

UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-K
March 13, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

or

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

For the transition period from _____ to _____

Commission File Number 000-20848

UNIVERSAL INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

65-0231984
(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 Alternext US

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. Yes No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes 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. Yes 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.

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

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes 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, 2008: \$66,244,055.

Indicate the number of shares outstanding of Common Stock of Universal Insurance Holdings, Inc. as of February 20, 2009: 38,448,172

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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UNIVERSAL INSURANCE HOLDINGS, INC.

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

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

Insurance Business

The Company’s primary product is homeowners’ insurance. The Company’s criteria for selecting insurance policies includes, but is not limited to, the use of specific policy forms, coverage amounts on buildings and contents and required compliance with local building codes. Also, to improve underwriting and manage risk, the Company utilizes standard industry modeling techniques for hurricane and windstorm exposure. UPCIC’s portfolio as of December 31, 2008 includes approximately 453,000 policies with coverage for wind risks and 8,000 policies without wind risks. The average premium for a policy with wind coverage is approximately \$1,136 and the average premium for a policy without wind coverage is approximately \$499.

As of December 31, 2008, the geographical distribution of UPCIC’s policies-in-force and total insured values in the state of Florida were as follows:

County	Total Policies	%	Total Insured Value	%
Miami-Dade, Broward & Palm Beach	131,049	28.45%	\$29,156,565,952	28.82%
Lee & Collier	55,825	12.12%	12,034,819,971	11.89%
Pinellas & Hillsborough	55,192	11.98%	11,522,380,125	11.39%
Brevard & Indian River	28,054	6.09%	6,184,826,090	6.11%
St. Lucie & Martin	26,248	5.70%	6,112,396,050	6.04%
Manatee & Sarasota	31,314	6.80%	6,002,236,121	5.93%
Escambia	20,914	4.54%	5,239,007,721	5.18%
Duval	12,202	2.65%	2,306,944,293	2.28%
All Other Counties	99,806	21.67%	22,624,054,598	22.36%
Total	460,604	100.00%	\$101,183,230,921	100.00%

Operations

All underwriting, rating, policy issuance, reinsurance negotiations, and certain administration functions for UPCIC are performed by Universal Risk Advisors, Inc., a wholly owned subsidiary of the Company. Reinsurance negotiations for UPCIC are also performed by Blue Atlantic Reinsurance Corp.

(“BARC”), a wholly owned subsidiary of the Company, and unaffiliated third parties. Universal Adjusting Corporation, a wholly owned subsidiary, performs claims adjustment for UPCIC.

The earnings of UPCIC from policy premiums are supplemented to an extent by the generation of investment income from investment policies adopted by the Board of Directors of UPCIC. UPCIC’s principal investment goals are to maintain safety and liquidity, enhance equity values, and to achieve an increased rate of return consistent with regulatory requirements.

MANAGEMENT OPERATIONS

The Company is a vertically integrated insurance holding company. The Company, through its subsidiaries, is currently engaged in insurance underwriting, distribution and claims. UPCIC generates revenue from the collection and investment of premiums. The Company’s agency operations, which include Universal Florida Insurance Agency and Coastal Homeowners Insurance Specialists, Inc., generate income from commissions. Universal Risk Advisors, Inc., the Company’s managing general agent, generates revenue through policy fee income and other administrative fees from the marketing of UPCIC’s insurance products through the Company’s distribution network. Universal Risk Life Advisors, Inc. was formed to be the Company’s managing general agent for life insurance products, but is not currently conducting business. In addition, the Company has 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.

UPCIC has applied for expansion to write homeowners’ insurance policies in five additional states. Those states are Texas, Hawaii, Georgia, South Carolina and North Carolina. On July 16, 2008, August 18, 2008, September 30, 2008, and January 29, 2009, UPCIC was licensed to transact insurance business within the States of South Carolina, Hawaii, North Carolina, and Georgia, respectively. The State of North Carolina Department of Insurance has restricted UPCIC to writing no more than \$12.0 million of direct premiums in each of the first two full calendar years after which such restriction may be lifted. In addition, UPCIC has filed to offer flood insurance through the National Flood Insurance Program (“NFIP”).

