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UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10KSB
March 17, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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

COMMISSION FILE NUMBER 0-20848

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

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

1110 WEST COMMERCIAL BOULEVARD, SUITE 100 33309
FORT LAUDERDALE, FLORIDA (Zip Code)
(Address of principal executive offices)

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

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

(Title of each class) (Name of exchange where registered)

COMMON STOCK, \$.01 PAR VALUE American Stock Exchange

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

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

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

State issuer's revenues for its most recent fiscal year: \$188,514,481

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

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was sold as of December 31, 2007: \$133,558,788

State the number of shares of Common Stock of Universal Insurance Holdings, Inc. outstanding as of March 1, 2008: 39,891,157

Transitional Small Business Disclosure Format: YES NO X
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PART I

ITEM 1. DESCRIPTION OF BUSINESS

THE COMPANY

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

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

INSURANCE BUSINESS

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

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

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UPCIC's initial business and operations consisted of providing property and casualty coverage through homeowners' insurance policies acquired from the JUA. The insurance business acquired from the JUA provided a base for renewal premiums. The majority of these policies renewed with UPCIC. In an effort to further grow its insurance operations, in 1998, UPCIC also began to solicit business actively in the open market through independent agents. Through renewal of the JUA business combined with business solicited in the market through independent agents, UPCIC is currently servicing approximately 374,000 homeowners' insurance policies covering homes and condominium units.

The Company's primary product is homeowners' insurance. The Company's criteria for selecting insurance policies includes, but is not limited to, the use of specific policy forms, coverage amounts on buildings and contents and required compliance with local building codes. Also, to improve underwriting and manage risk, the Company utilizes standard industry modeling techniques for hurricane and windstorm exposure. UPCIC's portfolio as of December 31, 2007 includes approximately 367,000 policies with coverage for wind risks and 7,000 policies without wind risks. The average premium for a policy with wind coverage is approximately \$1,358 and the average premium for a policy without wind coverage is approximately \$625. Approximately 25.3% of the policies are located in Miami-Dade, Broward and Palm Beach counties. UPCIC had in-force premiums of approximately \$504.5 million as of December 31, 2007.

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OPERATIONS

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

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and North Carolina. In addition, UPCIC has filed to offer flood insurance through the National Flood Insurance Program ("NFIP").

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, which in prior periods had not been separately disclosed. The disclosure for discontinued operations relates to the operating segment previously reported as the Company's on-line commerce segment.

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.

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

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

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Finance Company, Inc. ("Sterling"). Sterling has been renamed Atlas Premium Finance Company and commenced offering premium finance services in November 2007.

FACTORS AFFECTING OPERATION RESULTS AND MARKET PRICE OF STOCK

The Company and its subsidiaries operate in a rapidly changing environment that involves a number of uncertainties, 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

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

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

The Company believes that a substantial portion of its future growth will depend on its ability, among other things, to successfully implement its business strategy, including expanding the Company's product offering by underwriting and marketing additional insurance products and programs through its distribution network, further penetrating the Florida market by establishing relationships with additional independent agents in order to expand its distribution network and to further disperse its geographic risk 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.

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 2007 hurricane season,

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UPCIC purchased reinsurance coverage up to approximately the "150 year Probable Maximum Loss" ("PML"). UPCIC's reinsurance program consists of excess of loss,

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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. In addition, UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program such as losses beyond approximately the 150 year PML, which could have a material adverse effect on the business, financial condition and results of operations of UPCIC and the Company.

RELIANCE ON THIRD PARTIES AND REINSURERS

UPCIC is dependent upon third parties to perform certain functions including, but not limited to the purchase of reinsurance and risk management analysis. UPCIC also relies on reinsurers to limit the amount of risk retained under its policies and to increase its ability to write additional risks. UPCIC's intention is to limit its exposure and therefore protect its capital, even in the event of catastrophic occurrences, through reinsurance agreements. For the 2007 hurricane season, UPCIC's reinsurance agreements transfer the risk of loss in excess of \$45,000,000 up to approximately the 150 year PML as of the beginning of the hurricane season on June 1 for the first event and \$9,300,000 for each of the second and third events 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. 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. In addition, while ceding premiums to reinsurers reduces UPCIC's risk of exposure in the event of catastrophic losses, it also reduces UPCIC's potential for greater profits should such catastrophic events fail to occur. The Company believes that the extent of UPCIC's reinsurance is typical of a company of its size in the homeowners' insurance industry.

ADEQUACY OF LIABILITIES FOR LOSSES

The liabilities for losses and loss adjustment expenses periodically

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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 2007 and 2006. 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 loss adjustment expenses ("LAE") payments under the terms of the insurance policies that it writes. In many cases, several years may elapse between the occurrence of an insured loss and 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.

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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'

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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, 2007 | Year Ended December 31, 2006 |
|----------------------------------|---------------------------------|---------------------------------|
| | ----- | ----- |
| | (Dollars in Thousands) | |
| Balance at beginning of year | \$ 49,564 | \$ 67,000 |
| Less reinsurance recoverable | (32,369) | (60,859) |
| | ----- | ----- |
| Net balance at beginning of year | 17,195 | 6,141 |
| | ----- | ----- |
| Incurred related to: | | |
| Current year | 47,794 | 9,247 |
| Prior years | 12,006 | 15,694 |
| | ----- | ----- |
| Total incurred | 59,800 | 24,941 |
| | ----- | ----- |
| Paid related to: | | |
| Current year | 25,714 | 4,454 |
| Prior years | 20,053 | 9,433 |
| | ----- | ----- |
| Total paid | 45,767 | 13,887 |
| | ----- | ----- |
| Net balance at end of year | 31,228 | 17,195 |
| Plus reinsurance recoverable | 37,588 | 32,369 |
| | ----- | ----- |
| Balance at end of year | \$ 68,816 | \$ 49,564 |
| | ===== | ===== |

The Company's liabilities for unpaid losses and LAE, net of related reinsurance

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recoverables, as of December 31, 2007 were increased in the current year by \$12,006,332 for claims that had occurred on or before the prior year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004 and as a result of actual loss development on prior year non-catastrophe losses emerging less favorably than expected. The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2006 were increased during 2006 by \$15,693,957 for claims that had occurred on or before the prior year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. There can be no assurance that the Company's unpaid losses and LAE will not develop redundancies or deficiencies and possibly differ materially from the Company's unpaid losses and LAE as of December 31, 2007. In the future, if the unpaid losses and LAE develop redundancies or deficiencies, such redundancies or deficiencies would have a favorable or adverse impact, respectively, on future results of operations.

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

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

| | Years Ended | |
|---|------------------------|-------------------|
| | December 31, 2007 | December 31, 2006 |
| | ----- | ----- |
| | (Dollars in Thousands) | |
| Unpaid Loss and LAE, net | \$ 9,595 | \$ 6,814 |
| IBNR loss and LAE, net | 21,633 | 10,381 |
| | ----- | ----- |
| Total unpaid loss and LAE, net | \$ 31,228 | \$ 17,195 |
| | ===== | ===== |
| Reinsurance recoverable on unpaid loss and LAE | \$ 11,399 | \$ 15,418 |
| Reinsurance recoverable on IBNR loss and LAE | 26,189 | 16,951 |
| | ----- | ----- |
| Total reinsurance recoverable on unpaid loss and LAE | \$ 37,588 | \$ 32,369 |
| | ===== | ===== |

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.

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| | 2007 | 2006 | 2005 | Years Ended December 31, | | | | 2000 |
|------------------------------------|----------|----------|----------|--------------------------|---------|---------|------|---------|
| | | | | 2004 | 2003 | 2002 | 2001 | |
| | | | | (Dollars in Thousands) | | | | |
| Balance Sheet liability | \$31,228 | \$17,195 | \$6,141 | \$1,580 | \$1,351 | \$1,591 | | \$2,893 |
| Cumulative paid as of: | | | | | | | | |
| One year later | - | 20,052 | 12,897 | 1,216 | 950 | 667 | | 3,660 |
| Two years later | - | - | 23,835 | 11,514 | 1,153 | 992 | | 3,667 |
| Three years later | - | - | - | 21,778 | 1,330 | 1,115 | | 3,899 |
| Four years later | - | - | - | - | 1,468 | 1,260 | | 3,998 |
| Five years later | - | - | - | - | - | 1,329 | | 4,082 |
| Six years later | - | - | - | - | - | - | | 4,108 |
| Seven years later | - | - | - | - | - | - | | - |
| Eight years later | - | - | - | - | - | - | | - |
| Nine years later | - | - | - | - | - | - | | - |
| Balance Sheet liability | 31,229 | 17,195 | 6,141 | 1,580 | 1,351 | 1,591 | | 2,893 |
| One year later | - | 29,201 | 25,312 | 4,129 | 1,480 | 1,249 | | 4,237 |
| Two years later | - | - | 30,988 | 22,727 | 1,297 | 1,369 | | 3,974 |
| Three years later | - | - | - | 28,220 | 1,482 | 1,229 | | 4,158 |
| Four years later | - | - | - | - | 1,548 | 1,377 | | 4,096 |
| Five years later | - | - | - | - | - | 1,395 | | 4,147 |
| Six years later | - | - | - | - | - | - | | 4,152 |
| Seven years later | - | - | - | - | - | - | | - |
| Eight years later | - | - | - | - | - | - | | - |
| Nine years later | - | - | - | - | - | - | | - |
| Cumulative redundancy (deficiency) | - | (12,006) | (24,847) | (26,640) | (197) | 196 | | (1,259) |

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

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liability for the periods indicated rather than accident or policy loss development for those periods. Therefore, each amount in the table includes the cumulative effects of changes in liability for all prior periods. Conditions and trends that have affected liabilities in the past may not necessarily occur in the future.

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

The following table sets forth the statutory loss ratios, expense ratios and combined ratios for the periods indicated for UPCIC. The ratios 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 and 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 \$43,871,705 in 2007 and \$16,645,351 in 2006.

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| | Years Ended | |
|----------------|-------------------|-------------------|
| | December 31, 2007 | December 31, 2006 |
| | ----- | ----- |
| Loss Ratio | 39% | 54% |
| Expense Ratio | 38 | 19 |
| | ----- | ----- |
| Combined Ratio | 77% | 73% |
| | ===== | ===== |

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 from time to time consider proposals that may affect, among other things, regulatory assessments and reserve requirements. The

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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 Florida Hurricane Catastrophe Fund ("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 National Association of Insurance Commissioners 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

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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

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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). In October 2007, Demotech, Inc. assigned UPCIC a 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 "{ellipsis} 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.

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 1, 2008, the Company had 151 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.

ITEM 2. DESCRIPTION OF PROPERTY

On July 31, 2004, the Company purchased a building located in Fort Lauderdale, Florida that after build-out became its home office on July 1, 2005. The Company believes that the new building is suitable for its intended use and adequate to meet the Company's current needs. The building is 100% 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, except as described below, none of these lawsuits (1) involve claims for damages exceeding 10% of the current assets of the Company, (2) involve matters that are not routine litigation incidental to the claims aspect of its business, (3) involve bankruptcy, receivership or similar proceedings, (4) involve material Federal, state, or local environmental laws, (5) potentially involve more than \$100,000 in sanctions and a governmental authority is a party, or (6) are material proceedings to which any director, officer, affiliate of the Company, beneficial owner of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company.

On February 7, 2005, Marty Steinberg as a court appointed receiver for the entities consisting of Lancer Management Group LLC, Lancer Management Group II LLC, Lancer Offshore Inc., Omnifund Ltd., LSPV Inc., LSPV LLC, Alpha Omega Group Inc. and G.H. Associates LLC (collectively the "Lancer Entities") filed suit against Alfred Taubman, Anthony Cullen, British American Racing, Centrack International, Inc., Kuwait & Middle East Financial Investment Co., Liberty International Asset Management, Macroview Investments Limited, Opus Portfolio Ltd., Reva Stocker, Roger Dodger, LLC, Signet Management Limited, Thornhill Group Inc. Trust, World Class Boxing and the Company (collectively the "Defendants") in the United States District Court for the Southern District of Florida. The Company received the notice of suit by mail on September 8, 2005. The suit alleged that the Lancer Entities fraudulently transferred funds to the Defendants and that the transfers unduly enriched the Defendants. The receiver asked the Company to pay \$658,108. The Company had no record of the alleged transfers and vigorously defended the suit. The lawsuit was dismissed with prejudice by the receiver in 2006.

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

There were no matters submitted to a vote of the Company's shareholders during the fourth quarter ended December 31, 2007.

PART II

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

The Company's Common Stock is quoted on the American Stock Exchange ("AMEX") under the symbol UVE. The following table sets forth prices of the Common Stock, as reported by the AMEX.

| For year ended December 31, 2007 ----- | High ---- | Low --- |
|---|--------------|------------|
| First Quarter | \$ 4.48 | \$2.40 |
| Second Quarter | 7.41 | 3.15 |
| Third Quarter | 7.28 | 4.55 |
| Fourth Quarter | 10.15 | 5.93 |
| | | |
| For year ended December 31, 2006 ----- | High ---- | Low --- |

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| | | |
|----------------|---------|--------|
| First Quarter | \$ 1.40 | \$0.85 |
| Second Quarter | 1.65 | 0.93 |
| Third Quarter | 2.46 | 1.12 |
| Fourth Quarter | 3.97 | 2.31 |

At March 1, 2008, transfer agent records indicate 40 shareholders of record of the Company's Common Stock. There were approximately 425 beneficial owners of its Common Stock. In addition, there were 3 shareholders of the Company's Series A and Series M Preferred Stock ("Preferred Stock").

