PML represents a 0.787% 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.

2009 Reinsurance Program

Quota Share

Effective June 1, 2009, UPCIC entered into a quota share reinsurance treaty with Everest Reinsurance Company (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 treaty, through May 31, 2010, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk, with a ceding commission payable to UPCIC equal to 25% of ceded gross written premiums. In addition, the quota share treaty has a limitation for any one occurrence of 58% of gross premiums earned, not to exceed $160,000,000 (of which UPCIC s net liability in a first event scenario is $50,000,000 ($75,000,000 net of $25,000,000 retained by the Company under the excess catastrophe contract, effective June 12, 2009, described in the Excess Catastrophe section below), in a second event scenario is $16,000,000 and in a third event scenario is $16,000,000) and a limitation from losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services (PCS) office of 175% of gross premiums earned, not to exceed $480,000,000.

Excess Per Risk

Effective June 1, 2009 through May 31, 2010, UPCIC entered into a multiple line excess per risk agreement with various reinsurers. Under the multiple line excess per risk agreement, UPCIC obtained coverage of $1,400,000 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 this agreement.

Effective June 1, 2009 through May 31, 2010, UPCIC entered into a property per risk excess agreement covering ex-wind only policies. Under the property per risk excess agreement, UPCIC obtained coverage of $400,000 in excess of $200,000 for each property loss. A $2,400,000 aggregate limit applies to the term of the contract.

The total cost of UPCIC s multiple line excess reinsurance program effective June 1, 2009 through May 31, 2010 is $3,000,000 of which UPCIC s cost is 50%, or $1,500,000, and the quota share reinsurers cost is the remaining 50%. The total cost of UPCIC s property per risk reinsurance program effective June 1, 2009 through May 31, 2010 is $400,000.

Excess Catastrophe

Effective June 1, 2009 through May 31, 2010, under excess catastrophe contracts, UPCIC obtained catastrophe coverage of $627,000,000 in excess of $160,000,000 covering certain loss occurrences including hurricanes. The coverage of $627,000,000 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, 2009 through May 31, 2010, UPCIC purchased a reinstatement premium protection contract which reimburses UPCIC for its cost to reinstate the catastrophe coverage of the first $352,000,000 (part of $627,000,000) in excess of $160,000,000.

Effective June 12, 2009 through May 31, 2010, under an excess catastrophe contract, UPCIC obtained catastrophe coverage of $50,000,000 in excess of $110,000,000 (placed 50%) covering certain loss occurrences including hurricanes. Loss occurrence is defined as all individual losses directly occasioned by any one disaster, accident or loss

or series of disasters, accidents or losses arising out of one event, which occurs in the State of Florida. The Company is the reinsurer under this contract through a segregated account set up by an unrelated company. Accordingly, the Company s aggregate net liability in a first event scenario is UPCIC s $50,000,000 (as noted above in the Quota Share section) and the $25,000,000 coverage provided by the Company. The intercompany transactions relating to the contract have been eliminated in consolidation.

Effective June 1, 2009 through May 31, 2010, UPCIC also obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of UPCIC s net retention through two catastrophe events including hurricanes, as follows:

	2nd Event	3rd Event
Coverage	$118,000,000 in excess of $42,000,000 each loss occurrence subject to an otherwise recoverable amount of $118,000,000 (placed 50%)	$128,000,000 in excess of $32,000,000 each loss occurrence subject to an otherwise recoverable amount of $256,000,000 (placed 100%)
Deposit premium (100%)	$21,240,000	$10,240,000
Minimum premium (100%)	$16,992,000	$8,192,000
Premium rate -% of total insured value	0.019309%	0.009309%

UPCIC also obtained coverage from the FHCF, which is administered by the Florida SBA. Under the reimbursement agreement, 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 adjustment expenses. A covered event means any one storm declared to be a hurricane by the National Hurricane Center for losses incurred in Florida, both while it is a hurricane and through subsequent downgrades. For the contract year June 1, 2009 to May 31, 2010, UPCIC purchased the traditional FHCF coverage and did not purchase the Temporary Increase in Coverage Limit Option offered to insurers by the FHCF. As of December 31, 2009 the estimated coverage is 90% of $1,038,999,659 in excess of $392,807,984. The estimated premium for this coverage is $58,819,440.

Also at June 1, 2009, the FHCF made available, and UPCIC obtained, $10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive Program (the ICBUI Program) offered by the FHCF, such as UPCIC. This particular layer of coverage at June 1, 2009 is $10,000,000 in excess of $28,200,000. The premium for this coverage is $5,000,000.

On October 30, 2009, 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 loss reimbursement capacity under current market conditions for the 2009 2010 contract year is projected to be $18.998 billion over the 12-month period following the estimate. The SBA also referred to its report entitled, October 2009 Estimated Claims Paying Capacity Report (Report) as providing greater detail regarding the FHCF s loss reimbursement capacity. The Report estimated that the FHCF s minimum 12-month loss reimbursement capacity is $14.998 billion and its maximum 12-month loss reimbursement capacity is $21.998 billion. UPCIC elected to purchase the FHCF Mandatory Layer of Coverage for the 2009 2010 contract year, which corresponds to FHCF loss reimbursement capacity of $17.175 billion. By law, the FHCF s obligation to reimburse insurers is limited to its actual claims-paying capacity. In addition, the cost of UPCIC s reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF s loss reimbursement capacity.

The total cost of UPCIC s private catastrophe reinsurance program effective June 1, 2009 through May 31, 2010 is $155,258,800 of which UPCIC s cost is 50%, or $77,629,400, and the quota share reinsurers cost is the remaining 50%. The total cost of UPCIC s private catastrophe reinsurance layer effective June 12, 2009 through May 31, 2010 is $17,500,000 which is eliminated in consolidation. In addition, UPCIC purchases reinstatement premium protection as described above which amounts to $22,312,747. The cost of subsequent event catastrophe reinsurance is $15,740,000.

The estimated premium UPCIC plans to cede to the FHCF for the 2009 hurricane season is $58,819,440 of which UPCIC s cost is 50%, or $29,409,720, and the quota share reinsurers cost is the remaining 50%. UPCIC is also participating in the additional coverage option for Limited Apportionment Companies or companies that participated in the ICBUI Program, the premium for which is $5,000,000, of which UPCIC s cost is 50%, or $2,500,000, and the quota share reinsurers cost is the remaining 50%.

Effective June 1, 2009 through December 31, 2009, 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 $11,100,000.

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.

As of June 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. 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 114-year PML represents a 0.877% 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.

Amounts recoverable from reinsurers are estimated in accordance with the reinsurance contract. Reinsurance premiums, losses and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

2008 Reinsurance Program

Quota Share

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

Excess Per Risk

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

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

The total cost of UPCIC s multiple line excess reinsurance program effective June 1, 2008 through May 31, 2009 is $2,058,270 of which UPCIC s cost is 50%, or $1,029,135, and the quota share reinsurers cost is the remaining 50%. The total cost of UPCIC s property per risk reinsurance program effective June 1, 2008 through May 31, 2009 is $394,562.

Excess Catastrophe

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Effective June 1, 2008 through May 31, 2009, under an excess catastrophe contract, UPCIC obtained catastrophe coverage of $399,000,000 in excess of $150,000,000 covering certain loss occurrences including hurricanes.

	First Layer	Second Layer	Third Layer
Coverage	$140,000,000 in excess of $150,000,000 each loss occurrence (placed 100%)	$134,000,000 in excess of $290,000,000 each loss occurrence (placed 100%)	$125,000,000 in excess of $424,000,000 each loss occurrence (placed 100%)
Deposit premium	$48,300,000	$24,120,000	$14,375,000
Minimum premium	$38,640,000	$19,296,000	$11,500,000
Premium rate -% of total insured value	0.050837%	0.025387%	0.015130%

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

Effective June 1, 2008 through May 31, 2009, UPCIC purchased a reinstatement premium protection contract which reimburses UPCIC for its cost to reinstate the catastrophe coverage of the first $274,000,000 in excess of $150,000,000.