The Company filed an application with the Florida Department of Insurance (subsequently renamed the Florida Office of Insurance Regulation (“OIR”) on June 23, 2008 to open a second property and casualty subsidiary, Infinity Property and Casualty Insurance Company (“Infinity”), in the State of Florida. The Company intends for this new subsidiary to write homeowners, multi peril and inland marine coverage on homes valued in excess of \$1.0 million. UPCIC offers limits and coverage on homes valued at less than \$1,000,000. Additionally, the Company intends for the new subsidiary to write excess flood insurance on homes valued in excess of \$250,000. On October 1, 2008, the Company signed a consent order agreeing to the terms and conditions for the issuance of a certificate of authority to Infinity. The final approval and issuance of the certificate of authority was granted on December 2, 2008 by the OIR. Infinity was recently renamed American Platinum Property and Casualty Insurance Company (“American Platinum”). As of December 31, 2008, American Platinum had not yet underwritten any policies.

Direct Sales Operations

During 2006, the Company decided to discontinue its on-line commerce segment and focus on its core operations. In the Consolidated Statements of Operations and Consolidated Statements of Cash Flows, the Company has separately disclosed results relating to its discontinued operations. The disclosure for discontinued operations relates to the operating segment previously reported as the Company’s on-line commerce segment.

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.

Other Operations

Universal Inspection Corporation was incorporated in Florida on January 3, 2000 as a wholly owned subsidiary of the Company. Universal Inspection Corporation performs property inspections for homeowners' insurance policies underwritten by UPCIC. 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"). Sterling has been renamed Atlas Premium Finance Company and commenced offering premium finance services in November 2007. 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 as a reinsurance intermediary broker by the OIR on January 4, 2008. Universal Logistics Corporation ("ULC") was incorporated on October 29, 2008 as a wholly owned subsidiary of the Company to carry out some of the operational duties associated with the day-to-day business of the Company.

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 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 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 also is 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 changes to strengthen UPCIC's financial condition. On UPCIC's Homeowner's Program ("HO"), premium rate increases averaging 9.9% and 13.2% statewide were approved by the Florida OIR and implemented with effective dates in May 2006 and October 2006, respectively. On UPCIC's Dwelling Fire Program ("DP"), premium rate increases averaging 11.2% and 30.6% statewide were also approved by the OIR and implemented with effective dates in May 2006 and September 2006, respectively. However, a rate filing mandated by the Florida Legislature in 2007 due to a new law presumed to reduce insurers' reinsurance costs resulted in rate decreases averaging 11.1% statewide HO and 2.3% statewide DP was approved by the OIR and integrated into UPCIC's rates on June 1, 2007. This had an adverse effect on UPCIC's premium volume. The effect of these rate decreases on existing policies and the corresponding premium decreases in direct written premium were completed on May 31, 2008. In addition, UPCIC implemented premium discounts resulting from wind mitigation efforts by policyholders. Such discounts were mandated by the Florida Legislature and became effective June 1, 2007 for new business, and August 1, 2007 for renewal business. Additionally, a rate decrease of 4.1% statewide HO and a rate decrease of 0.2% statewide DP were approved by the OIR and implemented with effective dates in January 2008 for the HO program and March 2008 for the DP program. The effect of these rate decreases is reflected in UPCIC's book of business and the full impact of the premium decreases on direct premiums written should be realized by January 2009 for the HO program and March 2009 for the DP program. Finally, UPCIC has filed its annual premium rate changes with the Florida OIR. The requested statewide average rate increase of 4.8% HO was approved by the OIR and will be implemented in UPCIC's rates on February 27, 2009 for new business and April 19, 2009 for renewal business. The requested statewide average rate increase of 4.7% DP was approved by the OIR and will be implemented in UPCIC's rates on March 2, 2009 for new business and April 21, 2009 for renewal business.