During 2007 and 2006, respectively, the Company declared and paid aggregate dividends of \$49,950 on the Company's Series A Preferred Stock and Series M Preferred Stock.

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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.

On October 24, 2006, the Company declared a dividend of \$.05 per share on its outstanding Common Stock of the Company to be paid on April 9, 2007 to the shareholders of record of the Company at the close of business on March 19, 2007. The dividend payable amount of \$1,902,855 for this dividend was accrued in the December 31, 2006 balance sheet. At December 31, 2006, the Company recorded a dividend payable in the amount of \$1,902.855 for this dividend and a net reduction to retained earnings in the amount of \$1,747,423, which represented the total dividend net of the dividends on the shares held in treasury stock and in the Stock Grantor Trust described in Note 11 - Stockholders' Equity. During the fourth quarter of 2006, the Company paid a dividend of \$0.05 per share that was accrued at the end of third quarter of 2006. The aggregate amount of the dividend was \$1,747,423. During the third quarter of 2006, the Company paid a dividend of \$0.04 per share of outstanding Common Stock that was accrued at the end of the second quarter of 2006. The aggregate amount of the dividend was \$1,393,938. During the second quarter of 2006, the Company paid a dividend of \$0.04 per share of outstanding Common Stock that was accrued at the end of first quarter of 2006. The aggregate amount of the dividend was \$1,364,506.

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

On October 4, 2007, the Company declared a dividend of \$.09 per share on its outstanding Common Stock to be paid on April 8, 2008 to the shareholders of record of the Company at the close of business on March 10, 2008. The Company

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recorded a dividend payable in the amount of \$3,537,639 for this dividend and a net reduction to retained earnings in the amount of \$3,241,145, which represents the total dividend net of the dividends on the shares held in treasury stock and in the Stock Grantor Trust described in Note 11 - Stockholders' Equity. During the fourth quarter, the Company paid a dividend of \$0.08 per share of outstanding Common Stock that was accrued at the end of third quarter. The aggregate amount of the dividend was \$2,861,018. During the third quarter, the Company paid a dividend of \$0.07 per share of outstanding Common Stock that was accrued at the end of the first quarter. The aggregate amount of the dividend was \$2,503,391. During the second quarter, the Company paid a dividend of \$0.05 per share of outstanding Common Stock that was accrued in December 31, 2006. The aggregate amount of the dividend was \$1,759,922.

On January 23, 2008, the Company declared a dividend of \$.10 per share on its outstanding Common Stock to be paid on August 7, 2008 to the shareholders of record of the Company at the close of business on July 9, 2008. The Company expects to pay an aggregate dividend of approximately \$3,601,273.

STOCK ISSUANCES

On March 14, 2007, the Company issued 250,000 shares of restricted common stock at a price of \$3.70 per share to an employee in consideration for services rendered pursuant to the terms of an employment agreement. The shares will vest over a three year period. On May 1, 2007, the Company issued 22,143 shares of restricted common stock at a price of \$1.87 per share, on a "cashless" basis, to James M. Lynch, Executive Vice President and Chief Financial Officer of the Company, pursuant to Mr. Lynch's exercise of stock options. Also on May 1, 2007, the Company issued 387,234 shares of restricted common stock at a price of \$1.06 per share, on a "cashless" basis, to Norman M. Meier, a director of the Company, pursuant to Mr. Meier's exercise of stock options. Also on May 1, 2007, the Company issued 77,447 shares of restricted common stock at a price of \$1.06 per share, on a "cashless" basis, to Joel Wilentz, a director of the Company, pursuant to Mr. Wilentz's exercise of stock options. Also on May 1, 2007, the Company issued 77,447 shares of restricted common stock at a price of \$1.06 per share, on a "cashless" basis, to Reed Slogoff, a director of the Company, pursuant to Mr. Slogoff's exercise of stock options. On November 29, 2007, the Company issued 100,000 and 150,000 shares of restricted common stock at a price of \$.03 and \$.05 respectively to a private investor pursuant to the exercise of warrants to purchase restricted common stock. Unless otherwise specified, such

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as in the case of the exercise of stock options or warrants, the per share prices were determined using the closing price of the Company's common stock as quoted on the OTC Bulletin Board or the AMEX and the shares were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended.

EQUITY COMPENSATION PLANS

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

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

A NUMBER OF STATEMENTS CONTAINED IN THIS REPORT ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 THAT INVOLVE RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO

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DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED IN THE APPLICABLE STATEMENTS. THESE RISKS AND UNCERTAINTIES INCLUDE BUT ARE NOT LIMITED TO THE COSTS AND THE UNCERTAINTIES ASSOCIATED WITH THE RISK FACTORS SET FORTH IN ITEM 1 ABOVE. INVESTORS ARE CAUTIONED THAT THESE FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE OR RESULTS.

OVERVIEW

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

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

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

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

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

The policies obtained from the JUA provided the opportunity for UPCIC to solicit future renewal premiums. The majority of the policies obtained from the JUA renewed with UPCIC. In an effort to further grow its insurance operations, in 1998 the Company began to solicit business actively in the open market. Through renewal of JUA business combined with business solicited in the market through independent agents, UPCIC is currently servicing approximately 374,000 homeowners' insurance policies. To improve underwriting and manage risk, the Company utilizes standard industry modeling techniques for hurricane and windstorm exposure. To diversify UPCIC's product lines, UPCIC underwrites inland marine policies. In February 2008, UPCIC filed a request with the National Flood Insurance Program to become authorized to write and service flood insurance policies under the WYO Program. Management may consider underwriting other types of policies in the future. Any such program will require OIR approval. See Item 1, Competition under "Factors Affecting Operation Results and Market Price of Stock" for a discussion of the material conditions and uncertainties that may affect UPCIC's ability to obtain additional policies.

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CRITICAL ACCOUNTING POLICIES

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

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

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

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

DEFERRED POLICY ACQUISITION COSTS/DEFERRED CEDING COMMISSIONS. Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they are related. Determination of costs other than commissions that vary with and are primarily related to the production of new and renewal business requires estimates to allocate certain operating expenses. As of December 31, 2007, deferred policy acquisition costs were \$37,018,747 and deferred ceding commissions were \$39,141,016. Deferred ceding commissions were reduced by deferred policy acquisition costs and shown net on the Consolidated Balance Sheet in the amount of \$2,122,269.

PROVISION FOR PREMIUM DEFICIENCY. It is the Company's policy to evaluate and recognize losses on insurance contracts when estimated future claims and maintenance costs under a group of existing contracts will exceed anticipated future premiums and investment income. The determination of the provision for premium deficiency requires estimation of the costs of losses, catastrophic reinsurance and policy maintenance to be incurred and investment income to be earned over the remaining policy period. The Company has determined that a provision for premium deficiency was not warranted as of December 31, 2007.

REINSURANCE. In the normal course of business, the Company seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various

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areas of exposure with other insurance enterprises or reinsurers. While ceding premiums to reinsurers reduces the Company's risk of exposure in the event of catastrophic losses, it also reduces the Company's potential for greater profits should such catastrophic events fail to occur. The Company believes that the extent of its reinsurance is typical of a company of its size in the homeowners' insurance industry. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreement and consistent with the establishment of the liability of the Company. The Company's reinsurance policies do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. No such allowance was deemed necessary as of December 31, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements during 2007.

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RELATED PARTIES

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

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Chief Operating Officer and Senior Vice President of UPCIC. During 2007 and 2006, the Company expensed claims adjusting fees of \$675,237 and \$829,208, respectively, to Downes and Associates.

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

RESULTS OF OPERATIONS

FOR YEAR ENDED DECEMBER 31, 2007 AND FOR YEAR ENDED DECEMBER 31, 2006.

The fiscal year ended December 31, 2007 marked a significant improvement in the Company's operating results over recent past fiscal years. This improvement was primarily attributable to volume and rate increases, restructuring the homeowners' insurance coverage offered, restructuring the Company's reinsurance coverage and working to control general and administrative expenses. In addition, Florida did not experience any windstorm catastrophes during 2007.

Gross premiums written increased 34.2% to \$498,748,778 for the year ended December 31, 2007 from \$371,754,514 for the year ended December 31, 2006. The increase in gross premiums written is primarily attributable to an increase in

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new business as well as premium rate increases which were mitigated by a decline in premium rates. Although rates have recently decreased, the number of policies written has continued to increase. The increase in new business is partly attributable to the Florida windstorm catastrophes in 2004 and 2005, which have provided an opportunity in the otherwise competitive marketplace as certain companies are not accepting new business, as well as marketing initiatives the Company has undertaken.

Net premiums written decreased 0.5% to \$140,343,762 for the year ended December 31, 2007 from \$141,035,805 for the year ended December 31, 2006. The decrease in net premiums written reflects the impact of premiums ceded to reinsurers during the year ended December 31, 2007 of \$358,405,016, or 71.9% of premiums written, as compared to \$230,718,709, or 62.1% of premiums written, for the year ended December 31, 2006. The decrease in net premiums written is attributable to changes to the Company's reinsurance program. Catastrophe reinsurance costs as a percentage of gross premiums written were greater in 2007. Under the Company's quota share reinsurance treaty, the Company elected to cede 80% of gross written premiums, losses and loss adjustment expenses during the first five months of 2006 for all policies with coverage for wind risk versus 50% of policies with coverage for wind risk during the subsequent seven months of 2006. The Company continued to cede 50% of its gross written premiums, losses and loss adjustments expenses for policies with coverage for wind risk during 2007. The Company believes that the extent of its reinsurance is typical of a company of its size in the homeowners' insurance industry.

Net premiums earned increased 185.2% to \$154,418,452 for the year ended December 31, 2007 from \$54,135,952 for the year ended December 31, 2006. The increase in net premiums earned is attributable to an increase in new business, premium rate increases and changes in the reinsurance program noted above.

Commission revenue increased 231.0% to \$22,222,007 for the year ended December 31, 2007 from \$6,714,511 for the year ended December 31, 2006. Commission income is comprised mainly of the Company's managing general agent's policy fee income on all new and renewal insurance policies, reinsurance commission sharing agreements and commissions generated from agency operations. The increase is primarily due to greater reinsurance commission sharing and an increase in managing general agent's policy fee income.

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Investment income consists of net investment income and net realized gains (losses). Investment income increased 161.2% to \$10,410,259 for the year ended December 31, 2007 from \$3,986,414 for the year ended December 31, 2006. The increase is primarily due to higher investment balances during 2007.

Other revenue increased 370.9% to \$1,463,763 for the year ended December 31, 2007 from \$310,873 for the year ended December 31, 2006. Other revenue is comprised of fee revenue from direct sales and service revenue from other operations. The increase is primarily attributable to fees earned on the Company's new program of offering payments plans to policyholders.

Losses and LAE net incurred increased 139.8% to \$59,799,670 for the year ended December 31, 2007 from \$24,940,879 for the year ended December 31, 2006 as compared to net premiums earned which increased 185.2% to \$154,418,452 for the year ended December 31, 2007 from \$54,135,952 for the year ended December 31, 2006. Losses and LAE, the Company's most significant expense, represent actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses. Losses and LAE, net are influenced by loss severity and frequency.

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Losses and LAE, net increased due to an increase in insured exposures and changes to the Company's reinsurance program discussed above. The Company's direct loss ratio for the year ended December 31, 2007 was 23.8% compared to 36.8% for the year ended December 31, 2006. The Company's direct loss ratio decreased principally due to the lower frequency and severity of claims in 2007. During 2007 and 2006, the Company did not experience any catastrophic events. Except for catastrophe claims, the Company believes that the severity and frequency of claims remained relatively stable for the periods under comparison. The Company's net loss ratio for the year ended December 31, 2007 was 38.7% compared to 46.1% for the year ended December 31, 2006. The net loss ratio decreased due to the decrease in net losses incurred and premium rate increases.

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

The reserve for direct unpaid losses and LAE at December 31, 2007 is \$68,815,500. Based upon consultations with the Company's independent actuarial consultants and their statement of opinion on losses and LAE, the Company believes that the liability for unpaid losses and LAE is adequate to cover all claims and related expenses which may arise from incidents reported. The range of direct loss reserve estimates as determined by the Company's independent actuarial consultants is a low of \$49,302,105 and a high of \$69,993,764. The key assumption used to arrive at management's best estimate of loss reserves in relation to the actuary's range and the specific factors that led to management's best estimate is that the liability is based on management's estimate of the ultimate cost of settling each loss and an amount for IBNR losses. However, if losses exceed direct loss reserve estimates there could be a material adverse effect on the Company's financial statements. Also, if there are regulatory initiatives, legislative enactments or case law precedents, which change the basis for policy coverage, there could be an effect on direct loss reserve estimates having a material adverse effect on the Company's financial statements.

As a result of the Company's review of its liability for losses and loss adjustment expenses, which includes a re-evaluation of the adequacy of reserve levels for prior year claims, the Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2007 were increased in the current year by \$12,006,332 for claims that had occurred on or before the prior year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004 and as a result of actual loss development on prior year non-catastrophe losses emerging less favorably than expected. The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2006 were increased during 2006 by \$15,693,957 for claims that had occurred on or before the previous year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. There can be no assurance concerning future adjustments of reserves, positive or negative, for claims through December 31, 2007.

