UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
August 10, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from ______________ to ______________

Commission File Number 000-20848

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 39,166,033 shares of common stock, par value $0.01 per share, outstanding on August 4, 2010.

UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

/s/ Blackman Kallick LLP

Chicago, Illinois

August 9, 2010

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

	(Unaudited) June 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$262,444,768	$192,924,291
Investments		
Fixed maturities available for sale, at fair value	60,447,710	41,389,008
Equity securities available for sale, at fair value	77,477,064	73,408,002
Real estate, net	4,335,589	3,289,893
Prepaid reinsurance premiums	233,086,613	200,294,241
Reinsurance recoverables	63,235,510	91,816,433
Premiums receivable, net	49,351,405	37,363,110
Receivable from securities	14,669,988	6,259,973
Other receivables	2,629,577	5,068,367
Income taxes recoverable	-	3,211,874
Property and equipment, net	1,197,645	1,245,858
Deferred policy acquisition costs, net	14,041,890	9,464,624
Deferred income taxes	12,853,266	11,894,289
Other assets	1,020,164	617,337
Total assets	$796,791,189	$678,247,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$128,903,761	$127,197,753
Unearned premiums	355,735,699	278,370,544
Advance premium	20,058,953	17,078,558
Accounts payable	4,822,714	3,172,626
Bank overdraft	22,573,228	20,297,061
Reinsurance payable, net	86,815,057	73,104,595
Income taxes payable	3,786,298	368,968
Dividend payable to shareholder	3,916,724	-
Payable for securities	3,821,527	-
Other accrued expenses	18,855,334	20,750,385
Long-term debt	23,897,059	24,632,353
Total liabilities	673,186,354	564,972,843
STOCKHOLDERS' EQUITY:		
Cumulative convertible preferred stock, $.01 par value	1,077	1,087
Authorized shares - 1,000,000		
Issued shares - 107,690 and 108,640		
Outstanding shares - 107,690 and 108,640		

Minimum liquidation preference - $287,240 and $288,190		
Common stock, $.01 par value	408,772	402,146
Authorized shares - 55,000,000		
Issued shares - 40,877,087 and 40,214,884		
Outstanding shares - 39,166,033 and 37,774,765		
Treasury shares, at cost - 1,711,054 and 1,809,119 shares	(7,389,416)	(7,948,606)
Common stock held in trust, at cost - 0 and 631,000 shares	-	(511,110)
Additional paid-in capital	37,802,927	36,666,914
Accumulated other comprehensive (loss) income, net of taxes	(403,247)	563,654
Retained earnings	93,184,722	84,100,372
Total stockholders' equity	123,604,835	113,274,457
Total liabilities and stockholders' equity	$796,791,189	$678,247,300

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

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2010	2009	2010	2009
PREMIUMS EARNED AND OTHER REVENUES				
Direct premiums written	$ 368,119,332	$ 301,984,289	$ 208,019,687	$156,772,144
Ceded premiums written	(248,872,199)	(224,366,164)	(121,304,233)	(128,638,307)
Net premiums written	119,247,133	77,618,125	86,715,454	28,133,837
(Increase) decrease in net unearned premium	(44,572,783)	(2,483,735)	(45,354,667)	9,242,901
Premiums earned, net	74,674,350	75,134,390	41,360,787	37,376,738
Net investment income	310,571	798,482	117,619	461,774
Realized gains on investments	8,152,024	1,452,609	4,457,307	341,276
Foreign currency transaction gains	809,050	72,316	124,803	84,435
Other-than-temporary impairment of investments	(2,407,680)	-	-	-
Commission revenue	17,521,299	15,307,618	8,783,428	7,862,769
Other revenue	2,020,332	2,901,730	1,016,078	1,422,353
Total premiums earned and other revenues	101,079,946	95,667,145	55,860,022	47,549,345
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	48,486,605	44,926,823	24,834,893	24,506,159
General and administrative expenses	23,577,980	18,114,424	13,389,331	10,599,196
Total operating costs and expenses	72,064,585	63,041,247	38,224,224	35,105,355
INCOME BEFORE INCOME TAXES	29,015,361	32,625,898	17,635,798	12,443,990
Income taxes, current	11,656,144	8,949,654	8,171,931	367,037
Income taxes, deferred	(351,761)	3,599,856	(1,302,863)	4,438,395
Income taxes, net	11,304,383	12,549,510	6,869,068	4,805,432
NET INCOME	$ 17,710,978	$ 20,076,388	$ 10,766,730	$ 7,638,558
Basic net income per common share	$ 0.45	$ 0.53	$ 0.27	$ 0.20