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. 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 December 31, 2007, 11.8% of UPCIC policyholders were receiving wind mitigation credits totaling \$31,951,623 (a 6.4% reduction of in force premium). As of December 31, 2008, 24.7% of UPCIC policyholders were receiving wind mitigation credits totaling \$89,063,776 (a 17.3% reduction of in force premium).

Management of Exposure to Catastrophic Losses

UPCIC is exposed to potentially numerous insured losses arising out of single or multiple occurrences, such as natural catastrophes. As with all property and casualty insurers, UPCIC expects to and will incur some losses related to catastrophes and will price its policies accordingly. UPCIC's exposure to catastrophic losses arises principally out of hurricanes and windstorms. Through the use of standard industry modeling techniques that are susceptible to change, UPCIC manages its exposure to such losses on an ongoing basis from an underwriting perspective. UPCIC also protects itself against the risk of catastrophic loss by obtaining reinsurance coverage as of the beginning of hurricane season on June 1 of each year. For the 2008 hurricane season, UPCIC purchased reinsurance coverage up to approximately the "145 year Probable Maximum Loss" ("PML"). 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 up to amounts that will vary depending on the coverage

exhausted in the prior event(s). 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. At the start of the hurricane season on June 1, 2008, UPCIC has coverage to approximately the 133-year Probable Maximum Loss (PML). With the additional catastrophic coverage via the new top layer effective July 1, 2008, UPCIC would have had coverage to approximately the 145-year PML. For the 2007 hurricane season, UPCIC had coverage to approximately the 150-year PML. PML is a general concept applied in the insurance industry for defining high loss scenarios that should be considered when underwriting insurance risk. Catastrophe models produce loss estimates that are qualified in terms of dollars and probabilities. Probability of exceedance or the probability that the actual loss level will exceed a particular threshold is a standard catastrophe model output. For example, the 100-year PML represents a 1.00% Annual Probability of Exceedance (the 133-year PML represents a 0.752% Annual Probability of Exceedance and the 145-year PML represents a 0.690% Annual Probability of Exceedance). It is estimated that the 100-year PML is likely to be equaled or exceeded in one year out of 100 on average, or 1 percent of the time. It is the 99th percentile of the annual loss distribution.

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. For the 2008 hurricane season, UPCIC's reinsurance agreements transfer the risk of loss with a net retention of \$70,000,000 with coverage up to approximately the 145 year PML in a first event scenario, a net retention of \$14,800,000 in a second event scenario and a net retention of \$15,000,000 in a third event scenario up to an amount that will vary depending on the coverage exhausted in the prior event(s). These amounts may change in the future. There is no assurance UPCIC will be able to obtain reinsurance at these levels 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 direct property and casualty insurance market, and there can be no assurance that reinsurance will be available to UPCIC to the same extent and at the same cost as currently in place for UPCIC. Future increases in catastrophe reinsurance costs are possible and could adversely affect UPCIC's results. Reinsurance does not legally discharge an insurer from its primary liability for the full amount of the risks it insures, although it does make the reinsurer liable to the primary insurer. Therefore, UPCIC is subject to credit risk with respect to its reinsurers. In addition, UPCIC obtains a significant portion of its reinsurance coverage from the Florida Hurricane Catastrophe Fund ("FHCF"). There is no guaranty the FHCF will be able to honor its obligations. On October 31, 2008, the Florida State Board of Administration ("SBA") published its most recent estimate of the FHCF's loss reimbursement capacity. The SBA estimated that the FHCF's total loss reimbursement capacity over the next six to twelve months is between \$11.786 billion and \$13.286 billion. This is significantly less than the estimate in effect when UPCIC made its FHCF coverage selections for the 2008-2009 contract year. By law, the FHCF's obligation to reimburse insurers is limited to its actual claims-paying capacity. In addition, the cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's claims-paying capacity.