General and administrative expenses increased 190.4% to \$39,165,022 for the year ended December 31, 2007 from \$13,485,562 for the year ended December 31, 2006. General and administrative expenses have increased primarily due to the increase in direct written premium as well as changes in UPCIC's reinsurance program.

LIQUIDITY AND CAPITAL RESOURCES

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

For the year ended December 31, 2007, cash flows provided by operating activities were \$537,343. Cash flows from operating activities are expected to be positive in both the short-term and reasonably foreseeable future. In addition, the Company's investment portfolio is highly liquid as it consists entirely of cash and cash equivalents of which \$1,500,000 is held by the State of Florida Department of Financial Services for the benefit of UPCIC's policyholders. Cash flows used in investing activities are primarily comprised of purchases of building improvements and other capital expenditures. Cash flows used in financing activities primarily relate to Company borrowings and payment of dividends to shareholders.

In June 2005, the Company borrowed monies from two private investors and issued two promissory notes for the aggregate principal sum of \$1,000,000 payable in 10 monthly installments of \$100,000. Payment on one note commenced on June 30, 2006 and commenced on the other note on November 30, 2006. As of March 28, 2007, these loans were fully paid. The loan proceeds were subsequently contributed to UPCIC as additional paid-in-capital. In conjunction with the notes, the Company granted a warrant to one of the investors to purchase 200,000 shares of restricted common stock at an exercise price of \$.05 per share, expiring in June 2010. These transactions were approved by the Company's Board of Directors.

On November 9, 2006, UPCIC entered into a \$25.0 million surplus note with the Florida State Board of Administration under Florida's Insurance Capital Build-Up Incentive Program. Under the program, which was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the State Board of Administration matched UPCIC's funds of \$25.0 million that were earmarked for participation in the program. The surplus note brings the current capital and surplus of UPCIC to approximately \$98.7 million. The \$25.0 million is invested in a treasury money market account.

The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond Rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, UPCIC is required to pay interest only, although principal payments can be made during this period. Any payment of principal or interest by UPCIC on the surplus note must be approved by the Commissioner of Florida Insurance Regulation.

An event of default will occur under the surplus note if UPCIC: (i) defaults in the payment of the surplus note; (ii) fails to meet at least a 2:1 ratio of net premium to surplus ("Minimum Writing Ratio") requirement by June 1, 2007; (iii) fails to submit quarterly filings to the OIR; (iv) fails to maintain at least \$50 million of surplus during the term of the surplus note, except for certain situations; (v) misuses proceeds of the surplus note; (vi) makes any misrepresentations in the application for the program; or (vii) pays any dividend when principal or interest payments are past due under the surplus note. As of December 31, 2007, the Company is in compliance with each of the aforementioned loan covenants except for the Minimum Writing Ratio.

If UPCIC failed to increase its writing ratio for two consecutive

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quarters prior to June 1, 2007, failed to obtain the 2:1 Minimum Writing Ratio by June 1, 2007, or drops below the 2:1 Minimum Writing Ratio once it is obtained for two consecutive quarters, the interest rate on the surplus note will increase during such deficiency by 25 basis points if the resulting writing ratio is between 1.5:1 and 2:1 and the interest rate will increase by 450 basis points if the writing ratio is below 1.5:1. If the writing ratio remains below 1.5:1 for three consecutive quarters after June 1, 2007, UPCIC must repay a portion of the surplus note so that the Minimum Writing Ratio will be obtained for the following quarter. As of September 30, 2007 and December 31, 2007, the Company's net written premium to surplus ratios were 1.83:1 and 1.42:1 respectively, as defined under the terms of the surplus note agreement. Under the terms of the surplus note agreement, at December 31, 2007, the interest rate on the note was increased by 450 basis points. As of December 31, 2007, the Company's net written premium to surplus ratio, as defined under the surplus note agreement, was below 1.5:1. If the Company's net written premium to surplus ratio remains below 1.5:1 for two additional calendar quarters (i.e., through June 30, 2008), the Company will be required to repay a portion of the principal balance under the surplus note agreement. The Company expects to meet or exceed a ratio of 1.5:1 by June 30, 2008 and, therefore, does not expect to repay any portion of the \$25,000,000 principal balance of the surplus note during 2008.

To meet its matching obligation under the Insurance Capital Build-Up Incentive Program, on November 3, 2006, the Company entered into a Secured Promissory Note with Benfield Greig (Holdings), Inc. in the aggregate principal amount of \$12 million. Interest on the note accrued at the rate of 12.75% per annum. The outstanding principal was due in six monthly installments of \$1.5 million and a final seventh monthly installment of the remaining balance plus all accrued interest under the terms of the note starting on January 31, 2007 and ending on July 31, 2007. In connection with the loan, the Company and its

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subsidiaries appointed Benfield as their reinsurance intermediary for all of their reinsurance placements for the contract year beginning on June 1, 2007. The Company made all payments under the note in a timely manner and paid the final installment on July 18, 2007. Under the terms of the note, Benfield Greig (Holdings), Inc. agreed to refund a portion of the interest paid on the note if the Company fulfilled all its material obligations under the related broker agreements. On July 27, 2007, the Company received a refund of interest from Benfield Greig (Holdings), Inc. in the amount of \$280,500 that reduced the effective interest rate on the note to 8.25% per annum.

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

| | Total | 2008 | 2009 | 2010 | 2011 | 2012 | Thereafter |
|-------------------------------|------------------------|-------|-------|-------|---------|---------|------------|
| | ----- | ---- | ---- | ---- | ---- | ---- | ----- |
| | (Dollars in thousands) | | | | | | |
| Contractual obligations | | | | | | | |
| Long-term debt | \$25,000 | \$ - | \$ - | \$ - | \$992 | \$1,039 | \$2,000 |
| Loans payable | 3 | 3 | - | - | - | - | - |
| Operating leases | 507 | 217 | 142 | 82 | 66 | - | - |
| Total contractual obligations | \$25,510 | \$220 | \$142 | \$82 | \$1,058 | \$1,039 | \$2,000 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

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The balance of cash and cash equivalents as of December 31, 2007 was \$214,745,606. Most of this amount is available to pay claims in the event of a catastrophic event pending reimbursement for any aggregate amount in excess of specific limits set forth in UPCIC's reinsurance agreements. For the 2007 hurricane season, UPCIC's reinsurance agreements transfer the risk of loss in excess of \$45,000,000 up to approximately the 150 year PML as of the beginning of the hurricane season on June 1 for the first event and \$9,300,000 for each of the second and third events up to an amount that will vary depending on the coverage exhausted in the prior event(s). Catastrophic reinsurance is recoverable upon presentation to the reinsurer of evidence of claim payment.

GAAP differs in some respects from reporting practices prescribed or permitted by the OIR. To retain its certificate of authority, the Florida insurance laws and regulations require that UPCIC maintain capital and surplus equal to the statutory minimum capital and surplus requirement defined in the Florida Insurance Code as the greater of 10% of the insurer's total liabilities or \$4,000,000. UPCIC's statutory capital and surplus was \$98,686,993 at December 31, 2007 and exceeded the minimum capital and surplus requirements. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios.

The maximum amount of dividends, which can be paid by Florida insurance companies without prior approval of the Florida Commissioner, is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by UPCIC to the Company without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or statutory unassigned surplus as of the preceding year end. During 2007 and 2006, UPCIC did not pay dividends to the Company.

IMPACT OF INFLATION AND CHANGING PRICES

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

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

ITEM 7. FINANCIAL STATEMENTS

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

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

None.

ITEM 8A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that disclosure controls and procedures were effective as of December 31, 2007.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission ("SEC") that permit the Company to provide only management's report in this annual report.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting that occurred during the Company's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

UPCIC has applied to write homeowners' insurance policies in five additional states. Those states are Texas, Hawaii, Georgia, South Carolina and North Carolina. In addition, UPCIC filed a request with the NFIP to become authorized to write and service WYO flood insurance policies. The WYO Program began in 1983 and is a cooperative undertaking of the insurance industry and the Federal Emergency Management Agency (FEMA). The WYO Program allows participating property and casualty insurance companies to write and service the Standard Flood Insurance Policy in their own names. The companies receive an expense allowance for policies written and claims processed while the federal government retains responsibility for underwriting losses. The WYO Program operates as part of the NFIP.

PART III

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

The directors and executive officers of the Company as of December 31, 2007 are as follows:

| Name | Age | Position |
|-----------------------|-----|--|
| ---- | --- | ----- |
| Bradley I. Meier | 40 | President, Chief Executive Officer and Director |
| Norman M. Meier | 69 | Director, Secretary |
| Reed J. Slogoff | 39 | Director |
| Joel M. Wilentz, M.D. | 74 | Director |
| James M. Lynch | 53 | Executive Vice President and Chief Financial Officer |
| Sean P. Downes | 38 | Senior Vice President, Chief Operating Officer and Director |
| Ozzie A. Schindler | 39 | Director |

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

NORMAN M. MEIER has been a Director of the Company since July 1992. Presently Mr. Meier serves as Executive Chairman of DermWorx Incorporated, a privately held dermatologic specialty pharmaceutical company. From February 2000 until January 2006, Mr. Meier was President and Chief Executive Officer of PharmaMatrix, Inc., a medical marketing and advertising company. From December 1986 until November 1999, Mr. Meier was President, Chief Executive Officer and a Director of Columbia Laboratories, Inc., a publicly-traded corporation in the pharmaceuticals business. From 1977 until 1986, Mr. Meier served as a consultant to Key Pharmaceuticals. From 1971 to 1977, Mr. Meier was Vice President of Sales and Marketing for Key Pharmaceuticals.

REED J. SLOGOFF has been a Director of the Company since March 1997. Mr. Slogoff is currently a principal with Pearl Properties, LLC, a commercial real estate investment firm based in Philadelphia, Pennsylvania. Mr. Slogoff was formerly with Entercom Communications Corp., a publicly traded radio

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broadcasting company and was previously a member of the corporate and real estate group of the law firm of Dilworth, Paxson, LLP. Mr. Slogoff received a B.A. with Honors from the University of Pennsylvania in 1990, and a J.D. from the University of Miami School of Law in 1993.

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

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

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

OZZIE A. SCHINDLER has been a Director of the Company since January 2007. Mr. Schindler serves as Chairman of the Company's Audit Committee. Mr. Schindler is a partner with the law firm of Greenberg Traurig and specializes in international tax, trusts and succession and planning. He has an LL.M. in Taxation from New York University School of Law and graduated with honors from the University of Florida School of Law. Mr. Schindler graduated with high honors from the University of Florida Fisher School of Accounting. He is admitted to both the Florida and New York bars.

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

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

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

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AUDIT COMMITTEE

The Company has a separately designated Audit Committee, whose members since January 9, 2007 have been Ozzie A. Schinder, Reed J. Slogoff and Joel M. Wilentz. In order to have an Audit Committee composed entirely of independent directors, Mr. Meier voluntarily resigned from the Audit Committee on January 9, 2007. Each member of the Audit Committee has been determined by the Board of Directors to be independent under the applicable rules of the SEC and the National Association of Securities Dealers. The Company's Board of Directors has determined that Ozzie A. Schindler is an "audit committee financial expert" as defined by Item 407(d)(5) of Regulation S-B promulgated by the SEC.

CODE OF BUSINESS CONDUCT AND ETHICS

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

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SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

Based solely on the review of copies of Forms 3, 4 and 5 provided to the Company and written representations by the Reporting Persons, the Company believes that, for the year ended December 31, 2007, all Section 16(a) filing requirements applicable to the Reporting Persons were met.

ITEM 10. EXECUTIVE COMPENSATION

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

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary | Bonus | Stock Awards | Option Awards | Non-Incentive Compensation |
|--------------------------------------|------|-----------|-------|--------------|---------------|----------------------------|
| Bradley I. Meier, President & CEO | 2007 | \$977,228 | \$ - | \$ - | \$1,920,800 | \$3, |
| | 2006 | \$830,324 | \$ - | \$ - | \$ - | \$1, |

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| | | | | | | |
|------------------------------|------|-----------|-----------|-----------|-------------|------|
| James M. Lynch, EVP & CFO | 2007 | \$349,385 | \$100,000 | \$141,500 | \$145,134 | |
| | 2006 | \$251,250 | \$90,000 | \$42,582 | \$ - | |
| Sean P. Downes, SVP & COO | 2007 | \$691,500 | \$ - | \$ - | \$2,454,445 | \$2, |
| | 2006 | \$537,678 | \$ - | \$418,462 | \$ - | \$ |

EMPLOYMENT AGREEMENTS

The Company's employment agreement with Bradley Meier is dated as of August 11, 1999. The Company and Mr. Meier have amended the employment agreement, with the most recent amendment dated July 12, 2007 (the employment agreement and the amendments are collectively referred to as the "Meier Agreement"). Under the terms of the Meier Agreement, Mr. Meier will serve as the Company's President and Chief Executive Officer. Mr. Meier received a base salary of \$977,228 in 2007, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Meier Agreement, Mr. Meier is entitled to an annual performance bonus equal to three percent (3%) of the pretax income of the Company up to \$5 million, and four percent (4%) of the pretax income of the Company in excess of \$5 million; provided, however, that any such bonus is contingent upon the Company's shareholders approving such bonus formula, which they have done. Mr. Meier is also eligible for other benefits customarily provided by the Company to its executive employees, and the Meier Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Meier Agreement), the Company shall pay Mr. Meier an amount equal to 48 months base salary, plus two times any bonus paid for the preceding fiscal year. Further, in the event of a Change in Control, all options held by Mr. Meier vest and become immediately exercisable. Also, in the event that the Company terminates the Meier Agreement, the Company shall pay Mr. Meier 24 months total compensation. The Meier Agreement expires on December 31, 2009; however, the agreement is automatically extended each year thereafter unless the Company or Mr. Meier provides written notice that the agreement is being terminated 60 days in advance of the anniversary date of the Meier Agreement.