Also, effective June 1, 2008, UPCIC also obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of UPCIC s net retention through two catastrophe events including hurricanes, as follows:

	2nd Event	3rd Event
Coverage	$110,400,000 in excess of $39,600,000 each loss occurrence subject to an otherwise recoverable amount of $110,400,000 (placed 50%)	$120,000,000 in excess of $30,000,000 each loss occurrence subject to an otherwise recoverable amount of $240,000,000 (placed 50%)
Deposit premium (100%)	$16,560,000	$7,800,000
Minimum premium (100%)	$13,248,000	$6,240,000
Premium rate -% of total insured value	0.017430%	0.008210%

UPCIC also obtained coverage from the FHCF, which is administered by the SBA. Under the reimbursement agreement, FHCF would reimburse UPCIC, with respect to 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 adjustment expenses. A covered event means any one storm declared to be a hurricane by the National Hurricane Center for losses incurred in Florida, both while it is a hurricane and through subsequent downgrades. For the contract year June 1, 2008 to May 31, 2009, the SBA made available through the 2007 passage of House Bill 1A an additional $12 billion (Temporary Increase in Coverage Limit TICL) of Florida Hurricane Catastrophe Fund coverage for the 2008 wind season. UPCIC purchased both the traditional FHCF coverage as well as the TICL FHCF coverage for the contract year June 1, 2008 to May 31, 2009. As of December 31, 2008, the estimated coverage is 90% of $1,514,348,584 in excess of $305,438,476. The premium for this coverage is $59,077,813.

Also at June 1, 2008, the FHCF made available, and UPCIC obtained, $10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies or companies that participated in the UCBUI Program offered by the FHCF, such as UPCIC. This particular layer of coverage at June 1, 2008 is $10,000,000 in excess of $29,600,000. The premium for this coverage is $5,000,000.

The total cost of UPCIC s underlying catastrophe private reinsurance program effective June 1, 2008 through May 31, 2009 is $86,795,000 of which UPCIC s cost is 50%, or $43,397,500, and the quota share reinsurers cost is the remaining 50%. In addition, UPCIC purchases reinstatement premium protection as described above which amounts to $12,266,483. The cost of subsequent event catastrophe reinsurance is $12,180,000. The estimated premium UPCIC plans to cede to the FHCF for the 2008 hurricane season is $59,077,813 of which UPCIC s cost is 50%, or $29,538,907, and the quota share reinsurers cost is the remaining 50%. UPCIC is also participating in the additional coverage option for Limited Apportionment Companies or companies that participated in the ICBUI Program, the premium for which is $5,000,000, of which UPCIC s cost is 50%, or $2,500,000, and the quota share reinsurers cost is the remaining 50%.

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

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

Also effective July 1, 2008 through May 31, 2009, UPCIC secured an additional $80,000,000 of third event catastrophe coverage via a new layer of 80% of $100,000,000. The total cost of this new layer is $4,000,000 of which UPCIC s cost is 50%, or $2,000,000, and the quota share reinsurers cost is the remaining 50%.

UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC s reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on UPCIC s and the Company s business, financial condition and results of operations.

At the start of the hurricane season on June 1, 2008, UPCIC had coverage to approximately the 133-year PML, modeled using AIR CLASIC/2 v.9.5, long term, without demand surge and without loss amplification. With the additional catastrophic coverage via the new top layer effective July 1, 2008, UPCIC would have had coverage to approximately the 145-year PML, modeled using AIR CLASIC/2 v.9.0, 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 133-year PML represents a 0.752% Annual Probability of Exceedance and the 145-year PML represents a 0.690% Annual Probability of Exceedance). It is estimated that the 100-year PML is likely to be equaled or exceeded in one year out of 100 on average, or 1 percent of the time. It is the 99th percentile of the annual loss distribution.

Amounts recoverable from reinsurers are estimated in accordance with the reinsurance contract. Reinsurance premiums, losses and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

NOTE 4 INVESTMENTS

As of December 31, 2010 and 2009, the Company s investments consisted primarily of cash and cash equivalents, of $147,585,464 and $192,924,291, respectively and investment securities with carrying values of $224,532,404 and $114,797,010 respectively.

Major sources of net investment income, comprised primarily of interest and dividends, are summarized as follows:

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	Years Ended December 31,		
	2010	2009	2008
Cash and cash equivalents	$ 99,697	$ 312,317	$ 3,951,161
Debt securities	968,905	1,269,216	64,213
Equity securities	557,698	650,739	
Total investment income	1,626,300	2,232,272	4,015,374
Less investment expenses	(634,065)	(778,673)	(294,345)
Net investment income	$ 992,235	$ 1,453,599	$ 3,721,029

The following table shows the realized gains and losses for investments during the years ended December 31, 2010 and 2009. There were no realized gains and losses for investments during the year ended December 31, 2008.

	For the Year Ended December 31, 2010		For the Year Ended December 31, 2009	
	Realized Gains (Losses)	Proceeds (Fair Value at Sale)	Realized Gains(Losses)	Proceeds (Fair Value at Sale)
Debt securities	$ 5,120,559	$ 472,699,451	$ 5,542,936	$ 278,212,228
Equity securities	26,701,193	198,010,939	26,722,120	121,930,068
Total	31,821,752	670,710,390	32,265,056	400,142,296
Debt securities	(467,325)	52,521,675	(8,248)	20,820,861
Equity securities	(3,610,804)	24,288,208	(8,081,763)	31,964,985
Other Investments	(52,000)			
Total	(4,130,129)	76,809,883	(8,090,011)	52,785,846
Net	$ 27,691,623	$ 747,520,273	$ 24,175,045	$ 452,928,142

The following tables summarize, by type, the Company s investment securities as of December 31, 2010 and 2009:

	December 31, 2010 (Trading)		**December 31, 2009 (Available for Sale)**	
	Fair Value	Percent of Total	Fair Value	Percent of Total
Debt Securities:				
US government agency obligations	$ 130,116,007	57.9%	$ 41,389,008	36.1%
Equity Securities:				
Common stock				
Metals and mining	25,751,909	11.5%	7,597,419	6.6%
Energy			256,053	0.2%
Other	362,520	0.2%	221,760	0.2%

Exchange-traded and mutual funds				
Metals and mining	42,209,279	18.8%	38,753,742	33.8%
Agriculture	14,876,584	6.6%	11,754,630	10.2%
Energy	5,559,296	2.5%	3,306,815	2.9%
Indices	4,613,105	2.1%	7,963,094	6.9%
Other	1,043,704	0.5%	3,554,489	3.1%
Total equity securities	94,416,397	42.1%	73,408,002	63.9%
Total investment securities	$ 224,532,404	100.0%	$ 114,797,010	100.0%

All investment securities as of December 31, 2010 were held by the Company for trading and all investment securities as of December 31, 2009 were available for sale.

The Company is required by various state laws and regulations to keep certain securities on deposit in depository accounts with the states in which we do business. As of December 31, 2010 and December 31, 2009, securities having a fair value of $6,010,612 and $5,723,402, respectively were on deposit. These laws and regulations govern not only the amount, but also the type if security that is eligible for deposit. In all states the deposits are limited to fixed maturity securities.

Trading

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. Net unrealized losses of $656,307 were reflected as a transfer as of July 1, 2010, and recognized in earnings and included under the caption Unrealized Gains on Investments in the Consolidated Statement of Income. The net unrealized loss of $656,307 is comprised of $1,229,737 unrealized losses offset by $573,430 of unrealized gains.

During the six-month period ended December 31, 2010, the market value of the Company s trading portfolio outstanding at December 31, 2010, excluding amounts reflected as a transfer from the available-for-sale portfolio, increased by $2,669,321 before income taxes. The increase in market value was recognized in earnings and also included in unrealized gains on investments in the Consolidated Statement of Income. The Company will continue to record future changes in the market value of its trading portfolio directly to earnings. The total net unrealized gains on investments, held in the Company s trading portfolio at December 31, 2010 was $2,013,014.

Available- for- sale

During the year ended December 31, 2009, the Company sold US Treasury Notes, originally intended to be held to maturity, and purchased US Treasury Inflation Index Bonds in order to reduce the effects of inflation on the Company s overall investment portfolio. These US Treasury Notes had a carrying value of $4,170,864, were sold for $4,244,851 and a gain of $73,897 was recognized. The Company reclassified its held to maturity securities being carried at an amortized cost of $57,773,720 to available for sale securities and recorded net unrealized losses of $85,965 concurrently with the sale of the US Treasury Notes.

The following table sets forth the amortized cost, gross gains, gross losses and estimated fair value of the Company s investment securities portfolio available for sale as of December 31, 2009. The Company had no investment securities classified as available for sale as of December 31, 2010.