Weighted average of common shares outstanding - Basic	$ 39,028,976	$ 37,589,412	$ 39,167,241	$ 37,617,174
Fully diluted net income per share	$ 0.44	$ 0.50	$ 0.27	$ 0.19
Weighted average of common shares outstanding - Diluted	$ 40,440,773	$ 40,225,815	$ 40,445,975	$ 40,529,702
Cash dividend declared per common share	$ 0.22	$ 0.34	$ 0.10	$ 0.12

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2010	2009	2010	2009
Comprehensive Income:				
Net income	$ 17,710,978	$ 20,076,388	$ 10,766,730	$ 7,638,558
Change in net unrealized (losses) gains on investments, net of tax	(966,901)	8,228,976	790,675	5,672,835
Comprehensive Income	$ 16,744,077	$ 28,305,364	$ 11,557,405	$ 13,311,393

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

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

	Common Shares	Preferred Stock Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Stock He in Trust
Balance, December 31, 2009	40,214,884	108,640	$ 402,146	$ 1,087	$ 36,666,914	$ 84,100,372	$ 563,654	$ (511,11
Issuance of common shares	1,900,206		19,002		1,858,078			
Preferred stock conversion	1,187	(950)	12	(10)	(2)			
Release of shares from SGT					939,900			511,11
Retirement of treasury shares	(1,239,190)		(12,388)		(7,591,863)			
Stock compensation plans					1,453,006			
Net income						17,710,978		
Excess tax benefits from stock-based compensation					4,020,789			
Amortization of deferredcompensation					456,105			
Declaration of dividends						(8,626,628)		
Change in net unrealized loss on invest., net of tax effect of $(607,216)							(966,901)	
Balance, June 30, 2010	40,877,087	107,690	$408,772	$1,077	$37,802,927	$93,184,722	$(403,247)	$-
					For the Six Months Ended June 30, 2009			
Balance, December 31, 2008	40,158,019	138,640	$401,578	$1,387	$33,587,414	$75,654,070	$24,834	$(733,86

Preferred stock conversion	75,000	(30,000)	750	(300)	(450)			
Stock compensation plans					1,306,591			
Net income						20,076,388		
Amortization of deferred compensation					325,989			
Declaration of dividends						(12,799,814)		
Change in net unrealized gains on invest., net of tax effect of $1,595,467							8,228,976	
Balance, June 30, 2009	40,233,019	108,640	$402,328	$1,087	$35,219,544	$82,930,644	$8,253,810	$(733,86

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

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

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Cash flows from operating activities:		
Net Income	$ 17,710,978	$ 20,076,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	629,816	788,142
Depreciation	298,025	213,576
Amortization of cost of stock options	1,453,006	1,306,591
Amortization of restricted stock grants	456,105	325,989
Realized gains on investments	(8,152,024)	(1,452,609)
Foreign currency gains on investments	(842,375)	(72,316)
Other-than-temporary impairment of investments	2,407,680	-
Amortization of premium / accretion of discount, net	271,010	109,204
Deferred income taxes	8,827	3,599,856
Other	(15,035)	130,119
Net change in assets and liabilities relating to operating activities:		
Prepaid reinsurance premiums	(32,792,372)	(37,102,247)
Reinsurance recoverables	28,580,923	(3,867,369)
Premiums receivable, net	(12,618,111)	(9,665,210)
Accrued investment income	(80,003)	(702,324)
Other receivables	2,518,613	178,739
Income taxes recoverable	3,211,876	(5,176,904)
Deferred policy acquisition costs, net	(4,577,266)	(8,034,104)
Other assets	(425,268)	(144,759)
Unpaid losses and loss adjustment expenses	1,706,008	8,519,272
Unearned premiums	77,365,154	39,585,983
Advance premium	2,980,395	3,966,539
Accounts payable	1,650,088	1,133,449
Reinsurance payable	13,710,463	88,357,868
Income taxes payable	3,417,329	-
Other accrued expenses	(1,895,051)	2,128,973
Net cash provided by operating activities	96,978,791	104,202,846
Cash flows from investing activities:		
Proceeds from sale of property	15,108	-
Purchase of real estate	(1,016,921)	-
Building improvements	(93,955)	-
Purchases of fixed maturities	(129,140,469)	(126,035,995)
Proceeds from sales of fixed maturities	116,237,712	4,244,851
Purchases of equity securities, available for sale	(80,730,225)	(78,530,195)
Proceeds from sales of equity securities, available for sale	70,680,944	11,005,564
Capital expenditures and building improvements	(184,706)	(369,700)
Net cash used in investing activities	(24,232,512)	(189,685,475)
Cash flows from financing activities:		
Bank overdraft	2,276,167	4,947,120