The Company's employment agreement with Sean Downes is dated as of January 1, 2005 and provides that Mr. Downes will serve as Chief Operating Officer and Senior Vice President of the Company. The Company and Mr. Downes have amended the employment agreement, with the most recent amendment dated July 12, 2007 (the employment agreement and the amendments are collectively referred to as the "Downes Agreement"). Mr. Downes received a base salary of \$691,500 in 2007, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Downes Agreement, Mr. Downes is entitled to an annual performance bonus equal to three percent (3%) of the pre-tax profits of the Company; provided, however, that any such bonus is contingent upon the Company's shareholders approving such bonus formula, which they have done. Under the Downes Agreement, the Company may grant Mr. Downes options or warrants to purchase the Company's Common Stock. Mr. Downes is also eligible for other benefits customarily provided by the Company to its executive employees and the Downes Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Downes Agreement), the Company shall pay Mr. Downes an amount equal to 12 months base

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salary, plus the annual bonus paid for the preceding fiscal year. Also, effective January 1, 2009, if a Change in Control occurs, the Company shall pay Mr. Downes an amount equal to 2.99 times Mr. Downes' "base amount," as defined in Section 280G(b)(3) of the Internal Revenue Code. Further, in the event of a Change in Control, all options held by Mr. Downes vest and become immediately exercisable. The Downes Agreement expires on December 31, 2009 unless extended in writing by the Company.

On October 11, 2006, the Company entered into an employment agreement (the "Lynch Agreement") with James M. Lynch, who has served as the Company's Executive Vice President and Chief Financial Officer since August 1998. Under the terms of the Lynch Agreement, Mr. Lynch will continue to serve in such capacity. Mr. Lynch received a base salary of \$349,385 in 2007, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Lynch Agreement, Mr. Lynch is entitled to an annual performance bonus determined at the discretion of the Board of Directors of the Company; provided, however, that such bonus shall be no less than \$50,000. Mr. Lynch is also eligible for other benefits customarily provided by the Company to its executive employees. The Lynch Agreement contains noncompete and nondisclosure provisions. If Mr. Lynch's employment is terminated (i) by the Company or a succeeding entity without Cause (as defined in the Lynch Agreement) or (ii) by Mr. Lynch for Good Reason (as defined in the Lynch Agreement) within one year following a Change in Control of the Company (as defined in the Lynch Agreement), then the Company shall pay Mr. Lynch an amount equal to the greater of Mr. Lynch's current base salary (x) through December 31, 2009 or (y) for period of twelve (12) months, and Mr. Lynch will also be entitled to receive payment for COBRA premiums. The Lynch Agreement expires on December 31, 2009.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table sets forth information regarding outstanding equity awards held by each Named Executive Officer at fiscal year ended December 31, 2007.

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| ----- | | | | |
|--|---|-----------------------------|---------------------------|--|
| OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END | | | | |
| ----- | | | | |
| OPTIONS AWARDS | | | | |
| ----- | | | | |
| Name | Number of Securities Underlying Unexercised Options Exercisable | Option Exercise Price | Option Expiration Date | |
| ----- | | | | |
| Bradley Meier | 250,000 | \$1.63 | 5/7/08 | |
| ----- | ----- | ----- | ----- | |
| Bradley Meier | 1,500,000 | \$1.06 | 1/15/10 (1) | |
| ----- | ----- | ----- | ----- | |
| Bradley Meier | 250,000 | \$1.06 | 1/15/10 (1) | |
| ----- | ----- | ----- | ----- | |
| Bradley Meier | 150,000 | \$1.10 | 1/26/10 | |
| ----- | ----- | ----- | ----- | |
| Bradley Meier | 20,000 | \$0.70 | 12/12/10 | |
| ----- | ----- | ----- | ----- | |
| Bradley Meier | 325,000 | \$0.70 | 12/12/10 | |
| ----- | ----- | ----- | ----- | |
| Bradley Meier | 150,000 | \$0.60 | 12/21/11 | |
| ----- | ----- | ----- | ----- | |

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| | | | |
|---------------|-----------|--------|----------|
| Bradley Meier | 700,000 | \$6.50 | 7/12/12 |
| Bradley Meier | 1,000,000 | \$0.06 | 3/4/14 |
| James Lynch | 25,000 | \$1.10 | 1/26/10 |
| James Lynch | 15,000 | \$0.70 | 12/12/10 |
| James Lynch | 100,000 | \$0.50 | 12/21/11 |
| James Lynch | 35,000 | \$6.50 | 7/12/12 |
| James Lynch | 25,000 | \$3.80 | 2/14/12 |
| Sean Downes | 15,000 | \$1.10 | 1/26/10 |
| Sean Downes | 100,000 | \$0.50 | 12/21/11 |
| Sean Downes | 350,000 | \$3.80 | 2/14/12 |
| Sean Downes | 700,000 | \$6.50 | 7/12/12 |

(1) Expires on earlier of January 15, 2010 or is exercisable upon a Change in Control of the Company, as defined in the Option Agreement between Mr. Meier and the Company.

DIRECTOR COMPENSATION

The following table sets forth the total compensation paid to non-employee members of the Board of Directors during the fiscal year ended December 31, 2007.

| DIRECTOR COMPENSATION | | | |
|-----------------------|-----------------------------|---------------|-----------|
| Name | Fees Earned or Paid in Cash | Option Awards | Total |
| Joel M. Wilentz | \$80,000 | \$107,016 | \$187,016 |
| Norman M. Meier | \$80,000 | \$107,016 | \$187,016 |
| Reed J. Slogff | \$80,000 | \$107,016 | \$187,016 |
| Ozzie A. Schindler | \$80,000 | \$142,632 | \$222,632 |

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

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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, 2007.

| 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 future issuance under equity compensation plans (excluding amounts already included in the table) |
|--|---|---|--|
| Equity compensation plans approved by security holders | 7,705,000 | \$2.22 | |
| Equity compensation plans not approved by security holders | - | - | |
| Total | 7,705,000 | \$2.22 | |

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

SERIES M PREFERRED STOCK OWNED BY MANAGEMENT

As of March 1, 2008, directors and named executive officers, individually and as a group, beneficially owned Series M Preferred Stock as follows:

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

* Director

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

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- (2) Consists of (i) 33,890 shares of Series M Preferred Stock and (ii) 15,000 shares of Series M Preferred Stock beneficially owned by Belmer Partners, a dissolved Florida General Partnership ("Belmer"), of which Mr. Meier was a general partner. (See Item 11, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters - Equity Compensation Plan Information," and the section entitled "Series M Preferred Stock Held By Others" for a discussion of Belmer.) Excludes all shares of Series M Preferred Stock owned by Norman M. Meier and Phylis R. Meier, Mr. Meier's father and mother, respectively, as to which Mr. Meier disclaims beneficial ownership.
- (3) Consists of (i) 38,000 shares of Series M Preferred Stock and (ii) 15,000 shares of Series M Preferred Stock beneficially owned by Belmer, of which Mr. Meier was a general partner. Excludes all shares of Series M Preferred Stock owned by Bradley I. Meier and Phylis R. Meier, Mr. Meier's son and former spouse, respectively, as to which Mr. Meier disclaims beneficial ownership.
- (4) See footnotes (1) - (3) above.

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SERIES A PREFERRED STOCK OWNED BY MANAGEMENT

As of March 1, 2008, directors and named executive officers, individually and as a group, beneficially owned Series A Preferred Stock as follows:

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

* Director

- (1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Series M Preferred Stock of the Company specified opposite his name. Unless otherwise indicated, the mailing address of each shareholder is c/o Universal Insurance Holdings, Inc., 1110 W. Commercial Blvd., Suite 100, Fort Lauderdale, FL 33309.
- (2) Consists of 9,975 shares of Series A Preferred Stock beneficially owned by Belmer, of which Mr. Meier was a general partner. Excludes all shares of Series A Preferred Stock owned by Phylis R. Meier, Mr. Meier's former spouse, as to which Mr. Meier disclaims beneficial ownership.
- (3) See footnotes (1) - (2) above.

COMMON STOCK OWNED BY MANAGEMENT

As of March 1, 2008, directors and Named Executive Officers, individually and as a group, beneficially owned Common Stock as follows:

| Name and Address of | Amount and Nature of | Percent of Class |
|---------------------|----------------------|------------------|
|---------------------|----------------------|------------------|

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| Beneficial Owner (1) | Beneficial Ownership(2) | ----- |
|---|-------------------------|-------|
| Bradley I. Meier (3) | 20,781,106 | 52.1% |
| Sean P. Downes (4) | 3,437,490 | 8.6% |
| Norman M. Meier (5) | 443,666 | 1.1% |
| Reed J. Slogoff (6) | 282,447 | 0.7% |
| Joel M. Wilentz (7) | 344,447 | 0.9% |
| James M. Lynch (8) | 232,925 | 0.6% |
| Ozzie A. Schindler (9) | 70,000 | 0.2% |
| Officers and directors as a group (7 people) (10) | 25,247,634 | 63.3% |

- (1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Common Stock of the Company specified opposite his name. Unless otherwise indicated, the mailing address of each shareholder is c/o Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309.
- (2) A person is deemed to be the beneficial owner of Common Stock that can be acquired by such person within 60 days of the date hereof upon the exercise of warrants or stock options or conversion of Series A Preferred Stock, Series M Preferred Stock or convertible debt. Except as otherwise specified, each beneficial owner's percentage ownership is determined by assuming that warrants, stock options, Series A Preferred Stock, Series M Preferred Stock and convertible debt that is held by such person (but not those held by any other person) and that are exercisable or convertible within 60 days from the date hereof, have been exercised or converted.
- (3) Includes (i) options to purchase an aggregate of 4,345,000 shares of Common Stock; (ii) 169,450 shares of Common Stock issuable upon conversion of Series M Preferred Stock; (iii) an aggregate of 228,728 shares of

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Common Stock issuable upon conversion of Series A and Series M Preferred Stock beneficially owned by Belmer, of which Mr. Meier was a general partner; and (iv) the following shares of Common Stock which are subject to proxies granting voting power to Mr. Meier: (A) 333,792 shares owned by Phylis Meier, Mr. Meier's mother, (B) 666,540 shares owned by Norman Meier, Mr. Meier's father; (C) an additional 17,900 shares over which Mr. Meier has voting power; and (D) options to purchase an aggregate of 650,000 shares of Common Stock owned by Norman Meier, Mr. Meier's father, which are subject to a proxy granting voting power to Mr. Meier.

- (4) Includes options to purchase an aggregate of 700,000 shares of Common Stock.
- (5) Includes (i) 214,938 shares of Common Stock issuable upon conversion of Series A and Series M Preferred Stock, and (ii) an aggregate of 228,728 shares of Common Stock issuable upon conversion of Series A and Series M Preferred Stock beneficially owned by Belmer, of which Norman Meier was a general partner. Excludes (i) all securities owned by Bradley I. Meier or Phylis Meier, Norman Meier's son and former spouse, respectively, as to which Norman Meier disclaims beneficial ownership, and (ii) all securities owned by Norman Meier for which Norman Meier has granted voting power to

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his son, Bradley Meier.

- (6) Includes options to purchase an aggregate of 165,000 shares of Common Stock, of which 50,000 are held in a custodial account for Mr. Slogoff's minor son.
- (7) Includes options to purchase an aggregate of 175,000 shares of Common Stock.
- (8) Includes options to purchase an aggregate of 35,000 shares of Common Stock.
- (9) Consists of an option to purchase 70,000 shares of Common Stock.
- (10) See footnotes (1) - (9) above.

SERIES M PREFERRED STOCK HELD BY OTHERS

As of March 1, 2008, the following table sets forth information regarding the number and percentage of Series M Preferred Stock held by all persons, other than those persons listed immediately above, who are known by the Company to beneficially own or exercise voting or dispositive control over 5% or more of the Company's outstanding Series M Preferred Stock:

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

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- (1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Series M Preferred Stock specified opposite her or its name.
- (2) Consists of (i) 1,800 shares of Series M Preferred Stock and (ii) 15,000 shares of Series M Preferred Stock beneficially owned by Belmer, of which Ms. Meier is the managing general partner. Excludes all securities owned by Bradley I. Meier and Norman M. Meier, the son and former spouse, respectively, as to which Ms. Meier disclaims beneficial ownership.
- (3) Belmer was a Florida general partnership that was dissolved effective as of May 31, 2007. Phylis R. Meier was the managing general partner, and Bradley I. Meier, Norman M. Meier, Eric Meier and Lynda Meier were general partners, of Belmer. The 15,000 shares of the Company's Series M Preferred Stock beneficially owned by Belmer are currently being held by Phylis R. Meier in constructive trust for Phylis R. Meier, Bradley I. Meier, Norman

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M. Meier, Eric Meier and Lynda Meier, the former general partners of Belmer, until such shares are distributed to them.