	December 31, 2009			
	Amortized Cost / Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
US government and agency obligations	$ 42,296,727	$ 37,623	$ (945,342)	$ 41,389,008
Equity securities:				
Common stock				
Metals and mining	7,733,822	190,079	(326,483)	7,597,418
Energy	237,153	18,901		256,054
Other	155,696	66,064		221,760
Exchange-traded and mutual funds				
Metals and mining	36,520,270	2,521,237	(287,765)	38,753,742
Agriculture	10,920,621	834,009		11,754,630
Energy	3,141,106	165,708		3,306,814
Indices	9,712,302	43,007	(1,792,215)	7,963,094

Other	3,115,062		439,426				3,554,488
Total equity securities	71,536,032		4,278,431		(2,406,463)		73,408,000
Total investment securities	$ 113,832,759	$	4,316,054	$	(3,351,805)	$	114,797,008

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The table below reflects the Company s unrealized investment security losses by investment class, aged for length of time in an unrealized loss position as of December 31, 2009.

	Unrealized Investment Losses					
	Less than 12 months			12 months or longer		
	Number of issues	Fair value	Unrealized losses	Number of issues	Fair value	Unrealized losses
Debt securities:						
US government and agency obligations	4	$ 39,246,052	$ (945,342)		$	$
Equity securities:						
Common Stock:						
Metals and mining	11	4,166,010	(326,483)			
Exchange trades and mutual funds:						
Metals and mining	10	9,613,290	(287,765)			
Indices	6	7,015,844	(1,792,215)			
Total equity securities	27	20,795,144	(2,406,463)			
Total	31	$ 60,041,196	$ 3,351,805		$	$

Unrealized losses on debt securities available for sale, are principally related to rising interest rates and changes in credit spreads. Unrealized losses on equity securities are primarily related to equity market fluctuations. The Company has performed an evaluation of its investment portfolio and concluded that it holds no securities for which an other-than-temporary impairment adjustment to carrying value is warranted.

The Company has made an assessment of its invested assets for fair value measurement as further described in Note 17 Fair Value Measurements.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment, as of December 31, 2010 and 2009, consisted of the following:

	2010	2009
Land	$ 1,287,000	$ 270,000
Building	1,410,000	1,410,000
Capital Improvements	2,116,612	2,157,389
Computers	155,782	54,184
Furniture	930,485	513,579
Automobiles and other vehicles	1,105,680	1,080,886
Software	1,374,366	1,239,280
Total cost	8,379,925	6,725,318
Less: accumulated depreciation	(2,973,159)	(2,189,567)
Property, plant and equipment, net	$ 5,406,766	$ 4,535,751

Depreciation and amortization of property and equipment was $831,159, $490,059 and $480,313 during 2010, 2009 and 2008, respectively.

The Company realized the following on the sale of property and equipment: a net loss of $12,891 in 2010, a net gain of $130,119, and a net loss of $137,571 in 2008.

NOTE 6 DEFERRED POLICY ACQUISITION COSTS

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The components of deferred policy acquisition costs (DPAC) and deferred ceding commission (DCC) for the years ended December 31, 2010, 2009 and 2008 are as follows:

	For the years ended December 31,		
	2010	2009	2008
DPAC, beginning of year	$ 43,971,286	$ 40,155,150	$ 37,018,747
Capitalized Costs	100,615,240	88,333,192	79,438,929
Amortization of DPAC	94,458,987	84,517,056	76,302,526
DPAC, end of year	$ 50,127,539	$ 43,971,286	$ 40,155,150
DCC, beginning of year	$ 34,506,662	$ 39,747,203	$ 39,141,016
Ceding Commissions Written	82,567,947	68,566,674	78,654,864
Earned Ceding Commissions	76,392,749	73,807,215	78,048,676
DCC, end of year	$ 40,681,860	$ 34,506,662	$ 39,747,203
DPAC (DCC), net, beginning of year	$ 9,464,624	$ 407,946	$ (2,122,269)
Capitalized Costs, net	18,047,293	19,766,518	784,064
Amortization of DPAC (DCC), net	18,066,238	10,709,840	(1,746,151)
DPAC (DCC), net, end of year	$ 9,445,679	$ 9,464,624	$ 407,946

NOTE 7 LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

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

The level of catastrophe loss experienced in any year cannot be predicted and could be material to results of operations and financial position. UPCIC s policyholders are concentrated in South Florida, which is periodically subject to adverse weather conditions, such as hurricanes and tropical storms. During the twelve-month periods ended December 31, 2010, 2009 and 2008, UPCIC did not experience any catastrophic events. UPCIC s in-force policyholder coverage for windstorm exposures as of December 31, 2010 was approximately $126.8 billion. UPCIC continuously evaluates alternative business strategies to more effectively manage its exposure to catastrophe losses, including the maintenance of catastrophic reinsurance coverage as discussed in Note 3.

Management believes that the liabilities for claims and claims expense as of December 31, 2010 are appropriately established in the aggregate and adequate to cover the ultimate cost of reported and unreported claims arising from losses which had occurred by that date. However, if losses exceeded direct loss reserve estimates there could be a material adverse effect on the Company s financial statements. Also, if there are regulatory initiatives, legislative

enactments or case law precedents which change the basis for policy coverage, in any of these events, there could be an effect on direct loss reserve estimates having a material adverse effect on the Company s financial statements.
Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Balance at beginning of year	$ 127,197,753	$ 87,947,774
Less reinsurance recoverable	(62,900,913)	(43,384,469)
Net balance at beginning of year	64,296,840	44,563,305
Incurred related to:		
Current year	107,424,191	97,630,002
Prior years	5,931,284	8,503,133
Total incurred	113,355,475	106,133,135
Paid related to:		
Current year	54,216,243	52,388,374
Prior years	43,621,652	34,011,226
Total paid	97,837,896	86,399,600
Net balance at end of year	79,814,419	64,296,840
Plus reinsurance recoverable	79,114,418	62,900,913
Balance at end of year	$ 158,928,837	$ 127,197,753

As a result of changes in estimates of insured events in prior years, the provision of losses and LAE, net of related reinsurance recoverables increased by $5,931,284 and $8,503,133 in 2010 and 2009, respectively, principally as a result of actual loss development on prior year non-catastrophe losses during the years ended December 31, 2010 and 2009. The Company has created a proprietary claims analysis tool (P2P) to analyze and calculate reserves. P2P is a custom built application by UPCIC that aggregates, analyzes and forecasts reserves based on historical data that spans more than a decade. It identifies historical claims data using same like kind and quality variables that exist in present claims and sets forth appropriate, more accurate reserves on current claims. P2P is reviewed by UPCIC management on a weekly basis in reviewing the topography of existing and incoming claims. P2P will be analyzed at each quarters end and adjustments to reserves are made at an aggregate level when appropriate.
P2P was initially used for 2010 third quarter reserve analysis resulting in an increase in 2010 loss year reserves. Further refinements were put into place in 2010 fourth quarter which included inflation adjustments for past claims

into 2010 dollars (inflation guard). P2P was reviewed by an independent third party for data integrity and system reliability. The program was used for 2010 fourth quarter analysis and supported the company s independent actuary s best figures for development in prior years. The system indicated reserves for the 2010 loss year that exceeded actuary s best figures and system figures were used at year end. This program will be used for quarterly reviews on an ongoing basis.

NOTE 8 LOANS PAYABLE AND LONG-TERM DEBT

Surplus Note

On November 9, 2006, UPCIC entered into a $25.0 million surplus note with the SBA under the ICBUI Program. Under the ICBUI program, which was implemented by the Florida Legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the SBA matched UPCIC s funds of $25.0 million that were

earmarked for participation in the program. The surplus note brings the current capital and surplus of UPCIC to approximately $117.8 million as of December 31, 2010.

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. Any payment of principal or interest by UPCIC on the surplus note must be approved by the Commissioner of the OIR. Aggregate principal payments of $1,470,588 and $367,647 were made during the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009, the balances due under the surplus note are shown in the Company s Consolidated Balance Sheets as Long-Term Debt with carrying values of $23,161,764 and $24,632,353, respectively.

Repayments of principal are estimated to be as follows as of December 31, 2010:

2011	1,470,588
2012	1,470,588
2013	1,470,588
2014	1,470,588
2015	1,470,588
Thereafter	15,808,824
Total	$ 23,161,764

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

Prior to the 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 sufficient to cover in excess of UPCIC s 1-in-100 year probable maximum loss as determined by a hurricane loss model accepted by the Florida Commission on Hurricane Loss Projection Methodology as certified by the OIR annually.

The original surplus note provided for increases in interest rates for failure to meet the Minimum Writing Ratio. Under the terms of the surplus note agreement, at December 31, 2007, the interest rate on the note was increased by 450 basis points. As of June 30, 2008, the additional interest rate on the note was decreased from 450 basis points to 25 basis points. Under the terms of the surplus note, as amended, the net written premium to surplus requirement and gross written premium to surplus requirement have been modified. As of December 31, 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., a 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.

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In September 2009, Atlas received notification that, effective September 27, 2010, Flatiron would 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 is eliminated in consolidation.