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

Adequacy of Liabilities for Losses

The liabilities for losses and loss adjustment expenses ("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 experienced during 2008 and 2007. UPCIC relies on industry data, as well as the expertise and experience of independent actuaries in an effort to establish accurate estimates and adequate liabilities. Furthermore, factors such as storms and weather conditions, inflation, claim settlement patterns, legislative activity and litigation trends may have an impact on UPCIC's future loss experience. Accordingly, there can be no assurance that UPCIC's liabilities will be adequate to cover ultimate loss developments. 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.

Among the classes of insurance underwritten by UPCIC, the homeowners' insurance liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim to UPCIC and the final settlement than do homeowners' insurance 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.

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	Year Ended December 31, 2008	Year Ended December 31, 2007
Balance at beginning of year	\$ 68,815,500	\$ 49,564,514
Less reinsurance recoverable	(37,587,445)	(32,369,504)
Net balance at beginning of year	31,228,055	17,195,010
Incurred related to:		
Current year	75,118,459	47,793,338
Prior years	6,219,667	12,006,332
Total incurred	81,338,126	59,799,670
Paid related to:		
Current year	44,281,614	25,713,314
Prior years	23,565,209	20,053,311
Total paid	67,846,823	45,766,625
Net balance at end of year	44,719,358	31,228,055
Plus reinsurance recoverable	43,228,416	37,587,445
Balance at end of year	\$ 87,947,774	\$ 68,815,500

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 \$6,219,667 and \$12,006,332 in 2008 and 2007, respectively, principally as a result of actual loss development on prior year non-catastrophe losses during the year ended December 31, 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.

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

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

	Years Ended	
	<u>December 31, 2008</u>	<u>December 31, 2007</u>
	(in thousands)	
Unpaid Loss and LAE, net	\$ 13,390	\$ 9,595
IBNR loss and LAE, net	31,173	21,633
Total unpaid loss and LAE, net	\$ 44,563	\$ 31,228
Reinsurance recoverable on unpaid loss and LAE	\$ 8,131	\$ 11,399
Reinsurance recoverable on IBNR loss and LAE	35,097	26,189
Total reinsurance recoverable on unpaid loss and LAE	\$ 43,228	\$ 37,588

The following table presents the liability for unpaid losses and LAE for UPCIC since inception. The top line of the table shows the estimated net liabilities for unpaid losses and LAE at the balance sheet

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

	Years Ended December 31,										
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
(in 000's)											
Balance Sheet Liability	44,563	31,228	17,195	6,141	1,580	1,351	1,591	2,893	1,372	1,532	1,588
Cumulative paid as of:											
One year later		23,722	20,052	12,897	1,216	950	667	3,660	1,308	897	939
Two years later			23,404	23,835	11,514	1,153	992	3,667	1,635	1,081	904 F
Three years later				25,522	21,778	1,330	1,115	3,899	1,693	1,155	1,010 O
Four years later					23,177	1,468	1,260	3,998	1,811	1,191	1,024 O
Five years later						1,518	1,329	4,082	1,833	1,206	999 T
Six years later							1,354	4,108	1,849	1,212	1,006 N
Seven years later								4,132	1,897	1,223	1,009 O
Eight years later									1,920	1,252	1,010 T
Nine years later										1,265	1,013 E
Balance Sheet Liability	44,563	31,228	17,195	6,141	1,580	1,351	1,591	2,893	1,372	1,532	1,588
One year later		37,586	29,201	25,312	4,129	1,480	1,249	4,237	1,797	1,344	1,067
Two years later			30,543	30,988	22,716	1,297	1,369	3,974	1,944	1,269	1,089
Three years later				31,231	28,220	1,482	1,229	4,158	1,926	1,286	1,071 D
Four years later					28,583	1,548	1,377	4,096	1,940	1,270	1,024 A
Five years later						1,583	1,395	4,147	1,904	1,229	1,013 T
Six years later							1,408	4,152	1,904	1,279	1,019 A
Seven years later								4,162	1,916	1,278	1,016
Eight years later									1,925	1,257	1,015
Nine years later										1,265	1,018
Cumulative redundancy (deficiency)		(6,358)	(13,348)	(25,090)	(27,003)	(232)	183	(1,269)	(553)	267	567