Preferred stock dividend		(9,975)	(17,475)
Common stock dividend		(4,699,926)	(8,268,278)
Issuance of common stock		7,000	-
Treasury shares on option exercise		(3,723,972)	-
Excess tax benefits from stock-based compensation		3,660,198	-
Repayments of loans payable		(735,294)	-
Net cash used in in financing activities		(3,225,802)	(3,338,633)
Net increase (decrease) in cash and cash equivalents		69,520,477	(88,821,262)
Cash and cash equivalents at beginning of period		192,924,291	256,964,637
Cash and cash equivalents at end of period	$	262,444,768	$168,143,375
Non cash items:			
Dividends accrued	$	3,916,724	$4,514,061

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

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

1. Nature of Operations and Basis of Presentation

Restatement of Condensed Consolidated Financial Statements – March 31, 2010

Subsequent to filing its Quarterly Report on Form 10-Q on May 10, 2010, for the quarter ended March 31, 2010, the Company determined that its investment in common stock of Direxion Daily Large Cap Bear 3X Shares (ticker symbol "BGZ") that was in an unrealized loss position at the end of the Company's first quarter should have been recorded as an Other-Than-Temporary Impairment ("OTTI") as a result of a subsequent sale of a portion of the investment, resulting in a loss. Therefore, the Company recorded an OTTI charge of $2,407,680 and restated its financial statements on Form 10-Q/A for the quarter ended March 31, 2010.

The following presents the adjustments included in the amended statements of the three-month period ended March 31, 2010.

	As Reported 3/31/2010	Adjustment	As Restated 3/31/2010
Net Income	$8,306,969	$(1,362,721)	$6,944,248
Accumulated other comprehensive (loss)	(2,672,839)	1,478,917	(1,193,922)
Stockholders' equity	114,645,997	116,197	114,762,194

The Company's results for the second quarter reported herein are inclusive of the Company's restatement of its Condensed Consolidated Financial Statements for the three-month period ended March 31, 2010, as filed in the Company's Form 10-Q/A for the quarter ended March 31, 2010.

Nature of Operations

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

Basis of Presentation

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

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information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted.

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

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

2. Significant Accounting Policies

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

Impairment of Securities. For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of deferred income taxes (as disclosed in Note 5), is reported as a component of accumulated other comprehensive income on the condensed consolidated Balance Sheet and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a 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.

The company performed evaluations of its investments classified as available for sale and has determined it held no securities for which impairment is other-than-temporary as of June 30, 2010.

Fair Market Value of Financial Instruments. The Company's long-term debt was held at a carrying value of $23,897,059 and $24,632,353 as of June 30, 2010 and December 31, 2009, respectively. The fair value of long-term debt as of June 30, 2010 was estimated based on discounted cash flows utilizing interest rates currently offered for similar products and was determined to be $17,066,879 and $18,299,889 as of June 30, 2010 and December 31, 2009, respectively.

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

In order to reduce credit risk for amounts due from reinsurers, the Company seeks to do business with financially sound reinsurance companies and regularly evaluates the financial strength of all reinsurers used. 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 June 30, 2010 and December 31, 2009, UPCIC's reinsurance portfolio contained the following authorized reinsurers that had unsecured recoverables for paid and unpaid losses, including incurred but not reported ("IBNR") reserves, loss adjustment expenses and unearned premiums whose aggregate balance exceeded 3% of UPCIC's statutory surplus:

Reinsurer	As of June 30, 2010		As of December 31 2009	
Everest Reinsurance Company	$	229,629,621	$	208,129,753
Florida Hurricane Catastrophe Fund		-		24,888,534
Total	$	229,629,621	$	233,018,287

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

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

Recent Accounting Pronouncements

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

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

3. Insurance Operations

Unearned premiums represent amounts that UPCIC would be required to refund policyholders if their policies were canceled. UPCIC determines unearned premiums by calculating the pro-rata amount that would be due to the policyholders at a given point in time based upon the premiums due for the full policy term. At June 30, 2010, UPCIC serviced approximately 566,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $355,735,699 and in-force premiums of approximately $633,800,000. At December 31, 2009, UPCIC serviced 541,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $278,370,544 and in-force premiums of approximately $567,100,000.