Interest Expense

Interest expense, comprised primarily of interest on the surplus note, was $862,108, $797,934 and $1,581,722 for the twelve months ended December 31, 2010, 2009 and 2008, respectively.

NOTE 9 INCOME TAXES

The following table reconciles the statutory federal income tax rate to the Company s effective tax rate for the years ended December 31, 2010, 2009 and 2008:

	2010	2009	2008
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increases (decreases) resulting from:			
Disallowed meals & entertainment	0.3%	0.3%	0.1%
Disallowed compensation	1.3%		
State income tax, net of federal tax benefit (1)	3.6%	3.6%	3.6%
Other, net	0.4%	-1.3%	0.6%
Effective tax rate	40.6%	37.6%	39.3%

(1) Included in income tax is State of Florida income tax at a statutory tax rate of 5.5%.

Deferred income taxes as of December 31, 2010 and 2009 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:

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	As of December 31,	
	2010	2009
Deferred income tax assets:		
Unearned premiums	$ 8,274,231	$ 6,023,587
Advanced premiums	1,459,933	1,266,152
Unpaid losses	2,193,958	1,836,061
Regulatory assessments	182,198	1,605,884
Executive compensation	1,311,946	509,545
Stock option expense	3,466,936	3,037,961
Accrued wages	357,259	423,190
Allowance for uncollectible receivables	42,994	1,042,228
Additional tax basis of securities	171,852	140,878
Restricted stock grant		9,882
Recognition of OTTI	306,897	
Other		3,876
Total deferred income tax assets	17,768,204	15,899,244
Deferred income tax liabilities:		
Deferred policy acquisition costs, net	(3,643,671)	(3,650,979)
Market value gains on trading securities	(676,574)	
Unrealized gains on investments	(6)	(353,976)
Total deferred income tax liabilities	(4,320,251)	(4,004,955)
Net deferred income tax asset	$ 13,447,953	$ 11,894,289

A valuation allowance is deemed unnecessary as of December 31, 2010 and December 31, 2009, respectively, because management believes it is probable that the Company will generate substantial taxable income sufficient to realize the tax benefits associated with the net deferred income tax asset shown above in the near future.

Liabilities for unrecognized tax benefits, if any, are recorded in accordance with issued FASB guidance on Accounting for Uncertainty in Income Taxes. The Company recognizes accruals for interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

The 2006 consolidated federal income tax return for the Company and its 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 filed a consolidated federal income tax return for the fiscal years ended December 31, 2009, 2008, and 2007 and intends to file the same for the fiscal year ended December 31, 2010. The agreements between the Company and its statutory subsidiaries provide that they will incur income taxes based on a computation of taxes as if they were stand-alone taxpayers. Tax years that remain open for purposes of examination of its income tax liability due to taxing authorities, include the years ended December 31, 2009, 2008 and 2007.

NOTE 10 STOCKHOLDERS EQUITY

Cumulative Convertible Preferred Stock

As of December 31, 2010 and 2009, the Company had shares outstanding of Series A Cumulative and Series M Convertible Preferred Stock. Each share of Series A Preferred Stock is convertible by the Company into 2.5 shares of Common Stock. Each share of Series M Preferred Stock is convertible by the Company into 1.25 shares of Common Stock. The Series A Preferred Stock pays a cumulative dividend of $.25 per share per quarter. During 2010 and 2009, respectively, the Company declared and paid aggregate dividends of $19,950 and $27,450 on the Company s Series A Preferred Stock and Series M Preferred Stock.

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The following table provides information for each series of convertible preferred stock issued by the Company as of December 31, 2010 and 2009:

	As of December 31, 2010			As of December 31, 2009		
	Series A	Series M	Total	Series A	Series M	Total
Shares	19,950	87,740	107,690	19,950	88,690	108,640
Conversion factor	2.5	1.25		2.5	1.25	
Number of common shares resulting if converted	49,875	109,675	159,550	49,875	110,863	160,738

During the year ended December 31, 2010, shareholders converted 950 shares of Series M Preferred Stock into 1,187 shares of Common Stock. During the year ended December 31, 2009, shareholders converted 30,000 shares of Series A Preferred Stock into 75,000 shares of Common Stock.

Common Stock

The following table summarizes the activity relating to shares of the Company s Common Stock during the years ended December 31, 2010, 2009 and 2008:

	Issued Shares	Treasury Shares	Shares Held in Trust	Outstanding Shares
Balance, as of January 1, 2008	39,307,103	(394,374)	(2,900,000)	36,012,729
Warrants exercised	600,000	(81,081)		518,919
Options exercised	916,000	(1,390,575)	1,994,000	1,519,425
Shares cancelled	(965,084)	965,084		
Restricted stock grant	300,000			300,000
Repurchase of shares		(808,901)		(808,901)
Balance, as of December 31, 2008	40,158,019	(1,709,847)	(906,000)	37,542,172
Preferred stock conversion	75,000			75,000
Options exercised	20,000	(137,407)	275,000	157,593
Shares cancelled	(38,135)	38,135		
Balance, as of December 31, 2009	40,214,884	(1,809,119)	(631,000)	37,774,765
Preferred stock conversion	1,187			1,187
Options exercised	1,995,206	(1,314,160)	631,000	1,312,046
Shares cancelled	(2,104,526)	2,104,526		
Restricted stock grant	300,000			300,000
Balance, as of December 31, 2010	40,406,751	(1,018,753)		39,387,998

Dividends Declared

During the years ended December 31, 2010, 2009 and 2008, the Company declared dividends on its outstanding shares of common stock to its shareholders of record as follows:

	For the year ended December 31, 2010	
	Per Share Amount	Aggregate Amount

First Quarter	$	0.12	$	4,699,926
Second Quarter	$	0.10	$	3,916,724
Third Quarter	$		$	
Fourth Quarter	$	0.10	$	3,916,724

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	For the year ended December 31, 2009			
	Per Share Amount		Aggregate Amount	
First Quarter	$	0.22	$	8,268,278
Second Quarter	$	0.12	$	4,516,461
Third Quarter	$		$	
Fourth Quarter	$	0.20	$	7,528,808

	For the year ended December 31, 2008			
	Per Share Amount		Aggregate Amount	
First Quarter	$	0.10	$	3,791,617
Second Quarter	$		$	
Third Quarter	$	0.10	$	3,724,217
Fourth Quarter	$	0.20	$	7,448,435

Company Stock Repurchase

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

Stock -Based Compensation

Non-qualified stock option awards (stock options) granted by the Company generally expire between 5 to 10 years from the grant date and generally vest over a 2 to 3 year service period commencing on the grant date. Options granted to the Company s President and Chief Executive Officer and to the Company s Chief Operating Officer and Senior Vice President during 2008 through 2010 are only exercisable on such date or dates as the fair market value (as defined in their respective option agreements) of the Company s Common Stock is and has been at least one hundred fifty percent (150%) of the exercise price for the previous twenty (20) consecutive trading days. Nonvested shares (restricted stock) generally vest over a three year service period commencing on the grant date.

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 Common Stock was 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. As of December 31, 2010, 135,000 shares remain reserved for issuance and were available for awards under the Incentive

Plan.

As of December 31, 2010, there was $1,783,122 of total unrecognized compensation cost related to stock options and restricted stock. The cost is expected to be recognized in the Company s financial statements over a weighted average period of 1.6 years.

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Stock Options

The Company used the modified Black-Scholes model to estimate the fair value of employee stock options on the date of grant utilizing the assumptions noted below. The risk-free rate is based on the U.S. Treasury bill yield curve in effect at the time of grant for the expected term of the option. The expected term of options granted represents the period of time that the options are expected to be outstanding. Expected volatilities are based on historical volatilities of our Common Stock. The dividend yield was based on expected dividends at the time of grant.

The following table provides the assumptions utilized in the Black-Scholes model for stock options granted during years ended December 31, 2010 and 2008. There were no stock options granted in 2009.

	2010	2009	2008
Weighted-average risk-free interest rate	0.91%	N/A	1.80%
Expected term of option in years	2.13	N/A	2.27
Weighted-average volatility	59.6%	N/A	83.5%
Dividend yield	9.8%	N/A	8.6%
Fair Value	$ 1.4593	N/A	$ 1.4289

The following table provides certain information related to stock option awards for the year ended during December 31, 2010.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Term
Outstanding December 31, 2009	6,345,000	$ 3.21	$ 17,888,900	2.14
Granted	1,665,000	$ 5.07		
Exercised	(2,625,000)	$ 1.37		
Outstanding December 31, 2010	5,385,000	$ 4.68	$ 3,927,150	2.76
Exercisable at December 31, 2010	4,527,500	$ 4.60	$ 3,927,150	2.47

The Company recognized total compensation expense related to stock options of $2,108,705, $1,520,647 and $4,271,230 during 2010, 2009 and 2008, respectively. Deferred tax benefits related to these amounts during 2010, 2009 and 2008 were $813,433, $586,590 and $1,647,626, respectively. Total unrecognized compensation expense related to unvested stock options was $562,951 at December 31, 2010, which will be recognized over a weighted-average period of approximately 0.71 years.