SERIES A PREFERRED STOCK HELD BY OTHERS

As of March 1, 2008, the following table sets forth information regarding the number and percentage of Series A Preferred Stock held by all persons, other than those persons listed immediately above, who are known by the Company to beneficially own or exercise voting or dispositive control over 5% or more of the Company's outstanding Series A Preferred Stock:

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

- (1) Unless otherwise indicated, the Company believes that each person has sole voting and investment rights with respect to the shares of Series A Preferred Stock specified opposite her or its name.
- (2) Consists of 9,975 shares of Series A Preferred Stock beneficially owned. Excludes all shares of Series A Preferred Stock owned by Norman M. Meier, Ms. Meier's former spouse, as to which Ms. Meier disclaims beneficial ownership.
- (3) Belmer was a Florida general partnership that was dissolved effective as of May 31, 2007. Phylis R. Meier was the managing general partner, and Bradley I. Meier, Norman M. Meier, Eric Meier and Lynda Meier were general partners, of Belmer. The 30,000 shares of the Company's Series A Preferred Stock beneficially owned by Belmer are currently being held by Phylis R. Meier in constructive trust for Phylis R. Meier, Bradley I. Meier, Norman M. Meier, Eric Meier and Lynda Meier, the former general partners of Belmer, until such shares are distributed to them.

COMMON STOCK HELD BY OTHERS

As of March 1, 2008, the following table sets forth information regarding the number and percentage of Common Stock held by all persons, other than those persons listed immediately above, who are known by the Company to beneficially own or exercise voting or dispositive control over 5% or more of the Company's outstanding Common Stock:

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| Name and Address ----- | Amount and Nature of Beneficial Ownership(1) ----- | Percent of Class ----- |
|---------------------------|--|---------------------------|
|---------------------------|--|---------------------------|

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Martin Steinberg, Esq., as the
receiver for Lancer Offshore Inc. (2) 3,926,235 9.7 %
c/o David E. Wells, Esq.
Hunton & Williams LLP
1111 Brickell Avenue, Suite 2500
Miami, FL 33131

Invesco Ltd. (3) 2,950,555 7.4%
1360 Peachtree Street NE
Atlanta, GA 30309

- (1) A person is deemed to be the beneficial owner of Common Stock that can be acquired by such person within 60 days of the date hereof upon the exercise of warrants or stock options or conversion of Series A and Series M Preferred Stock or convertible debt. Except as otherwise specified, each beneficial owner's percentage ownership is determined by assuming that warrants, stock options, Series A and Series M Preferred Stock and convertible debt that are held by such a person (but not those held by any other person) and that are exercisable within 60 days from the date hereof, have been exercised or converted.
- (2) Consists of 3,926,235 shares of Common Stock as indicated on stockholders list as of February 29, 2008 obtained from stock transfer agent.
- (3) Based on information contained in a report on Schedule 13G that Invesco Ltd. filed with the SEC, which contained information as of December 31, 2007. According to such filing, Invesco Ltd. through its subsidiaries provides investment management services to institutional and individual investors.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, COO and Senior Vice President of the Company. During 2007 and 2006, the Company expensed claims adjusting fees of \$675,237 and \$829,208, respectively, to Downes and Associates.

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

ITEM 13. EXHIBITS

EXHIBITS

- 3.1 Registrant's Amended and Restated Certificate of Incorporation, as amended (1)
- 3.2 Registrant's Bylaws (1)
- 3.3 Certificate of Designation for Series A Convertible Preferred Stock dated October 11, 1994 (4)
- 3.4 Certificate of Designations, Preferences, and Rights of Series M Convertible Preferred Stock dated August 13, 1997 (2)

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- 3.5 Certificate of Amendment of Amended and Restated Certificate of Incorporation dated October 19, 1998 (4)
- 3.6 Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 18, 2000 (4)
- 3.7 Certificate of Amendment of Certificate of Designations of the Series A Convertible Preferred Stock dated October 29, 2001 (4)

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- 4.1 Form of Common Stock Certificate (1)
- 4.2 Form of Warrant Certificate (1)
- 4.3 Form of Warrant Agency Agreement (1)
- 4.4 Form of Underwriter Warrant (1)
- 4.5 Affiliate Warrant (1)
- 4.6 Form of Warrant to purchase 100,000 shares of Common Stock at an exercise price of \$2.00 per share issued to Steven Guarino dated as of April 24, 1997. (Substantially similar in form to two additional warrants to purchase 100,000 shares of Common Stock issued to Mr. Guarino dated as of April 24, 1997, with exercise prices of \$2.75 and \$3.50 per share, respectively) (2)
- 10.1 Registrant's 1992 Stock Option Plan (1)
- 10.2 Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (1)
- 10.5 Management Agreements by and between Universal Property & Casualty Insurance Company and Universal P&C Management, Inc. dated as of June 2, 1997 (2)
- 10.6 Employment Agreement dated as of May 1, 1997 between Universal Heights, Inc. and Bradley I. Meier (2)
- 10.7 Employment Agreement, dated October 11, 2006, between James M. Lynch and Universal Insurance Holdings, Inc. (8)
- 10.8 Employment Agreement, dated as of January 1, 2005, between Sean Downes and Universal Insurance Holdings, Inc.
- 11.1 Statement Regarding Computation of Per Share Income
- 14.1 Code of Business Conduct and Ethics (7)
- 16.1 Letter on change in certifying accountants from Millward & Co. CPA's dated February 12, 1999, and as amended February 26, 1999 (3)
- 16.2 Letter on change in certifying accountants from Deloitte & Touche LLP dated October 7, 2002(5)
- 16.3 Letter on change in certifying accountants from Deloitte & Touche LLP dated March 27, 2003(6)

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- 21 List of Subsidiaries
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 33-51546) declared effective on December 14, 1992
- (2) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the year ended April 30, 1997 filed with the Securities and Exchange Commission on August 13, 1997, as amended

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- (3) Incorporated by reference to the Registrant's Current Report on Form 8-K and Current Report on Form 8-K/A, filed with the Securities and Exchange Commission on February 12, 1999 and February 26, 1999, respectively
- (4) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2002 filed with the Securities and Exchange Commission on April 9, 2003
- (5) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on October 7, 2002
- (6) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 2, 2003
- (7) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB, filed with the Securities and Exchange Commission on March 30, 2007.
- (8) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB/A for the year ended December 31, 2006 filed with the Securities and Exchange Commission on August 24, 2007

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES

Audit fees for the fiscal years ended December 31, 2007 and December 31, 2006 were \$341,000 and \$260,000, respectively.

AUDIT RELATED FEES

Audit related fees for the fiscal years ended December 31, 2007 and December 31, 2006 were \$28,000 and \$0, respectively.

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TAX FEES

Tax fees for the fiscal years ended December 31, 2007 and December 31, 2006 were \$37,000 and \$33,500, respectively.

ALL OTHER FEES

All other fees for products and services provided by the Company's principal accountant for the fiscal years ended December 31, 2007 and December 31, 2006 were \$0.

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

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

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SIGNATURES

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

UNIVERSAL INSURANCE HOLDINGS, INC.

Dated: March 14, 2008 By: /s/ Bradley I. Meier

Bradley I. Meier, President and
Chief Executive Officer
/s/ James M. Lynch

James M. Lynch, Chief Financial Officer

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

/s/ Bradley I. Meier President, Chief Executive March 14, 2008

Bradley I. Meier Officer and Director
/s/ Sean P. Downes Senior Vice President, Chief March 14, 2008

Sean P. Downes Operating Officer and Director
/s/ James M. Lynch Executive Vice President and March 14, 2008

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| | | |
|------------------------|-------------------------|----------------|
| James M. Lynch | Chief Financial Officer | |
| /s/ Norman M. Meier | Director | March 14, 2008 |
| ----- | | |
| Norman M. Meier | | |
| /s/ Ozzie A. Schindler | Director | March 14, 2008 |
| ----- | | |
| Ozzie A. Schindler | | |
| /s/ Reed J. Slogoff | Director | March 14, 2008 |
| ----- | | |
| Reed J. Slogoff | | |
| /s/ Joel M. Wilentz | Director | March 14, 2008 |
| ----- | | |
| Joel M. Wilentz | | |

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES (the "Company") as of December 31,

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2007, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES as of December 31, 2007, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Blackman Kallick LLP

Chicago, Illinois
March 14, 2008

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2007
(Unaudited)

| ASSETS | |
|-------------------------------------|---------------|
| Cash and cash equivalents | \$214,745,606 |
| Real estate, net | 3,392,827 |
| Prepaid reinsurance premiums | 172,672,795 |
| Reinsurance recoverables | 46,399,265 |
| Premiums and other receivables, net | 38,045,097 |
| Property and equipment, net | 874,430 |
| Deferred income taxes | 14,202,956 |
| Other assets | 400,164 |

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| | |
|--------------|---------------------------------|
| Total assets | ----- \$490,733,140 ===== |
|--------------|---------------------------------|

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

| | |
|--|----------------------|
| Unpaid losses and loss adjustment expenses | \$68,815,500 |
| Unearned premiums | 254,741,198 |
| Deferred ceding commission, net | 2,122,269 |
| Accounts payable | 2,972,147 |
| Reinsurance payable, net | 33,888,350 |
| Dividends payable | 3,241,145 |
| Other accrued expenses | 16,339,082 |
| Other liabilities | 11,035,444 |
| Loans payable | 2,820 |
| Long-term debt | 25,000,000 |
| | ----- |
| Total liabilities | 418,157,955 ===== |

STOCKHOLDERS' EQUITY:

| | |
|--|------------------------|
| Cumulative convertible preferred stock, \$.01 par value, 1,000,000 shares authorized, 138,640 shares issued and outstanding, minimum liquidation preference of \$1,419,700 | 1,387 |
| Common stock, \$.01 par value, 55,000,000 shares authorized, 39,307,103 shares issued and 36,012,729 shares outstanding | 393,072 |
| Common stock in treasury, at cost - 394,374 shares | (974,746) |
| Common stock held in trust, at cost - 2,900,000 shares | (2,349,000) |
| Additional paid-in capital | 24,779,798 |
| Retained earnings | 50,724,674 |
| | ----- |
| Total stockholders' equity | 72,575,185 ----- |
| Total liabilities and stockholders' equity | \$490,733,140 ===== |

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
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

Year Ended

December 31, 2007

Decem

PREMIUMS EARNED AND OTHER REVENUES

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| | | | |
|---|----|---------------|----|
| Direct premiums written | \$ | 498,748,778 | \$ |
| Ceded premiums written | | (358,405,016) | |
| <hr/> | | | |
| Net premiums written | | 140,343,762 | |
| Decrease (increase) in net unearned premiums | | 14,074,690 | |
| <hr/> | | | |
| Premiums earned, net | | 154,418,452 | |
| Net investment income | | 10,410,259 | |
| Commission revenue | | 22,222,007 | |
| Other revenue | | 1,463,763 | |
| <hr/> | | | |
| Total premiums earned and other revenues | | 188,514,481 | |
| <hr/> | | | |
| OPERATING COSTS AND EXPENSES | | | |
| Losses and loss adjustment expenses | | 59,799,670 | |
| General and administrative expenses | | 39,165,022 | |
| <hr/> | | | |
| Total operating costs and expenses | | 98,964,692 | |
| <hr/> | | | |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | \$ | 89,549,789 | \$ |
| <hr/> | | | |
| Income taxes, current | | 41,078,701 | |
| Income taxes, deferred | | (5,531,200) | |
| <hr/> | | | |
| Income taxes, net | | 35,547,501 | |
| <hr/> | | | |
| INCOME FROM CONTINUING OPERATIONS | \$ | 54,002,288 | \$ |
| <hr/> | | | |
| DISCONTINUED OPERATIONS: | | | |
| Loss from discontinued operations | | - | |
| Provision for income tax expense | | - | |
| Total loss from discontinued operations | | - | |
| <hr/> | | | |
| NET INCOME | \$ | 54,002,288 | \$ |
| <hr/> <hr/> | | | |
| INCOME PER COMMON SHARE: | | | |
| Basic net income from continuing operations | \$ | 1.52 | \$ |
| Basic net income from discontinued operations | \$ | - | \$ |
| <hr/> | | | |
| Basic net income per share | \$ | 1.52 | \$ |
| <hr/> <hr/> | | | |
| WEIGHTED AVERAGE COMMON SHARES | | | |
| OUTSTANDING - BASIC | | 35,550,503 | |
| <hr/> <hr/> | | | |
| INCOME PER COMMON SHARE | | | |
| Diluted net income from continuing operations | \$ | 1.31 | \$ |
| Diluted net income from discontinued operations | \$ | - | \$ |
| <hr/> | | | |
| Diluted net income per share | \$ | 1.31 | \$ |
| <hr/> <hr/> | | | |
| WEIGHTED AVERAGE COMMON SHARES | | | |
| OUTSTANDING - DILUTED | | 41,360,020 | |
| <hr/> <hr/> | | | |
| CASH DIVIDEND DECLARED PER COMMON SHARE | \$ | 0.24 | \$ |