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 \$43,447,820 in 2008 and \$43,871,705 in 2007.

	Years Ended December 31,	
	<u>2008</u>	<u>2007</u>
Loss Ratio	56%	39%
Expense Ratio	32	38
Combined Ratio	88%	77%

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, restructuring the catastrophic reinsurance coverage to reduce cost, and working to reduce general and administrative expenses.

Government Regulation

Florida insurance companies are subject to regulation and supervision by the OIR. The OIR has broad regulatory, supervisory and administrative powers. Such powers relate, among other things, to the granting and revocation of licenses to transact business; the licensing of agents (through the Florida Department of Financial Services); the standards of solvency to be met and maintained; the nature of, and limitations on, investments; the approval of policy forms and rates; the review of reinsurance contracts; the 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. Any action by the OIR could have a material adverse effect on the Company.

UPCIC will become subject to other states' laws and regulations as it seeks authority to transact business in states other than Florida. In addition, UPCIC's 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. In May 2007, the State of Florida passed legislation that freezes property insurance rates for Citizens customers at December 2006 levels through December 31, 2008, and permits insurance customers to opt into Citizens when the price of a 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. If the expanded FHCF coverage expires or if the law providing for the expanded coverage is otherwise modified, the cost of UPCIC's reinsurance program may increase, which could affect UPCIC's profitability until such time as UPCIC can obtain approval of appropriate rate changes. State and federal legislation relating to insurance is affected by a number of political and economic factors that are beyond the control of UPCIC and the Company. 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.

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 A•• (A double prime) to L (licensed by state regulatory authorities). On December 4, 2008, Demotech, Inc. affirmed UPCIC's financial stability rating of A, which is the fourth highest of six rating levels. According to Demotech, Inc., A ratings are assigned to insurers that have "... exceptional ability to maintain liquidity of invested assets, quality reinsurance, acceptable financial leverage and realistic pricing while simultaneously establishing loss and loss adjustment expense reserves at reasonable levels." With a financial stability rating of A, the Company expects that UPCIC's property insurance policies will be acceptable to the secondary mortgage marketplace and mortgage lenders. The rating of UPCIC is subject to at least annual review by, and may be revised downward or revoked at the sole discretion of, Demotech, Inc.

In November 2008, Demotech sent UPCIC a letter entitled *Recent Events Affecting Financial Stability Ratings for Florida Property and Casualty Insurance Companies Require Supplemental Information*. The letter provides Demotech's perspective and expectations relative to the reported short term liquidity issues facing the FHCF. Specifically, the letter states that an extension of Financial Stability Ratings beyond May 15, 2009 will require definitive financial information regarding participation in the FHCF, documentation of bridge loans or alternative financing mechanisms that provide liquidity during a period in which the FHCF would be raising capital, and any other precaution or protection regarding reinsurance collectability or catastrophe reinsurance. UPCIC is currently implementing plans to address the FHCF liquidity issue and has provided Demotech a summary update regarding UPCIC's proposed actions to address the FHCF liquidity issue.

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 March 6, 2009, the Company had 182 full-time employees. None of the Company's employees is 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 James M. Lynch, Executive Vice President and 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://uvestock.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," "likely," "targets" and other 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 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.