The Company received $14,000 in cash during 2010 representing the strike price of options on exercise date. Tax benefits realized during 2010 from the exercise of stock options was $4,326,071.

A total of 1,314,160 shares of Common Stock were retained by the Company in 2010 for the cashless exercise of stock options and settlement of taxes valued at $7,878,150.

On February 2, 2010, the Company granted stock options for an aggregate 350,000 shares of Common Stock to the Company s Chief Operating Officer (COO) and Senior Vice President in consideration for services rendered pursuant to terms of an employment agreement and to provide the COO and Senior Vice President with a continued incentive to share in the success of the Company. The options have an exercise price of $5.84, expire on February 2, 2015 and vest over two years as follows: options for 150,000shares on the grant date; options for 100,000 shares on the one year anniversary of the grant date and options for 100,000 shares on the two year anniversary of the grant date.

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 the Company s President and

Chief

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Executive Officer and to 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.

Restricted Stock Grants

Restricted stock grants are awarded to certain employees in consideration for services rendered pursuant to terms of employment agreements and or to provide to those employees with a continued incentive to share in the success of the Company. 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 LLC , and the shares were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended.

The following table provides certain information related to restricted stock awards during 2010.

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested shares outstanding as of December 31, 2009	150,000	$ 2.31
Granted	300,000	$ 5.84
Vested	150,000	$ 2.31
Forfeited		n/a
Nonvested shares outstanding as of December 31, 2010	300,000	

Effective February 2, 2010, the Company issued 300,000 shares of restricted Common Stock at a price of $5.84 per share to its Senior Vice President, Chief Operating Officer and Director. The stock vests cumulatively over a three-year period as follows: 33 percent, 66 percent and 100 percent, respectively, on the first, second and third anniversaries of the issue 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.

Effective December 5, 2008, the Company issued 300,000 shares of restricted Common Stock at a price of $2.43 per share its Senior Vice President, Chief Operating Officer and Director. The stock vested over a two-year period as follows: 150,000 shares vested on December 5, 2009, the first anniversary of the effective date of the award, and 150,000 shares vested on December 5, 2010, the second anniversary date of the effective date of the award. The Company recorded deferred compensation of $729,000 at the time the stock was issued and amortized that amount ratably over the vesting period.

The Company did not grant any shares of restricted stock during the year ended December 31, 2009.

The Company recognized total compensation expense related to the restricted stock of $852,692, $654,833 and $333,965, during 2010, 2009 and 2008, respectively. Deferred tax benefits related to these amounts during 2010, 2009 and 2008 were $328,928, $252,602 and $128,827, respectively. Total unrecognized compensation expense related to restricted stock was $1,220,171 at December 31, 2010, which will be recognized over a weighted-average period of approximately 2.08 years.

Warrants

No warrants were granted during 2010 and 2009 and there were no warrants outstanding as of December 31, 2010 and 2009.

Warrants to purchase 600,000 shares of Common Stock were exercised during 2008 at weighted average prices of $1.00.

Stock Grantor Trust

On April 3, 2000, the Company established the Universal Insurance Holdings, Inc. Stock Grantor Trust (SGT) to fund its obligations arising from its various stock option agreements. The Company funded the SGT with 2,900,000 shares of Company Common Stock. In exchange, the SGT delivered $29,000 and a promissory note to the Company for approximately $2,320,000 which together represents the purchase price of the shares. Amounts owed by the SGT to the Company will be repaid by cash received by the SGT, which will result in the SGT releasing shares to satisfy Company obligations for stock options. The assets of the SGT are subject to the claims of the Company s general creditors under federal and state law. The consolidated financial statements include the accounts of the SGT. Dividends paid by the Company and received by the SGT on shares of Common Stock held in trust are eliminated in consolidation and shown net in the Consolidated Financial Statements. Shares of the Common Stock held in SGT totaled 0 and 631,000 shares as of December 31, 2010 and 2009.

The agreement governing the operation of the SGT provides that the SGT shall terminate 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.

NOTE 11 REGULATORY REQUIREMENTS AND RESTRICTIONS

UPCIC and APPCIC are subject to comprehensive regulation by the OIR. The Florida Insurance Code requires that UPCIC and APPCIC maintain minimum statutory surplus of the greatest of 10% of the insurer s total liabilities or $4,000,000. UPCIC and APPCIC are also required to adhere to prescribed premium-to-surplus ratios under the Florida Insurance Code and to maintain approved securities on deposit with the state of Florida. UPCIC s and APPCIC s statutory surplus as of December 31, 2010 is $106,000,341 and $11,251,729, respectively.

The maximum amount of dividends which can be paid by Florida insurance companies without prior approval of the Florida Commissioner is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by UPCIC and APPCIC 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 years ended December 31, 2010 and 2009, UPCIC did not pay dividends to the Company. During the year ended December 31, 2008, UPCIC declared and paid aggregate dividends to the Company of $23,000,000. APPCIC has not declared or paid any dividends to the Company.

UPCIC and APPCIC are 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 in light of its size and risk profile. NAIC s RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2010, based on calculations using the appropriate NAIC RBC formula, UPCIC s and APPCIC s reported total adjusted capital was in excess of the requirements.

NOTE 12 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 2010 and 2009, the Company expensed claims adjusting fees of $480,000 and $605,000, 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.

NOTE 13 EMPLOYEE BENEFIT PLAN

Effective January 1, 2009, the Company adopted a qualified retirement plan covering substantially all employees. It is designed to help the employees meet their financial needs during their retirement years. Eligibility for participation in

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the plan is generally based on employee s date of hire or on completion of a specified period of service. Employer contributions to this plan are made in cash.

The plan titled the Universal Property & Casualty 401(K) Profit Sharing Plan and Trust (401(k) Plan) is a defined contribution plan that allows employees to defer compensation through contributions to the 401(k) Plan. The contributions are invested on the employees behalf, and the benefits paid to employees are based on contributions and any earnings or loss. The 401(k) Plan includes a Company contribution of 100 percent of each eligible participant s contribution that does not exceed five percent of their compensation during the 401(k) Plan year. The Company may make additional profit-sharing contributions. However, no additional profit-sharing contribution was made during the years ended December 31, 2010 and 2009.

The Company made aggregate contributions of approximately $623,982 and $545,442 to the 401(k) Plan during the years ended December 31, 2010 and 2009, respectively.

NOTE 14 EARNINGS PER SHARE

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 years ended December 31, 2010, 2009 and 2008.

		Year Ended December 31, 2010			Year Ended December 31, 2009			Year Ended December 31, 2008	
	Income Available to Common Stockholders Amount	Shares	Per-Share Amount	Income Available to Common Stockholders Amount	Shares	Per-Share Amount	Income Available to Common Stockholders Amount	Shares	Per-Share Amount
Net income	$ 36,983,762			$ 28,787,298			$ 40,037,323		
Less: preferred stocks dividends	(19,950)			(27,450)			(49,950)		
Income available to common stockholders	$ 36,963,812	39,113,302	$ 0.95	$ 28,759,848	37,617,885	$ 0.76	$ 39,987,373	37,418,253	$ 1.07
Effect of dilutive securities:									
Stock options and warrants		976,542	(0.03)		2,679,134	(0.05)		2,287,929	(0.06)
Preferred stock	19,950	159,833		27,450	174,505		49,950	568,325	(0.02)
Income available to common	$ 36,983,762	40,249,677	$ 0.92	$ 28,787,298	40,471,524	$ 0.71	$ 40,037,323	40,274,507	$ 0.99

stockholders
and assumed
conversion

NOTE 15 OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) on a pretax and after-tax basis for the years ended December 31, 2010, 2009 and 2008 are as follows:

	Pretax	For the Year Ended December 31, 2010 Tax	After-tax	Pretax	For the Year Ended December 31, 2009 Tax	After-tax	Pretax	For the Year Ended December 31, 2008 Tax	After
alized (losses) gains on able-for-sale securities	$ (1,570,523)	$ 603,732	$ (966,791)	$ 31,860,665	$ (12,290,251)	$ 19,570,414	$ 40,429	$ (15,595)	$ 24,
assification of alized gains on able-for-sale-securities rnings	656,307	(253,170)	403,137	30,983,465	(11,951,871)	19,031,594			
r comprehensive me (loss)	$ (914,216)	$ 350,562	$ (563,654)	$ 877,200	$ (338,380)	$ 538,820	$ 40,429	$ (15,595)	$ 24,