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

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UNIVERSAL INSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Year Ended December 31, 2007 | | Year Ended |
|--|------------------------------|-------------|------------|
| | Shares | Amount | Shares |
| PREFERRED STOCK | | | |
| Balance, beginning of period | 138,640 | \$ 1,387 | 138,640 |
| Balance, end of period | 138,640 | 1,387 | 138,640 |
| COMMON STOCK | | | |
| Balance, beginning of period | 38,057,103 | 380,572 | 36,463,219 |
| Issuance of common stock | 1,250,000 | 12,500 | 1,593,884 |
| Balance, end of period | 39,307,103 | 393,072 | 38,057,103 |
| TREASURY STOCK | | | |
| Balance, beginning of period | 208,645 | (101,820) | 208,645 |
| Acquisition of treasury stock | 185,729 | (872,926) | 0 |
| Balance, end of period | 394,374 | (974,746) | 208,645 |
| STOCK GRANTOR TRUST | | | |
| Balance, beginning of period | 2,900,000 | (2,349,000) | 2,900,000 |
| Balance, end of period | 2,900,000 | (2,349,000) | 2,900,000 |
| ADDITIONAL PAID-IN CAPITAL | | | |
| Balance, beginning of period | | 18,726,387 | |
| Issuance of common stock | | 3,922,851 | |
| Tax benefit on exercise of stock options | | 2,130,560 | |
| Balance, end of period | | 24,779,798 | |
| RETAINED EARNINGS (ACCUMULATED DEFICIT) | | | |
| Balance, beginning of period | | 5,390,392 | |
| Net income | | 54,002,288 | |

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| | |
|----------------------------|---------------|
| Preferred stock dividend | (49,950) |
| Common stock dividend | (8,618,056) |
| | ----- |
| Balance, end of period | 50,724,674 |
| | ----- |
| Total stockholders' equity | \$ 72,575,185 |
| | ===== |

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended | De |
|--|-------------------|-------|
| | December 31, 2007 | De |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 54,002,288 | \$ |
| Adjustments to reconcile net income to cash provided by operations: | | |
| Allowance for doubtful accounts | 223,681 | |
| Amortization and depreciation | 371,663 | |
| Loss on disposal of assets | 37,629 | |
| Issuance of common stock | 3,089,351 | |
| Deferred taxes | (5,531,200) | |
| Tax benefit on exercise of stock options | (1,857,907) | |
| Net change in assets and liabilities relating to operating activities: | | |
| Reinsurance recoverables | 29,155,464 | |
| Prepaid reinsurance premiums | (38,469,621) | |
| Premiums and other receivables | (13,974,125) | |
| Deferred acquisition costs, net | 2,106,116 | |
| Other assets | (382,440) | |
| Reinsurance payable | (68,968,729) | |
| Deferred ceding commission, net | 2,122,269 | |
| Other liabilities | 6,506,344 | |
| Accounts payable | 246,098 | |
| Taxes payable | (13,298,935) | |
| Other accrued expenses | 1,513,479 | |
| Unpaid losses and loss adjustment expenses | 19,250,986 | |
| Unearned premiums | 24,394,932 | |
| | ----- | ----- |
| Net cash provided by operating activities - continuing operations | 537,343 | |
| Net cash used in operating activities - discontinued operations | - | |
| | ----- | ----- |
| Net cash provided by operating activities | 537,343 | |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (545,364) | |
| Building improvements | (259,210) | |
| | ----- | ----- |

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| | |
|---|---------------|
| Net cash used in investing activities - continuing operations | (804,574) |
| Net cash provided by investing activities - discontinued operations | - |
| | ----- |
| Net cash used in investing activities | (804,574) |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Preferred stock dividend | (49,950) |
| Common stock dividend | (7,279,767) |
| Issuance of common stock | 846,000 |
| Acquisition of treasury stock | (872,926) |
| Tax benefit on exercise of stock options | 1,857,907 |
| Repayments of loans payable | (12,378,724) |
| Proceeds from loans payable | - |
| Minority interest | - |
| | ----- |
| Net cash (used in) provided by financing activities - continuing operations | (17,877,460) |
| | ----- |
| Net cash (used in) provided by financing activities | (17,877,460) |
| | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (18,144,691) |
| | ----- |
| CASH AND CASH EQUIVALENTS, Beginning of year | 232,890,297 |
| | ----- |
| CASH AND CASH EQUIVALENTS, End of year | \$214,745,606 |
| | ===== |
| Non-cash items: | |
| Dividends payable | \$ 3,241,145 |
| | ===== |

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

NATURE OF OPERATIONS

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

INSURANCE OPERATIONS

UPCIC's application to become a Florida licensed property and casualty insurance company was filed in May 1997 with the Florida Office of Insurance Regulation ("OIR") and was approved on October 29, 1997. In 1998, UPCIC began operations

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through the acquisition of homeowner insurance policies issued by the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"). The JUA was established in 1992 as a temporary measure to provide insurance coverage for individuals who could not obtain coverage from private carriers because of the impact on the private insurance market of Hurricane Andrew in 1992. Rather than serving as a temporary source of emergency insurance coverage as was originally intended, the JUA became a major provider of original and renewal insurance coverage for Florida residents. In an attempt to reduce the number of policies in the JUA, and thus the exposure of the program to liability, the Florida legislature approved a number of initiatives to depopulate the JUA, which resulted in policies being acquired by private insurers and provided additional incentives to private insurance companies to acquire policies from the JUA.

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

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

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

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

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.

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("Sterling"), from the Company's Chief Executive Officer and Chief Operating Officer for \$50,000, which approximated Sterling's book value. The Company received approval of the acquisition from the OIR. Sterling has been renamed

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Atlas Premium Finance Company and commenced offering premium finance services in November 2007.

ONLINE COMMERCE OPERATIONS

During 2006, the Company decided to discontinue its online commerce operations and focus on its core operations.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Universal Insurance Holdings, Inc., its wholly owned subsidiary, Universal Property & Casualty Insurance Co. and other wholly owned entities, Atlas Florida Financial Corporation, parent of Atlas Premium Finance Company (formerly known as Sterling Premium Finance Company), Atlas Premium Finance Company and the Universal Insurance Holdings, Inc. Stock Grantor Trust. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities. Prior to the Company's decision to discontinue online commerce operations, the Company and its subsidiaries operated principally in two business segments consisting of insurance and online commerce during each period reported in the accompanying consolidated financial statements, based upon management reporting.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts, after intercompany eliminations, of the Company and its subsidiaries.

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

PREMIUMS RECEIVABLE. Written premiums are earned into income on a pro rata basis over the policy term. Accordingly, unearned premiums represent the portion of written premiums that is applicable to the unexpired risk. Generally, premiums are collected prior to providing risk coverage, minimizing the Company's exposure to credit risk. The Company performs a policy level evaluation to determine the extent the premiums receivable balance exceeds the unearned premiums balance. The Company then ages this exposure to establish an allowance for doubtful accounts based on prior experience. As of December 31, 2007, the Company had recorded an allowance for doubtful accounts in the amount of \$832,660.

INVESTMENTS IN REAL ESTATE. Investments in real estate are carried at cost less depreciation. Real estate represents a building purchased by UPCIC that the Company uses as its home office. Depreciation is provided on the straight-line basis over twenty-seven-and-one-half years. The Company reviews its real estate

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annually and whenever changes in circumstances indicate that the carrying amount may not be recoverable.

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

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RECOGNITION OF PREMIUM REVENUES. Property and liability premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements. In the event policyholders cancel their policies, unearned premiums represent amounts that UPCIC would refund policyholders. Accordingly, UPCIC determines unearned premiums by calculating the pro rata amount that would be due to the policyholders at a given point in time based upon the premiums owed over the life of each policy. As of December 31, 2007, the Company has direct unearned premiums of \$254,741,198.

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

DEFERRED POLICY ACQUISITION COSTS/DEFERRED CEDING COMMISSIONS. Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies to which they are related. Reinsurance ceding commissions received are deferred and amortized over the effective period of the related insurance policies. Deferred policy acquisition costs and deferred ceding commissions are netted for balance sheet presentation purposes.

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

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

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PROVISION FOR PREMIUM DEFICIENCY. It is the Company's policy to evaluate and recognize losses on insurance contracts when estimated future claims and maintenance costs under a group of existing contracts will exceed anticipated future premiums. No accrual for premium deficiency was considered necessary as of December 31, 2007.

REINSURANCE. In the normal course of business, the Company seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreement and consistent with the establishment of the liability of the Company.

INCOME TAXES. Income tax provisions are based on the asset and liability method. Deferred federal and state income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, net of valuation allowance. The Company reviews its deferred tax assets for recoverability. At December 31, 2007, the Company determined that the benefit of its deferred tax assets was fully realizable and, therefore, no valuation allowance was recorded.

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

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

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

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

Long-term debt and loans payable are held at carrying value, which approximates fair value as of December 31, 2007.

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. Concentrations of credit risk with respect to cash on deposit are limited by the Company's policy of investing excess cash in a money market account and repurchase agreements of US Government and US Government Agency securities with

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major national banks. These accounts are held by Wachovia Bank, N.A. and SunTrust Banks, Inc. Concentrations of credit risk with respect to premiums receivable are limited due to the large number of individuals comprising the Company's customer base. However, the majority of the Company's revenues are currently derived from products and services offered to customers in Florida, which could be adversely affected by economic downturns, an increase in competition or other environmental changes. In order to reduce credit risk for amounts due from reinsurers, the Company seeks to do business with financially sound reinsurance companies and regularly evaluates the financial strength of all reinsurers used.

STOCK OPTIONS. The Company grants options for a fixed number of shares to employees and outside directors with an exercise price equal to the fair value of the shares as of the grant date. Prior to January 1, 2006 the Company elected to apply Accounting Principles Board ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock options granted to employees and directors, and SFAS No. 123 Accounting for Stock-Based Compensation, for its stock options granted to non-employees. Under APB No. 25, because the exercise price of the Company's employee and director stock options equal the market price of underlying stock on the date of the grant, no compensation expense was recognized. The Company expensed the fair value (determined as of the grant date) of options and warrants granted to non-employees in accordance with SFAS No. 123. SFAS 123 (R) was adopted using the modified prospective transition method. Under this transition method, compensation cost recognized in the periods after adoption includes (i) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006 based on the grant-date fair value estimated in accordance with the original provision of SFAS 123, and (ii) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Results from prior periods have not been restated. As a result of adopting SFAS 123 (R), the Company's income before income taxes and net income for the year ended December 31, 2007 are \$2,781,017 and \$1,708,240 lower, respectively, than if it had continued to account for share-based compensation under APB 25. In addition, during the year ended December 31, 2007, the Company issued restricted common stock valued at \$925,000 as compensation. This expense is being recognized over a three-year vesting period which commenced March 14, 2007.

STATUTORY ACCOUNTING. UPCIC prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida. Effective January 1, 2001, the Office of Insurance Regulation of the State of Florida required that insurance companies domiciled in the State of Florida prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual (the "Manual"), as modified by the Office of Insurance Regulation of the State of Florida. Accordingly, the admitted assets, liabilities and capital and surplus of UPCIC as of December 31, 2007, and the results of its operations and its cash flow, for the year then ended have been determined in accordance with statutory accounting principles, but adjusted to accounting principles generally accepted in the United States of America (GAAPUSA) for purposes of these financial statements. These principles are designed primarily to demonstrate the ability to meet obligations to policyholders and claimants and, consequently, differ in some respects from GAAPUSA.

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

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

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

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

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not threshold should be measured in order to determine the tax benefit to be recognized in the financial statements. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007 and the adoption had a negligible impact on the Company's results of operation and financial position. The Company accrued interest and penalties for the underpayment of estimated federal and state income tax in accordance with the provisions of the relevant tax law. Interest and penalties are classified in the financial statements as income taxes.

In September 2006, the FASB issued SFAS No. 157 which redefines fair value,

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establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No. 157 applies where other accounting pronouncements require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The effects of adoption will be determined by the types of instruments carried at fair value in the Company's financial statements at the time of adoption as well as the method utilized to determine their fair values prior to adoption. Based on the Company's current use of fair value measurements, SFAS No. 157 is not expected to have a material effect on the results of operations or financial position of the Company.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will become effective for the Company on January 1, 2008. The Company is

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currently evaluating the impact of adopting SFAS 159 on its financial position, cash flows and results of operations.

NOTE 3 - REINSURANCE

UPCIC's in-force policyholder coverage for windstorm exposures as of December 31, 2007 was approximately \$75.3 billion. In the normal course of business, UPCIC also seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

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

UPCIC limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers, either on an automatic basis under general reinsurance contracts known as "treaties" or by negotiation on substantial individual risks. The reinsurance arrangements are intended to provide UPCIC with the ability to maintain its exposure to loss within its capital resources. Such reinsurance includes quota share, excess of loss and catastrophe forms of reinsurance.

QUOTA SHARE

Effective June 1, 2006, UPCIC entered into a quota share reinsurance treaty with Everest Re. Under the quota share treaty, through May 31, 2007, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk with a ceding commission equal to 28% of ceded gross written premiums. In addition, the quota share treaty has a limitation for any one occurrence of \$25,000,000 and a limitation of \$55,000,000 for losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services ("PCS").

Effective June 1, 2007, UPCIC entered into a quota share reinsurance treaty agreement with Everest Re. Under the quota share treaty, through May 31, 2008, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with

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coverage for wind risk with a ceding commission equal to 31% of ceded gross written premiums. In addition, the quota share treaty has a limitation for any one occurrence of 40% of Gross Premiums Earned, not to exceed \$100,000,000, and a limitation of 112% of Gross Premiums Earned, not to exceed \$280,000,000, for losses arising out of events that are assigned a catastrophe serial number by the PCS.

EXCESS PER RISK

Effective June 1, 2007 through May 31, 2008 and June 1, 2006 through May 31, 2007, UPCIC entered into a multiple line excess per risk agreement with various reinsurers. Under the multiple line excess per risk agreement, UPCIC obtained coverage of \$1,300,000 in excess of \$500,000 ultimate net loss for each risk and each property loss, and \$1,000,000 in excess of \$300,000 for each casualty loss. A \$5,200,000 aggregate limit applies to the term of the contract.