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

From time to time, political events and positions affect the insurance market, including efforts to suppress rates to a level that may not allow us to reach targeted levels of profitability. For example, if UPCIC's loss ratio compares favorably to that of the industry, state regulatory authorities may resist or delay our efforts to raise rates even if the property and casualty industry generally is not experiencing regulatory resistance to rate increases. Such resistance affects our ability to obtain approval for rate changes that may be required to achieve 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 the guaranty fund for impaired or insolvent insurance companies. This fund periodically assesses 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 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

Economists now believe the United States economy has entered into a recessionary period. 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 impacted 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, 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

The Company recognizes the scientific view that the world is getting warmer. Climate change, to the extent it produces rising temperatures and changes in weather patterns, could impact the frequency or severity of weather events and wildfires, and the affordability and availability of homeowners insurance.

Loss of key executives could affect our operations

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.

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 Company believes that the building is suitable for its intended use and adequate to meet the Company's current needs. The building is 100% occupied by the Company. There is no mortgage or lease arrangement. The building is adequately covered by insurance.

Item 3. Legal Proceedings

The Company is involved in certain lawsuits. In the opinion of management, 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. Submission of Matters to a Vote of Security Holders

None.

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

The Company's Common Stock is quoted on the NYSE Alternext US ("Alternext"), 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 20, 2007 when the Company commenced trading on Alternext. The following table sets forth prices of the Common Stock, as reported by the Alternext.

<u>For year ended December 31, 2008</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared</u>
First Quarter	\$7.74	\$2.94	\$0.10
Second Quarter	\$4.93	\$3.00	
Third Quarter	\$4.25	\$3.14	\$0.10
Fourth Quarter	\$3.66	\$1.75	\$0.20

<u>For year ended December 31, 2007</u>	<u>High</u>	<u>Low</u>	<u>Dividends Declared</u>
First Quarter	\$4.48	\$2.40	\$0.07
Second Quarter	\$7.41	\$3.15	
Third Quarter	\$7.28	\$4.55	\$0.08
Fourth Quarter	\$10.15	\$5.93	\$0.09

As of December 31, 2008, Continental Stock Transfer and Trust Company, the Company's transfer agent and registrar, reported 37 shareholders of record of the Company's Common Stock. There were approximately 4,100 beneficial owners of its Common Stock.

In addition, there were 3 shareholders of the Company's Series A and Series M Preferred Stock ("Preferred Stock"). During 2008 and 2007, respectively, the Company declared and paid aggregate dividends of \$49,950 on the Company's Series A Preferred Stock and Series M Preferred Stock.

Applicable provisions of the Delaware General Corporation Law may affect the ability of the Company to declare and pay dividends on its Common Stock. In particular, pursuant to the Delaware General Corporation Law, a company may pay dividends out of its surplus, as defined, or out of its net profits, for the fiscal year in which the dividend is declared and/or the preceding year. Surplus is defined in the Delaware General Corporation Law to be the excess of net assets of the company over capital. Capital is defined to be the aggregate par value of shares issued. Moreover, the ability of the Company to pay dividends, if and when declared by its Board of Directors, may be restricted by regulatory limits on the amount of dividends, which UPCIC is permitted to pay the Company. Section 628.371 of the Florida Statutes sets forth limitations, based on net income and statutory capital, on the amount of dividends that UPCIC may pay to the Company without approval from the 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, 2008.

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	6,650,000	\$3.15	N/A
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	6,650,000	\$3.15	N/A

The Company adopted a 1992 Stock Option Plan (the "Plan") under which new shares of Common Stock are reserved for issuance upon the exercise of the options. The Plan is designed to serve as an incentive for attracting and retaining qualified and competent employees, officers, directors and consultants of the Company. All employees, officers, directors and consultants of the Company or any subsidiary are eligible to participate in the Plan. The Plan does not specify the number of shares for which options are available for grant. The stock options may be granted over a period not to exceed 10 years and generally vest as of the date of grant or upon certain goals attained.