Accumulated other comprehensive income, net of taxes, as of December 31, 2010, 2009 and 2008, is comprised of the following:

	As of December 31, 2010	2009	2008
Net unrealized gains:			
Fixed maturities, available for sale	$	$ (907,720)	$
Equity securities		1,871,969	40,429
Other		(46,619)	
Net unrealized gains		917,630	40,429
Deferred income taxes		(353,976)	(15,595)
Accumulated other comprehensive income, net of taxes	$	$ 563,654	$ 24,834

NOTE 16 COMMITMENTS AND CONTINGENCIES

Employment Agreements and Potential Payments Upon Certain Events

The Company has entered into employment agreements with certain employees which are in effect as of December 31, 2010. The agreements provide for minimum salaries, which may be subject to annual percentage increases, and non-equity incentive compensation for certain executives based on pre-tax or net income levels attained by the Company. The agreements also provide for payments to certain executives upon the occurrence of certain events. The following table provides the amount of commitments and contingencies at December 31, 2010, through the expiration of employment contracts with named executive officers and certain other officers with whom the Company has entered into employment contracts. The contingent events are assumed to have occurred at December 31, 2010, and the amount of non-equity incentive compensation are based on actual amounts during 2010.

	As of December 31, 2010	
	Salaries	Non-equity incentive compensation
Commitments	$ 19,134,851	$ 15,747,225
Contingent payments upon certain events:		
Termination	$ 6,679,746	$
Change in control	$ 14,704,676	$ 9,353,762
Death	$ 7,461,515	$ 9,979,031
Disability	$ 1,751,787	$ 2,868,656

Operating Leases

The Company has leased certain computer equipment and software under a master equipment lease agreement with Relational Funding, Inc. with an original equipment cost of $2,735,960. The Company also has several leases on office space. The following is a schedule of future minimum rental payments required under the non-cancelable operating leases as of December 31, 2010:

2011	$ 255,592
2012	222,554
2013	117,049
2014 and later	119,816
	$ 715,011

Litigation

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

NOTE 17 FAIR VALUE MEASUREMENTS

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. GAAP describes three approaches to measuring the fair value of assets and liabilities: the market approach, the income approach and the cost approach. Each approach includes multiple valuation techniques. GAAP does not prescribe which valuation technique should be used when measuring fair value, but does establish a fair value hierarchy that prioritizes the inputs used in applying the various techniques. Inputs broadly refer to the assumptions that market participants use to make pricing decisions, including assumptions about risk. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1 Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 Unobservable inputs that are not corroborated by market data. These inputs reflect management s best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Summary of significant valuation techniques for assets measured at fair value on a recurring basis

Level 1

U.S government obligations and agencies: Comprise U.S. Treasury Notes. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Common stock: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Company can access.

Exchange traded and mutual funds: Comprise actively traded funds. Valuation is based on daily quoted net asset values for identical assets in active markets that the Company can access.

Level 2

U.S government obligations and agencies: Comprise U.S. Treasury Inflation Index Bonds. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Exchange-traded derivatives: The primary inputs to the valuation include quoted prices or quoted net asset values for identical or similar assets in markets that are not active.

The following tables set forth by level within the fair value hierarchy the company s assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2010 and 2009. As required by GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The company s assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect their placement within the fair value hierarchy levels.

	December 31, 2010 Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
Debt securities (trading):				
US government obligations and agencies	$ 179,263	$ 129,936,744	$	$ 130,116,007
Equity securities (trading):				
Common stock				
Precious metals and mining	25,751,909			25,751,909
Other	362,520			362,520
Exchange traded and mutual funds				
Precious metals and mining	42,209,279			42,209,279
Agriculture	14,876,584			14,876,584
Energy	5,559,296			5,559,296
Indices	4,613,105			4,613,105
Other	1,043,704			1,043,704
Total equity securities	94,416,397			94,416,397
Exchange-traded derivatives (other assets)		181,988		181,988
Total	$ 94,595,660	$ 130,118,732	$	$ 224,714,392

	December 31, 2009 Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Assets:				
Debt securities (available for sale):				
US government obligations and agencies	$ 41,389,008	$	$	$ 41,389,008
Equity securities (available for sale):				
Common Stock				
Precious Metals and Mining	7,597,419			7,597,419
Energy	256,053			256,053
Other	221,760			221,760
Exchange traded and mutual funds				
Precious metals and mining	38,753,742			38,753,742
Agriculture	11,754,630			11,754,630
Energy	3,306,815			3,306,815
Indices	7,963,094			7,963,094
Other	3,554,489			3,554,489
Total equity securities	73,408,002			73,408,002
Total	$ 114,797,010	$	$	$ 114,797,010

The company did not have any transfers between Level 1 and Level 2 for the year ended December 31, 2010.
The following table summarizes the carrying value, net unrealized gains (losses) and estimated fair values of the Company s financial instruments that are not carried at fair value.

	December 31, 2010 Fair Value Measurements		
	Carrying value	Net unrealized Gains/(Losses)	Estimated Fair Value
Assets:			
Cash and cash equivalents	$ 147,585,464	$	$ 147,585,464
	$ 147,585,464	$	$ 147,585,464
Liabilities:			
Bonds payable	$ 23,161,764	$ (4,062,514)	$ 19,099,250
	$ 23,161,764	$ (4,062,514)	$ 19,099,250

	December 31, 2009 Fair Value Measurements	
	Net unrealized	Estimated Fair

	Carrying value	Gains/(Losses)	Value
Assets:			
Cash and cash equivalents	$ 192,924,291	$	$ 192,924,291
	$ 192,924,291	$	$ 192,924,291
Liabilities:			
Bonds payable	$ 24,632,353	$ (6,332,464)	$ 18,299,889
	$ 24,632,353	$ (6,332,464)	$ 18,299,889

The carrying value of cash and cash equivalents approximate fair value due to their liquid nature.
The carrying value of long term debt was determined from the expected cash flows discounted using the interest rate quoted by the issuer of the note, the SBA which is below prevailing rates quoted by private lending institutions. However, as the Company s use of funds from the surplus note is limited by the terms of the agreement, the Company has determined the interest rate quoted by the SBA to be appropriate for purposes of establishing the fair value of the note.

NOTE 18 QUARTERLY RESULTS FOR 2010 AND 2009

	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
For the year ended December 31, 2010				
Total revenues	$ 45,219,924	$ 55,860,022	$ 70,735,701	$ 68,107,585
Total expenses	33,840,361	38,224,224	49,423,153	56,157,691
Net Income	6,944,248	10,766,330	13,077,210	6,195,575
Basic earnings per share	0.18	0.27	0.33	0.16
Diluted earnings per share	0.17	0.27	0.32	0.15
For the year ended December 31, 2009				
Total revenues	$ 48,117,800	$ 47,549,345	$ 60,983,047	$ 53,991,937
Total expenses	27,935,892	35,105,355	42,443,473	58,994,585
Net Income	12,437,830	7,638,558	11,514,520	(2,803,610)
Basic earnings per share	0.33	0.20	0.31	(0.08)
Diluted earnings per share	0.31	0.19	0.28	(0.07)

The fourth quarter results of 2010 compared to 2009 are attributable to an increase in net premiums earned, and to a lesser degree, lower operating costs and expenses. Realized gains on investments, which were partially offset by unrealized losses on investments, also positively contributed to overall financial results. The improved profitability was moderated by state-mandated wind mitigation credits within the state of Florida, and lower foreign currency transaction gains.

NOTE 19 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 consolidated financial statements as of December 31, 2010 except for the following.

On January 6, 2011, the Company declared a dividend of $0.10 per share on its outstanding Common Stock of the Company to be paid on April 7, 2011 to the shareholders of record of the Company at the close of business on March 11, 2011.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal 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 Exchange Act. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures were effective as of December 31, 2010.

Management s Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system was designed to provide reasonable assurance to the Company s management and Board of Directors regarding the preparation and fair presentation of published financial

statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2010, the Company s internal control over financial reporting is effective based on those criteria.

Management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2010 has been audited by Blackman Kallick LLP, the independent registered public accounting firm who also audited the Company s consolidated financial statements. The auditor s attestation report on management s assessment of the Company s internal control over financial reporting is presented above at Report of Independent Registered Certified Public Accounting Firm.