Effective June 1, 2007 through May 31, 2008 and June 1, 2006 through May 31, 2007, UPCIC entered into a property per risk excess agreement covering ex-wind only policies. Under the property per risk excess agreement, UPCIC obtained coverage of \$300,000 in excess of \$200,000 for each property loss. A \$2,100,000 aggregate limit applies to the term of the contract.

EXCESS CATASTROPHE

Effective June 1, 2006 through May 31, 2007, UPCIC's excess catastrophe reinsurance agreement provides three layers of excess catastrophe coverage of \$76,000,000 in excess of \$25,000,000 as follows:

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| | First Layer ----- | Second Layer ----- | Third ----- |
|--|--|--|--------------------------------------|
| Coverage | \$32,000,000 in excess of \$25,000,000 each loss occurrence (placed 100%) | \$18,000,000 in excess of \$57,000,000 each loss occurrence (placed 100%) | \$26,000,000 each loss occurrence |
| Deposit premium (100%) | \$14,720,000 | \$6,210,000 | \$6,240,000 |
| Minimum premium (100%) | \$13,248,000 | \$5,589,000 | \$5,616,000 |
| Premium rate -% of total insured value | 0.074% | 0.031% | 0.031% |

Effective June 1, 2007 through May 31, 2008, UPCIC's excess catastrophe reinsurance program provide five layers of excess catastrophe coverage of \$576,000,000 in excess of \$100,000,000 as follows:

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| | First Layer ----- | Second Layer ----- | Third Layer ----- | Fourth Layer ----- |
|--|---|--|--|---|
| Coverage | \$102,300,000 in excess of \$100,000,000 each loss occurrence (placed 100%) | \$58,800,000 in excess of \$202,300,000 each loss occurrence (placed 100%) | \$44,500,000 in excess of \$261,100,000 each loss occurrence (placed 100%) | \$220,400,000 in excess of \$305,600,000 each loss occurrence (placed 100%) |
| Deposit premium | \$40,920,000 | \$14,994,000 | \$6,675,000 | \$29,754,000 |
| Minimum premium | \$36,828,000 | \$13,494,600 | \$6,007,500 | \$26,778,600 |
| Premium rate -% of total insurance value | 0.054891% | 0.020113% | 0.008954% | 0.039913% |

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

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

Effective June 1, 2007 through May 31, 2008, UPCIC purchased a reinstatement premium protection contract which reimburses the Company for its cost to reinstate the first \$426,000,000 (part of \$576,000,000) of catastrophe coverage in excess of \$100,000,000.

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

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| | 2[nd] Event ----- | 2[nd]/3[rd] Event ----- | 3[rd] Event ----- |
|----------|---|---|--|
| Coverage | \$11,250,000 in excess of \$13,750,000 each loss occurrence subject to an otherwise recoverable amount of \$11,250,000 (placed 17.5%) | \$11,250,000 in excess of \$13,750,000 each loss occurrence subject to an otherwise recoverable amount of \$11,250,000 (placed 12.5%) | \$6,750,000 in excess of \$7,000,000 each loss occurrence subject to an otherwise recoverable amount of \$13,500,000 |

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(placed 50%)

| | | | |
|--|-------------|-------------|-------------|
| Deposit premium (100%) | \$1,800,000 | \$3,037,500 | \$1,012,500 |
| Minimum premium (100%) | \$1,620,000 | \$2,733,750 | \$911,250 |
| Premium rate -% of total insured value | 0.009% | 0.015% | 0.005% |

Also, effective June 1, 2007, UPCIC also obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of the Company's net retention through three catastrophe events including hurricanes, in three separate contracts, as follows:

| | 2[nd] Event ----- | 3[rd] Event - Contract #1 ----- | 3[rd] Event - Contract #2 ----- |
|--|---|--|--|
| Coverage | \$71,400,000 in excess of \$28,600,000 each loss occurrence subject to an otherwise recoverable amount of \$71,400,000 (placed 50%) | \$81,400,000 in excess of \$18,600,000 each loss occurrence subject to an otherwise recoverable amount of \$162,800,000 (placed 25%) | \$81,400,000 in excess of \$18,600,000 each loss occurrence subject to an otherwise recoverable amount of \$162,800,000 (placed 25%) |
| Deposit premium (100%) | \$13,923,000 | \$7,936,500 | \$7,936,500 |
| Minimum premium (100%) | \$12,530,000 | \$7,142,850 | \$7,142,850 |
| Premium rate -% of total insurance value | 0.018677% | 0.010646% | 0.010646% |

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, FHCF would reimburse the Company, with respect to each loss occurrence during the contract year for 90% of the ultimate loss paid by the Company in excess of the Company's retention plus 5% of the reimbursed losses to cover loss adjustment expenses. A covered event means any one storm declared to be a hurricane by the National Hurricane Center for losses incurred in Florida, both while it is a hurricane and through subsequent downgrades. For the contract year June 1, 2006 to May 31, 2007, the Fund has provided coverage of 90% of \$241,644,867 in excess of \$81,363,626. The premium for this coverage was \$15,432,459. For the contract year June 1, 2007 to May 31, 2008, the SBA made available through the 2007 passage of House Bill

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1A an additional \$12 billion (Temporary Increase in Coverage Limit - TICL) of Florida Hurricane Catastrophe Fund coverage for the 2007 wind season. UPCIC purchased both the traditional FHCF coverage as well as the TICL FHCF coverage for the contract year June 1, 2007 to May 31, 2008 which provided coverage of 90% of \$1,065,387,373 in excess of \$208,693,813. The premium for this coverage was \$42,838,076.

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Also at June 1, 2006 and June 1, 2007, the FHCF made available, and the Company obtained, \$10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive Program, such as UPCIC. This particular layer of coverage at June 1, 2006 was \$10,000,000 in excess of \$3,750,000. The premium for this coverage was \$5,000,000. This particular layer of coverage at June 1, 2007 was \$10,000,000 in excess of \$18,600,000. The premium for this coverage was \$5,000,000.

In 2007, UPCIC also purchased Florida Hurricane Catastrophe Fund Recovery Shortfall Reinsurance in the event the Florida Hurricane Catastrophe Fund cannot fulfill its payment obligations for the 2007-2008 Hurricane Season.

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

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

| | Year Ended December 31, 2007 | | | Year Ended De | |
|--------|------------------------------|--------------------|---|---------------------|--------------------|
| | Premiums Written | Premiums Earned | Loss and Loss Adjustment Expenses | Premiums Written | Premiums Earned |
| Direct | \$498,748,778 | \$474,353,847 | \$112,937,522 | \$371,754,514 | \$192,298,253 |
| Ceded | (358,405,016) | (319,935,395) | (53,137,852) | (230,718,709) | (138,162,301) |
| Net | \$140,343,762 | \$154,418,452 | \$59,799,670 | \$141,035,805 | \$54,135,952 |
| | ===== | ===== | ===== | ===== | ===== |

Other amounts:

| | December 31, 2007 |
|---|-------------------|
| Reinsurance recoverable on unpaid losses and loss adjustment expenses | \$37,587,445 |
| Reinsurance recoverable on paid losses | 8,811,820 |
| | ----- |

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| | |
|------------------------------|------------------------|
| Reinsurance recoverables | \$46,399,265 ===== |
| Prepaid reinsurance premiums | \$172,672,795 ===== |
| Reinsurance payable, net | \$33,888,350 ===== |

Reinsurance payable, as of December 31, 2007, has been reduced by \$5,602,526 which represents ceding commissions due from reinsurers and \$42,290,644 which represents inuring premiums receivable. The Company has determined that a right of offset, as defined in FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," exists between the Company and its reinsurers, under its quota share reinsurance treaties.

UPCIC's reinsurance contracts do not relieve UPCIC from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to UPCIC; consequently, allowances are established for amounts deemed uncollectible. UPCIC evaluates the similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. UPCIC currently has reinsurance contracts with various reinsurers located throughout the United States and internationally. UPCIC believes that ceding risks to reinsurers whom it considers to be financially sound combined with the distribution of reinsurance contracts to an array of reinsurers adequately minimizes UPCIC's risk from any potential operating difficulties of its reinsurers.

The Company may also be subject to assessments by Citizens Property Insurance Corporation ("Citizens"), the state-run insurer of last resort and the FHCF as a result of operating deficiencies related to windstorm catastrophes. In addition,

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the Company is subject to assessments by the Florida Insurance Guaranty Association, as a result of other company insolvencies. Under current regulations, insurers may recoup the amount of their assessments from policyholders, or in some cases collect the amount of the assessments from policyholders as surcharges for the benefit of the assessing entity.

On August 17, 2005 the Board of Governors of Citizens authorized the levying of a regular assessment on assessable insurers to recoup the 2004 Plan Year Deficit incurred in the High Risk Account. The assessment is based upon the Company's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the plan year in which the deficit occurred. UPCIC's participation in this assessment totaled \$203,300. Pursuant to Florida statutes, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to Citizens. UPCIC completed the recoupment of this assessment in 2006.

On June 12, 2006, the OIR ordered an emergency FHCF assessment of 1% of direct premiums written for policies with effective dates beginning January 1, 2007, which UPCIC is currently collecting from policyholders, as the assessment is to policyholders, not UPCIC. This assessment was a result of catastrophe losses Florida experienced in 2004 and 2005. The assessments collected from policyholders are remitted to FHCF quarterly.

On September 14, 2006, the Board of Governors of Citizens authorized the levying of a regular assessment on assessable insurers to recoup the 2005 Plan Year

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Deficit incurred in the High Risk Account. The assessment is based upon UPCIC's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the plan year in which the deficit occurred. UPCIC's participation in this assessment totaled \$263,650. Pursuant to Florida statutes, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to Citizens. As a result, UPCIC recorded this assessment as an expense during the year ended December 31, 2006 and began implementing the recoupment in connection with this assessment in 2007.

During its meeting on December 14, 2006, the Board of Directors of FIGA determined the need for an emergency assessment upon its member companies. The Board decided on an emergency assessment on member companies of 2% of the Florida net direct premiums for the calendar year 2005. Based on the 2005 net direct premiums of \$11.2 billion, this would generate approximately \$225 million. UPCIC's participation in this assessment totaled \$1,772,861. Pursuant to Florida statutes, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to FIGA. As a result, UPCIC recorded this assessment as an expense during the year ended December 31, 2006 and began implementing the recoupment in connection with this assessment in 2007.

During its meeting on October 11, 2007, the Board of Directors of FIGA again determined the need for an assessment upon its member companies, which the OIR approved on October 29, 2007. The Board decided on an assessment on member companies of 2% of the Florida net direct premiums for the calendar year 2006. UPCIC's participation in this assessment totaled \$7,435,090. Pursuant to Florida statutes, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to FIGA. As a result, UPCIC recorded this assessment as an expense during the quarter ended September 30, 2007 and will implement the recoupment in connection with this assessment in 2008, making this, ultimately, a revenue-neutral event.

NOTE 4 - INVESTMENTS

Major categories of net investment income are summarized as follows:

| | Year Ended December 31, 2007 ----- | Year Ended December 31, ----- |
|--|--|-------------------------------------|
| Investment income on cash and cash equivalents | \$10,606,881 | \$4,25 |
| Investment expense | 196,622 ----- | 27 -- |
| Net investment income | \$10,410,259 ===== | \$3,98 ===== |

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As of December 31, 2007, the Company's investments consisted entirely of cash and cash equivalents with a value of \$214,745,606. Cash is comprised of accounts with an aggregate carrying value \$176,350,298 as of December 31, 2007, which is primarily invested daily in overnight repurchase agreements of U.S. government and U.S. government agency securities. Cash equivalents is comprised of a money market account with carrying value of \$36,895,308 and short-term investment with

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a carrying value of \$1,500,000 on deposit with regulatory authorities.

As of December 31, 2007, the Company had no available-for-sale or held-to-maturity securities.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, as of December 31, 2007, consisted of the following:

| | |
|-----------------------------------|-----------|
| Computers | \$22,321 |
| Furniture | 276,372 |
| Automobiles | 437,369 |
| Software | 1,075,922 |
| | ----- |
| Total cost | 1,811,984 |
| | |
| Less: accumulated depreciation | (937,554) |
| | ----- |
| Property plant and equipment, net | \$874,430 |
| | ===== |

Depreciation and amortization of property and equipment was \$348,611 and \$373,533 during 2007 and 2006, respectively.

Real estate, as of December 31, 2007, consisted of the following:

| | |
|-----------------------------------|-------------|
| Land | \$270,000 |
| Building | 1,410,000 |
| Capital improvements | 2,004,373 |
| | ----- |
| Total cost | 3,684,373 |
| | |
| Less: accumulated depreciation | (291,546) |
| | ----- |
| Property plant and equipment, net | \$3,392,827 |
| | ===== |

Depreciation of real estate was \$119,446 and \$118,932 during 2007 and 2006, respectively.

NOTE 6 - LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

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

The level of catastrophe loss experienced in any year cannot be predicted and could be material to results of operations and financial position. UPCIC's policyholders are concentrated in South Florida, which is periodically subject to adverse weather conditions, such as hurricanes and tropical storms. During 2007 and 2006, the Company did not experience any catastrophic events. UPCIC's in-force policyholder coverage for windstorm exposures as of December 31, 2007 was approximately \$75.3 billion. UPCIC continuously evaluates alternative business strategies to more effectively manage its exposure to catastrophe

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losses, including the maintenance of catastrophic reinsurance coverage as discussed in Note 3.