Stock Performance Graph

The following graph compares the cumulative total stockholder return of the Company's common stock from December 31, 2003 through December 31, 2008 with the cumulative total return of the SNL Insurance P&C and the Amex Composite. SNL Insurance P&C includes all publicly traded (NYSE, NYSE-AI, NASDAQ, OTC BB, Pink

Sheets) Insurance Underwriters in the Property & 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, 2003 with all dividends

being reinvested on the ex-dividend date. The closing price of the Company's common stock on December 31, 2003 (the last trading day of the year) was 0.045 per share. The stock price performance on the graph is not necessarily indicative of future price performance.

<i>Index</i>	<i>As of</i>					
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Universal Insurance Holdings, Inc. (1)	\$ 100.00	\$ 100.00	\$1,711.11	\$6,737.68	\$18,573.52	\$7,045.00
SNL Insurance P&C	\$ 100.00	\$ 109.61	\$ 119.82	\$ 139.67	\$ 150.81	\$ 116.73
Amex Composite	\$ 100.00	\$ 125.56	\$ 158.43	\$ 190.03	\$ 222.66	\$ 132.60

(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 20, 2007 and the Alternext 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.

Equity Compensation Plans

See Item 12, "Security Ownership of Certain Beneficial Owners and Management," for a discussion of shares of Common Stock issued under the Company's equity compensation plans.

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,				
	2008	2007	2006	2005	2004
Income statement data:					
					\$
Direct premiums written	\$ 511,369,676	\$ 498,748,778	\$ 371,754,514	\$ 88,701,123	41,120,962
Ceded premiums ceded	(360,581,696)	(358,405,016)	(230,718,709)	(67,094,245)	(35,472,414)
Net premiums written	150,787,980	140,343,762	141,035,805	21,606,878	5,648,548
(Increase) decrease in net unearned premium	(3,374,283)	14,074,690	(86,899,853)	(5,780,896)	(1,522,791)
Premiums earned, net	147,413,697	154,418,452	54,135,952	15,825,982	4,125,757
Total revenue	182,667,296	188,514,481	65,147,750	19,357,200	7,998,773
Total expenses	116,660,531	98,964,692	38,426,441	13,149,101	8,258,906
Income from continuing operations before income taxes	66,006,765	89,549,789	26,721,309	6,208,099	(260,133)
Income taxes, net	25,969,442	35,547,501	9,477,240	(467,061)	-
Discontinued Operations	-	-	(57,209)	(168,563)	-
					\$
Net Income (Loss)	\$ 40,037,323	\$ 54,002,288	\$ 17,186,860	\$ 6,506,597	(260,133)
Balance sheet data:					
					\$
Total assets	\$ 544,636,912	\$ 491,193,365	\$ 481,610,424	\$ 181,033,434	114,001,968
					\$
Total liabilities	\$ 443,083,257	\$ 418,618,180	\$ 459,562,506	\$ 171,117,306	110,672,376
Unpaid losses and loss adjustment expenses	\$ 87,947,774	\$ 68,815,500	\$ 49,564,514	\$ 66,999,956	57,871,952
					\$
Unearned premiums	\$ 258,489,460	\$ 254,741,198	\$ 230,346,266	\$ 50,890,005	23,889,861
Long-term debt	\$ 25,000,000	\$ 25,000,000	\$ 25,057,266	\$ -	\$ -
Total stockholders' equity	\$ 101,553,655	\$ 72,575,185	\$ 22,047,918	\$ 9,916,128	\$ 3,329,592
Earnings per share data:					
Basic net income (loss) per common share from continuing operations	\$ 1.07	\$ 1.52	\$ 0.50	\$ 0.20	\$ (0.01)
Fully diluted net income (loss) per common share from continuing operations	\$ 0.99	\$ 1.31	\$ 0.44	\$ 0.19	\$ (0.01)
	\$ 0.40	\$ 0.24			

Dividends declared per
common share