Enhancing Controls

Subsequent to the filing of the Company s Form 10-Q for the quarter ended September 30, 2010, management discovered that its external provider of investment accounting services incorrectly coded a series of purchases of an investment security held by the Company. The control at the external provider which failed to detect this misstatement was a manual asset reconciliation. Management s review of this asset reconciliation as of September 30, 2010 failed to detect miscoding of the transactions relating to a single security. As a result of this human error, which was detected through the Company s fourth quarter internal control procedures over financial reporting, management, in consultation with the Audit Committee, determined that the Company s failure to properly execute its existing control procedure, i.e., timely detect the coding error for the investment security in its investment portfolio, was a material weakness.

During management s fourth quarter 2010 procedures, management tested 100% of the investment transactions in the affected account and no additional errors were identified. Management determined the error described above to be an isolated incident.

Management decided, however, to further enhance these existing controls. The external service provider has developed and implemented a report which identifies significant fluctuations in month-end market prices compared to both purchase prices and sales prices followed by the provider s review and sign-off of the report. Additionally, the external provider has an Account Manager, not involved in any of the monthly transaction processing or reconciling, complete an independent, secondary reconciliation of the report. Lastly, management has instituted supplemental analytical review procedures to its existing internal controls over financial reporting to further reduce the probability of re-occurrence of a failure to detect future errors in external provider reporting. As a result of management s actions, no remediation is deemed necessary, as this was deemed an isolated error in executing an existing internal control.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the fourth quarter of 2010 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

NONE

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Code of Business Conduct and Ethics

The Company adopted a Code of Business Conduct and Ethics on December 5, 2008 that is applicable to all directors, officers and employees of the Company. The code is publicly available at the Company s headquarters in Fort Lauderdale, Florida and also on the Company s website at www.universalinsuranceholdings.com. A copy of the Company s Code of Business Conduct and Ethics may be obtained free of charge by written request to George R. De Heer, CFO, Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, FL 33309.

For information regarding our Directors, Executive Officers and Corporate Governance, reference is made to our definitive proxy statement for our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2010 and which is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

For information regarding Executive Compensation, reference is made to our definitive proxy statement for our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2010 and which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

For information regarding Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, reference is made to our definitive proxy statement for our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2010 and which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

For information regarding Certain Relationships and Related Transactions, and Director Independence, reference is made to our definitive proxy statement for our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2010 and which is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

For information regarding Principal Accountant Fees and Services, reference is made to our definitive proxy statement for our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2010 and which is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) Financial Statements

The following consolidated financial statements of the Company and the report of the Independent Registered Certified Public Accounting Firm thereon filed with this report:

Report of Independent Registered Certified Public Accounting Firm (Blackman Kallick LLP).

Consolidated Balance Sheets as of December 31, 2010 and 2009.

Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Stockholders Equity for the years ended December 31, 2010, 2009 and 2008.

Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008.

Notes to Consolidated Financial Statements.

(2) Financial Statement Schedules

The following additional financial statement schedules are furnished herewith pursuant to the requirements of Form 10-K.

	Page
Schedules required to be filed under the provisions of Regulation S-X Article 7:	
Schedule II Condensed Financial Information of Registrant	S-1
Schedule V Valuation Allowances and Qualifying Accounts	S-4
Schedule VI Supplementary Information Concerning Consolidated Property-Casualty Insurance Operations	S-4
Report of Independent Registered Certified Public Accounting Firm	S-5

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or in notes thereto.

(3) EXHIBITS

3.1 Registrant s Amended and Restated Certificate of Incorporation, as amended (1)

3.2 Registrant s Bylaws (1)

3.3 Certificate of Designation for Series A Convertible Preferred Stock dated October 11, 1994 (4)

3.4 Certificate of Designations, Preferences, and Rights of Series M Convertible Preferred Stock dated August 13, 1997 (2)

3.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation dated October 19, 1998 (4)

3.6 Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 18, 2000 (4)

3.7 Certificate of Amendment of Certificate of Designations of the Series A Convertible Preferred Stock dated October 29, 2001 (4)

4.1 Form of Common Stock Certificate (1)

4.2 Form of Warrant Certificate (1)

4.3 Form of Warrant Agency Agreement (1)

4.4 Form of Underwriter Warrant (1)

4.5 Affiliate Warrant (1)

4.6 Form of Warrant to purchase 100,000 shares of Common Stock at an exercise price of $2.00 per share issued to Steven Guarino dated as of April 24, 1997. (Substantially similar in form to two additional warrants to purchase 100,000 shares of Common Stock issued to Mr. Guarino dated as of April 24, 1997, with exercise prices of $2.75 and $3.50 per share, respectively) (2)

10.1 Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (1)

10.2 Management Agreements by and between Universal Property & Casualty Insurance Company and Universal P&C Management, Inc. dated as of June 2, 1997 (2)

10.3 Employment Agreement dated as of May 1, 1997 between Universal Heights, Inc. and Bradley I. Meier (2)*

10.4 Employment Agreement, dated October 11, 2006, between James M. Lynch and Universal Insurance Holdings, Inc. (8)*

10.5 Employment Agreement, dated as of January 1, 2005, between Sean Downes and Universal Insurance Holdings, Inc. (9)*

10.6 Amendment to Employment Agreement of Bradley I. Meier, dated March 21, 2007 (10)*

10.7 Amendment to Employment Agreement of Sean P. Downes, dated March 21, 2007 (10)*

10.8 Addendum No. 8 to the Employment Agreement by and between the Company and Bradley I. Meier, dated July 12, 2007 (11)*

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10.9	Addendum No. 2 to the Employment Agreement by and between the Company and Sean P. Downes, dated July 12, 2007 (11)*
10.10	Addendum No. 1 to the Employment Agreement by and between the Company and James M. Lynch, dated July 12, 2007 (11)*
10.11	Addendum No. 9 to Meier Employment Agreement, dated December 5, 2008 (12)*
10.12	Addendum No. 3 to Downes Employment Agreement, dated December 5, 2008 (12)*
10.13	Addendum No. 4 to Downes Employment Agreement, dated February 4, 2010 (15)
10.14	Employment Agreement, by and between the Company and George De Heer, dated as of September 30, 2010 (16)
10.15	Addendum No.10 to Meier Employment Agreement, dated December 6, 2010 (17)
10.16	Florida Insurance Capital Build-Up Incentive Program Surplus Note (Surplus Note) between the Company and The State Board of Administration of Florida (SBA). (13)
10.17	Addendum No. 1 to the Surplus Note between the Company and SBA. (13)
10.18	Multiple Line Quota Share Reinsurance Contract between the Company and Everest Reinsurance Company. (13)
10.19	Independent Adjusting Firm Agreement between the Company and Downes and Associates. (13)
10.20	The Universal Insurance Holdings, Inc. 2009 Omnibus Incentive Plan (14)
11.1	Statement Regarding Computation of Per Share Income (9)
14.1	Code of Business Conduct and Ethics (7)
16.1	Letter on change in certifying accountants from Millward & Co. CPA s dated February 12, 1999, and as amended February 26, 1999 (3)
16.2	Letter on change in certifying accountants from Deloitte & Touche LLP dated October 7, 2002(5)
16.3	Letter on change in certifying accountants from Deloitte & Touche LLP dated March 27, 2003(6)
21	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.1 Schedule of Investments

* Exhibit Numbers 10.6-10.15 are management contracts or compensatory plans required to be filed as Exhibits to this Form 10-K.

(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 April 30, 1997 filed with the Securities and Exchange Commission on August 13, 1997, as amended

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

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

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

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

(7) Incorporated by reference to the Registrant s Annual Report on Form 10-KSB, filed with the Securities and Exchange Commission on March 30, 2007

(8) Incorporated by reference to the Registrant s Annual Report on Form 10-KSB/A for the year ended December 31, 2006 filed with the Securities and Exchange Commission on August 24, 2007

(9) Incorporated by reference to the Registrant s Annual Report on Form 10-KSB, filed with the Securities and Exchange Commission on March 17, 2007

(10) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 22, 2007

(11) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on August 10, 2007

(12) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 9, 2008

(13) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 10, 2009

(14) Incorporated by reference to Exhibit 4.10 of the Registrant s Registration Statement on Form S-8 (File No. 333-163564) filed with the Securities and Exchange Commission on December 8, 2009.

(15) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 4, 2010

(16) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 5, 2010

(17) Incorporated by reference to the Registrant s Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 7, 2010

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SIGNATURES

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

UNIVERSAL INSURANCE HOLDINGS, INC.