The wind mitigation discounts mandated by the Florida legislature to be effective June 1, 2007 for new business and August 1, 2007 for renewal business have had a significant effect on UPCIC's premium. The following table reflects the effect of wind mitigation credits received by UPCIC policyholders:

Wind Mitigation Credits

		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 %

4. Reinsurance

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

UPCIC's in-force policyholder coverage for windstorm exposures as of June 30, 2010 was approximately $123 billion. In the normal course of business, UPCIC also seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance contracts. Reinsurance premiums, losses and loss adjustment expenses ("LAE") are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance ceding commissions received are deferred and netted against policy acquisition costs and amortized over the effective period of the related insurance policies.

2010 Reinsurance Program

Quota Share

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

Excess Per Risk

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

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

The total cost of the Company's multiple line excess reinsurance program effective June 1, 2010 through May 31, 2011 is $3,500,000 of which the Company's cost is 50%, or $1,750,000, and the quota share reinsurers' cost is the remaining 50%. The total cost of the Company's property per risk reinsurance program effective June 1, 2009 through May 31, 2010 is $475,000.

Excess Catastrophe

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

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

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

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

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

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

UPCIC also obtained coverage from the Florida Hurricane Catastrophe Fund (“FHCF”), which is administered by the Florida State Board of Administration (“SBA”). Under the reimbursement agreement, the FHCF would reimburse UPCIC, for each loss occurrence during the contract year, for 90% of the ultimate loss paid by UPCIC in excess of its retention plus 5% of the reimbursed losses to cover loss adjustment expenses, subject to an aggregate contract limit. A covered event means any one storm declared to be a hurricane by the

National Hurricane Center for losses incurred in Florida, both while it is a hurricane and through subsequent downgrades. For the contract year June 1, 2010 to May 31, 2011, UPCIC purchased the traditional FHCF coverage and did not purchase the Temporary Increase in Coverage Limit Option offered to insurers by the FHCF. UPCIC's initial estimate of its traditional FHCF coverage is 90% of $985,000,000 in excess of $372,000,000. The estimated premium for this coverage is $60,104,422. The final amount of UPCIC's traditional FHCF coverage for the contract year will be determined by the FHCF based upon UPCIC's exposures in-force as of June 30, 2010, as reported by UPCIC to the FHCF by September 1, 2010.

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 May 28, 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 loss reimbursement capacity under current market conditions for the 2010 - 2011 contract year is projected to be $25.461 billion over the 12-month period following the estimate. The SBA also referred to its report entitled, "May 2010 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 $12 billion and its maximum 12-month loss reimbursement capacity is $26 billion. 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. By law, the FHCF's obligation to reimburse insurers is limited to its actual claims-paying capacity. the aggregate cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's loss reimbursement capacity.

The total cost of UPCIC's multiple line excess and property per risk reinsurance program effective June 1, 2010 through May 31, 2011 is $3,975,000 of which UPCIC's cost is $2,225,000, and the quota share reinsurers cost is the remaining $1,750,000. The cost of UPCIC's underlying excess catastrophe contract is $42,000,000, subject to a potential return premium of up to $31,458,000. The total cost of UPCIC's private catastrophe reinsurance program effective June 1, 2010 through May 31, 2011 is $134,538,000 of which UPCIC's cost is 50%, or $67,269,000, and the quota share reinsurers cost is the remaining 50%. In addition, UPCIC purchases reinstatement premium protection as described above, the cost of which is $16,210,064. UPCIC's cost of the subsequent catastrophe event excess of loss reinsurance is $15,683,000. The estimated premium that UPCIC plans to cede to the FHCF for the 2010 hurricane season is $60,104,422 of which UPCIC's cost is 50%, or $30,052,211, 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 theFHCF, 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 June 30, 2010, that it had coverage to approximately the 106-year Probable Maximum Loss (PML), modeled using AIR CLASIC/2 v.11.0, long term, without demand surge and without loss amplification. PML is a general concept applied in the insurance industry for defining high loss scenarios that should be considered when underwriting insurance risk. Catastrophe models produce loss estimates that are qualified in terms of dollars and probabilities. Probability of exceedance or the probability that the actual loss level will exceed a particular threshold is a standard catastrophe model output. For example, the 100-year PML represents a 1.00% Annual Probability of Exceedance (the 106-year PML represents a 0.943% 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 Florida Office of Insurance Regulation ("OIR").

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

	Six Months Ended June 30, 2010			Six Months Ended June 30, 2009		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 368,119,332	$ 290,754,177	$ 97,025,344	$ 301,984,289	$ 262,398,307	$ 90,929,142
Ceded	(248,872,199)	(216,079,827)	(48,538,739)	(224,366,164)	(187,263,917)	(46,002,319)
Net	$ 119,247,133	$ 74,674,350	$ 48,486,605	$ 77,618,125	$ 75,134,390	$ 44,926,823