Dated: March 31, 2011

By: /s/ Bradley I. Meier
Bradley I. Meier, President and Chief Executive Officer

By: /s/ George R. De Heer
George R. De Heer, Chief Financial Officer and
Principal Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Bradley I. Meier	President, Chief Executive Officer and Director	March 31, 2011
Bradley I. Meier		
/s/ Sean P. Downes	Senior Vice President, Chief Operating Officer and Director	March 31, 2011
Sean P. Downes		
/s/ George R. De Heer	Chief Financial Officer	March 31, 2011
George R. De Heer		
	Director	March 31, 2011
Norman M. Meier		
/s/ Michael Pietrangelo	Director	March 31, 2011
Michael Pietrangelo		
/s/ Ozzie A. Schindler	Director	March 31, 2011
Ozzie A. Schindler		
/s/ Reed J. Slogoff	Director	March 31, 2011
Reed J. Slogoff		

/s/ Joel M. Wilentz	Director	March 31, 2011
Joel M. Wilentz		

SCHEDULE II CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Universal Insurance Holdings, Inc. had no long term obligations, guarantees or material contingencies as of December 31, 2010 and 2009. The following summarizes the major categories of the parent company s financial statements:

CONDENSED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 19,796,850	$ 18,988,540
Investments in subsidiaries and undistributed earnings	112,001,070	70,589,972
Equity securities	9,500,586	13,089,692
Premiums receivable, assumed		8,720,833
Receivable from securities		473,627
Other receivables	4,554	380,045
Income taxes recoverable		3,211,874
Property and equipment, net	5,365	21,461
Deferred income taxes	13,447,953	11,894,289
Other assets	190,297	148,208
Total assets	$ 154,946,675	$ 127,518,541
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Unearned premiums, assumed	$	$ 7,291,667
Accounts payable	164,282	272,390
Income taxes payable	8,282,030	368,967
Other accrued expenses	6,710,735	6,311,060
Total liabilities	15,157,047	14,244,084
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	404,069	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 1,809,118 shares	(3,109,255)	(7,948,606)
Common stock held in trust, at cost - 0 and 631,000 shares		(511,110)
Additional paid-in capital	33,674,697	36,666,914
Accumulated other comprehensive income, net of taxes		563,654
Retained earnings	108,819,040	84,100,372

Total stockholders equity	139,789,628	113,274,457
Total liabilities and stockholders equity	$ 154,946,675	$ 127,518,541

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CONDENSED STATEMENTS OF INCOME

	For the Years Ended December 31,		
	2010	2009	2008
PREMIUMS EARNED AND OTHER REVENUES			
Assumed premiums written	$ 4,534,500	$ 17,500,000	$
(decrease) increase in unearned assumed premiums	7,291,667	(7,291,667)	
Premiums earned, net	11,826,167	10,208,333	
Net investment income	42,531	36,761	108,294
Net realized gains on investments	1,378,724	1,241,868	
Net unrealized gains on investments	222,576		
Net foreign currency gains on investments		115,307	
Management fee	40,750		
Commission revenue	154	1,003	74
Total premiums earned and other revenues	13,510,902	11,603,272	108,368
OPERATING COSTS AND EXPENSES			
General and administrative expenses	20,417,087	21,586,218	22,652,177
Total operating cost and expenses	20,417,087	21,586,218	22,652,177
LOSS BEFORE INCOME TAXES AND EQUITY IN NET EARNINGS OF SUBSIDIARIES	(6,906,185)	(9,982,946)	(22,543,809)
Benefit from income taxes	(2,664,061)	(3,494,031)	(8,696,275)
LOSS BEFORE EQUITY IN NET EARNINGS OF SUBSIDIARIES	(4,242,124)	(6,488,915)	(13,847,534)
Equity in net income of subsidiaries	41,225,886	35,276,213	53,884,857
CONSOLIDATED NET INCOME	$ 36,983,762	$ 28,787,298	$ 40,037,323

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CONDENSED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2010	2009	2008
Cash flows from operating activities			
Net Income	$ 36,983,762	$ 28,787,298	$ 40,037,323
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in net income of subsidiaries	(41,225,886)	(35,276,213)	(53,884,857)
Dividends received from subsidiaries			23,000,000
Amortization of cost of stock options	2,108,705	1,520,647	4,271,230
Amortization of restricted stocks grants	852,692	654,825	333,960
Net realized gains on investments	(1,378,724)	(1,241,868)	
Net unrealized gains on investments	(222,576)		
Foreign currency gains on investments, net		(115,307)	
Deferred income taxes	(1,333,362)	1,880,794	73,897
Other	16,096	16,097	16,097
Net changes in assets and liabilities relating to operating activities:			
Premiums receivable	8,720,833	(8,720,833)	
Purchases of equity securities, trading	(12,759,757)		
Proceeds from sale of equity securities, trading	10,897,316		
Income taxes recoverable	3,211,874	(728,951)	(2,237,183)
Income taxes payable	7,913,063	368,968	
Unearned premiums	(7,291,667)	7,291,667	
Other operating assets and liabilities	604,095	(567,667)	(924,272)
Net cash provided by (used in) operating activities	7,096,464	(6,130,543)	10,686,195
Cash flows from investing activities:			
Capital contributions to subsidiaries	(39,160,902)		(127,750)
Purchases of equity securities, available for sale	(3,578,274)	(36,317,995)	
Proceeds from sale of equity securities, available for sale	10,701,986	24,536,211	
Net cash used in investing activities	(32,037,190)	(11,781,784)	(127,750)
Cash flows from financing activities:			
Preferred stock dividend	(19,950)	(27,450)	(49,950)
Common stock dividend	(12,533,376)	(20,313,547)	(18,299,123)
Issuance of common stock	14,000	55,000	130,530
Treasury shares on option exercise	(4,292,485)	(223,376)	(3,418,469)
Repurchase of treasury stock			(2,999,788)
Excess tax benefits from stock-based compensation	4,099,145	728,584	5,706,778
Transfers from subsidiaries	38,481,702	54,493,020	9,427,516
Net cash provided by (used in) financing activities	25,749,036	34,712,231	(9,502,506)

Net increase in cash and cash equivalents	808,310	16,799,904	1,055,939
Cash and cash equivalents at beginning of period	18,988,540	2,188,636	1,132,697
Cash and cash equivalents at end of period	$ 19,796,850	$ 18,988,540	$ 2,188,636
Supplemental cashflow disclosures:			
Dividends accrued	$	$	

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SCHEDULE V VALUATION ALLOWANCES AND QUALIFYING ACCOUNTS

Description	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: Charged to other accounts	Deductions	Balance at end of period
Year Ended December 31, 2010:					
Allowance for doubtful account	$ 2,701,822	$ 1,304,856		$ 3,895,222	$ 111,456
Year Ended December 31, 2009:					
Allowance for doubtful account	$ 1,399,997	$ 1,353,662	$	$ 51,837	$ 2,701,822
Year Ended December 31, 2008:					
Allowance for doubtful account	$ 832,660	$ 2,134,106	$	$ 1,566,769	$ 1,399,997

SCHEDULE VI SUPPLEMENTAL INFORMATION CONCERNING CONSOLIDATED PROPERTY AND CASUALTY INSURANCE OPERATIONS

	Reserves for unpaid losses and LAE	Incurred loss and LAE - current year	Incurred loss and LAE - prior year	Paid losses and LAE	Net investment income
2010	$ 158,928,837	$ 107,424,191	$ 5,931,284	$ 97,837,851	$ 992,235
2009	$ 127,197,753	$ 97,630,002	$ 8,503,132	$ 86,399,754	$ 1,453,599
2008	$ 87,947,774	$ 75,118,459	$ 6,219,667	$ 68,002,876	$ 3,721,029

	Deferred policy acquisition costs, net	Amortization of deferred policy acquisition costs, net	Net premiums written	Net premiums earned	Unearned premiums
2010	$ 9,445,679	$ 18,066,238	$ 199,615,209	$ 170,442,897	$ 328,334,547
2009	$ 9,464,624	$ 10,709,840	$ 134,287,342	$ 141,653,725	$ 278,370,544
2008	$ 407,946	$ (1,746,151)	$ 150,787,980	$ 147,413,697	$ 258,489,460

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Report of Independent Registered Certified Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of **Universal Insurance Holdings, Inc. and Subsidiaries** (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders equity and cash flows for each of the years in the three-year period ended December 31, 2010, and the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*; such consolidated financial statements and report are included elsewhere in this Form 10-K and are incorporated herein by reference. Our audits also include the consolidated financial statement schedules of the Company listed in the accompanying index at Item 15. These consolidated financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Blackman Kallick LLP

Chicago, Illinois
March 31, 2011

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