Management believes that the liabilities for claims and claims expense as of December 31, 2007 are appropriately established in the aggregate and adequate to cover the ultimate cost of reported and unreported claims arising from losses which had occurred by that date. However, if losses exceeded direct loss reserve estimates there could be a material adverse effect on the Company's financial

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statements. Also, if there are regulatory initiatives, legislative enactments or case law precedents which change the basis for policy coverage, in any of these events, there could be an effect on direct loss reserve estimates having a material adverse effect on the Company's financial statements.

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

| | Year Ended December 31, 2007 | Year Ended December 31, 2006 |
|----------------------------------|---------------------------------|---------------------------------|
| | ----- | ----- |
| Balance at beginning of year | \$49,564,514 | \$66,999,956 |
| Less reinsurance recoverable | (32,369,504) | (60,859,231) |
| Net balance at beginning of year | 17,195,010 | 6,140,725 |
| | ----- | ----- |
| Incurred related to: | | |
| Current year | 47,793,338 | 9,246,922 |
| Prior years | 12,006,332 | 15,693,957 |
| | ----- | ----- |
| Total incurred | 59,799,670 | 24,940,879 |
| | ----- | ----- |
| Paid related to: | | |
| Current year | 25,713,314 | 4,453,684 |
| Prior years | 20,053,311 | 9,432,910 |
| | ----- | ----- |
| Total paid | 45,766,625 | 13,886,594 |
| Net balance at end of year | 31,228,055 | 17,195,010 |
| Plus reinsurance recoverable | 37,587,445 | 32,369,504 |
| Balance at end of year | \$68,815,500 | \$49,564,514 |
| | ===== | ===== |

The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2007 were increased in the current year by \$12,006,332 for claims that had occurred on or before the prior year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004 and as a result of actual loss development on prior year non-catastrophe losses emerging less favorably than expected. The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2006 were increased during 2006 by \$15,693,957 for claims that had occurred on or before the previous year balance

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sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. There can be no assurance that the Company's unpaid losses and LAE will not develop redundancies or deficiencies and possibly differ materially from the Company's unpaid losses and LAE as of December 31, 2007. In the future, if the unpaid losses and LAE develop redundancies or deficiencies, such redundancy or deficiency would have a positive or adverse impact, respectively, on future results of operations.

NOTE 7 - LOANS PAYABLE

On November 9, 2006, UPCIC entered into a \$25.0 million surplus note with the Florida State Board of Administration under Florida's Insurance Capital Build-Up Incentive Program. Given the proximity of the loan origination date to the balance sheet date, the carrying value of the note was deemed to approximate its fair value as of December 31, 2007. Under the program, which was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the State Board of Administration matched UPCIC's funds of \$25.0 million that were earmarked for participation in the program. The surplus note brings the current capital and surplus of UPCIC to approximately \$98.7 million. The \$25.0 million is invested in a treasury money market account.

The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond Rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, UPCIC is required to pay interest only, although principal payments can be made during this period. Any payment of principal or

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interest by UPCIC on the surplus note must be approved by the Commissioner of Florida Insurance Regulation.

An event of default will occur under the surplus note if UPCIC: (i) defaults in the payment of the surplus note; (ii) fails to meet at least a 2:1 ratio of net premium to surplus ("Minimum Writing Ratio") requirement by June 1, 2007; (iii) fails to submit quarterly filings to the OIR; (iv) fails to maintain at least \$50 million of surplus during the term of the surplus note, except for certain situations; (v) misuses proceeds of the surplus note; (vi) makes any misrepresentations in the application for the program; or (vii) pays any dividend when principal or interest payments are past due under the surplus note. As of December 31, 2007, the Company is in compliance with each of the aforementioned loan covenants except for the Minimum Writing Ratio.

If UPCIC failed to increase its writing ratio for two consecutive quarters prior to June 1, 2007, failed to obtain the 2:1 Minimum Writing Ratio by June 1, 2007, or drops below the 2:1 Minimum Writing Ratio once it is obtained for two consecutive quarters, the interest rate on the surplus note will increase during such deficiency by 25 basis points if the resulting writing ratio is between 1.5:1 and 2:1 and the interest rate will increase by 450 basis points if the writing ratio is below 1.5:1. If the writing ratio remains below 1.5:1 for three consecutive quarters after June 1, 2007, UPCIC must repay a portion of the surplus note so that the Minimum Writing Ratio will be obtained for the following quarter. As of September 30, 2007 and December 31, 2007, the Company's net written premium to surplus ratios were 1.83:1 and 1.42:1 respectively, as defined under the terms of the surplus note agreement. Under the terms of the surplus note agreement, at December 31, 2007, the interest rate on the note was increased by 450 basis points. As of December 31, 2007, the Company's net written premium to surplus ratio, as defined under the surplus note agreement, was below 1.5:1. If the Company's net written premium to surplus

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ratio remains below 1.5:1 for two additional calendar quarters (i.e., through June 30, 2008), the Company will be required to repay a portion of the principal balance under the surplus note agreement. The Company expects to meet or exceed a ratio of 1.5:1 by June 30, 2008 and, therefore, does not expect to repay any portion of the \$25,000,000 principal balance of the surplus note during 2008.

To meet its matching obligation under the Insurance Capital Build-Up Incentive Program, on November 3, 2006, the Company entered into a Secured Promissory Note with Benfield Greig (Holdings), Inc. in the aggregate principal amount of \$12 million. Interest on the note accrued at the rate of 12.75% per annum. The outstanding principal was due in six monthly installments of \$1.5 million and a final seventh monthly installment of the remaining balance plus all accrued interest under the terms of the note starting on January 31, 2007 and ending on July 31, 2007. In connection with the loan, the Company and its subsidiaries appointed Benfield as their reinsurance intermediary for all of their reinsurance placements for the contract year beginning on June 1, 2007. The Company made all payments under the note in a timely manner and paid the final installment on July 18, 2007. Under the terms of the note, Benfield Greig (Holdings), Inc. agreed to refund a portion of the interest paid on the note if the Company fulfilled all its material obligations under the related broker agreements. On July 27, 2007, the Company received a refund of interest from Benfield Greig (Holdings), Inc. in the amount of \$280,500 that reduced the effective interest rate on the note to 8.25% per annum.

In November 2007, the Company commenced offering premium finance services through Atlas Premium Finance Company. To fund its operations, Atlas agreed to an initial finance facility of \$12 million with Flatiron Capital Corp., a premier funding partner to the commercial property and casualty insurance industry owned by TD Banknorth, N.A. The interest rate is equal to the prime rate ("Money Rate" section of The Wall Street Journal) plus twenty-five basis points (0.25%).

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

Loan repayments are due as follows as of December 31, 2007:

| | | |
|------------|----|--------------|
| 2008 | \$ | 0 |
| 2009 | | 0 |
| 2010 | | 0 |
| 2011 | | 992,121 |
| 2012 | | 1,038,859 |
| Thereafter | | 22,969,020 |
| | | ----- |
| Total | | \$25,000,000 |
| | | ===== |

Interest expense was \$1,525,814 and \$412,729 for the twelve months ended December 31, 2007 and 2006, respectively.

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NOTE 8 - REGULATORY REQUIREMENTS AND RESTRICTIONS

UPCIC is subject to comprehensive regulation by the OIR. The Florida Insurance Code (the "Code") requires that UPCIC maintain minimum statutory surplus of \$4,000,000. UPCIC is also required to adhere to prescribed premium-to-surplus ratios under the Code and to maintain approved securities on deposit with the state of Florida. UPCIC's statutory surplus as of December 31, 2007 is \$98,686,993.

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The maximum amount of dividends which can be paid by Florida insurance companies without prior approval of the Florida Commissioner is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by UPCIC to the Company without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or 10.0% of statutory unassigned capital surplus as of the preceding year end. During 2007 and 2006, UPCIC did not pay dividends to the Company.

NOTE 9 - RELATED PARTY TRANSACTIONS

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

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Chief Operating Officer and Senior Vice President of UPCIC. During 2007 and 2006, the Company expensed claims adjusting fees of \$675,237 and \$829,208, respectively, to Downes and Associates.

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

NOTE 10- INCOME TAX PROVISION

The following table reconciles the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2007 and 2006:

| | 2007 | 2006 |
|--|-------|--------|
| Statutory federal income tax rate | 35.0% | 35.0% |
| Increases (decreases) resulting from: | | |
| Change in valuation allowance | 0.0% | (6.5%) |
| Disallowed executive compensation | 0.0% | 2.9% |
| Disallowed meals & entertainment | 0.0% | .7% |
| State income tax, net of federal tax benefit | 3.6% | 6.1% |
| Other, net | 1.1% | (2.7%) |
| | ----- | ----- |
| Effective tax rate | 39.7% | 35.5% |
| | ===== | ===== |

Deferred income taxes as of December 31, 2007 are provided for the temporary differences between financial reporting basis and the tax basis of the Company's assets and liabilities under SFAS 109. The tax effects of temporary differences are as follows:

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| | |
|---|--------------|
| Deferred income tax assets: | |
| Unearned premiums | \$6,331,577 |
| Advanced premiums | 792,319 |
| Unpaid losses | 851,138 |
| Regulatory assessments | 3,423,250 |
| Executive compensation | 1,652,458 |
| Allowance for uncollectible receivables | 321,199 |
| Property and equipment | 12,350 |
| Deferred ceding commission, net | 818,665 |
| | ----- |
| Deferred income taxes | \$14,202,956 |
| | ===== |

A valuation allowance is deemed unnecessary as of December 31, 2007 and December 31, 2006, respectively because management believes it is probable that the Company will generate substantial taxable income sufficient to realize the tax benefits associated with the net deferred income tax asset shown above in the near future.

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

NOTE 11 - STOCKHOLDERS' EQUITY

CUMULATIVE PREFERRED STOCK

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

STOCK OPTIONS

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

A summary of the option activity for the years ended December 31, 2007 and 2006 is presented below:

| | Number of Shares ----- | Options Exercisable ----- | | | Number of Shares ----- | Weig Aver Exer Pri --- |
|-----------------------------|------------------------------|------------------------------|-------------|--------------------------------|------------------------------|------------------------------------|
| | | Low --- | High --- | Per Share Weighted ----- | | |
| Outstanding January 1, 2006 | 7,515,000 | \$0.04 | \$1.87 | \$0.95 | 7,515,000 | \$0 |
| Exercised | (220,000) | \$0.04 | \$0.50 | \$0.08 | | |
| Cancelled | (850,000) | \$1.00 | \$1.25 | \$1.24 | | |

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| | | | | | | |
|-------------------------------|-----------|--------|--------|--------|-----------|-----|
| Outstanding December 31, 2006 | 6,445,000 | \$0.04 | \$1.87 | \$0.91 | 6,445,000 | \$0 |
| Granted | 2,010,000 | \$2.60 | \$6.50 | \$5.89 | | |
| Exercised | (750,000) | \$1.06 | \$1.87 | \$1.11 | | |
| Expired | (600,000) | \$0.63 | \$1.06 | \$0.70 | | |
| Outstanding December 31, 2007 | 7,105,000 | \$0.06 | \$6.50 | \$2.32 | 7,105,000 | \$2 |

The total intrinsic value of options exercised in 2007 was \$666,058, which options were exercised on a cashless basis. A total of 185,729 shares of Common Stock were issued in 2007 for the cashless exercise of stock options, valued at \$872,926.

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The weighted average remaining contractual life on the options outstanding and exercisable as of December 31, 2007 was 3.22 years. All options are exercisable and fully vested.

Options to purchase 2,010,000 shares of Common Stock were granted during 2007 at a weighted average exercise price of \$5.89. Options to purchase 750,000 shares of Common Stock were exercised during 2007 at a weighted average exercise price of \$1.11. On July 12, 2007, the Company granted options to purchase an aggregate of 1,575,000 shares of common stock to the Company's directors and executive officers. All of the options granted on July 12, 2007 vest on July 12, 2008, have an exercise price of \$6.50 per share, and expire on July 12, 2012. The options granted to Bradley I. Meier, the Company's President and Chief Executive Officer, and to Sean P. Downes, the Company's Chief Operating Officer and Senior Vice President, are only exercisable on such date or dates as the fair market value (as defined in their respective option agreements) of the Company's common stock is and has been at least one hundred fifty percent (150%) of the exercise price for the previous twenty (20) consecutive trading days.

The Company estimated the fair value of all stock options awards as of the grant date by applying the Black-Scholes-Merton option pricing model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate. Under SFAS 123(R), forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. The forfeiture rate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate. Under SFAS 123 and APB 25, the Company elected to account for forfeitures when awards were actually forfeited and reflect the forfeitures as a cumulative adjustment to the pro forma expense.

The fair value of options granted in 2007 was estimated assuming the following: weighted average expected life of 2.45 years, dividend yield of 4.0 percent, risk-free interest rate of 4.86 percent, and expected volatility of 70.0 percent. In accordance with SFAS 123(R), fair values of options granted prior to adoption and determined for purposes of disclosure under SFAS 123 have not been changed. The fair value of options granted prior to adoption of SFAS 123(R) was estimated assuming the following: weighted average expected life of five years, dividend yield of 0.0 percent, risk-free interest rate of 6.5 percent, and expected volatility of 154.5 percent and 126.3 percent for grants issued in 2004 and 2002, respectively.

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WARRANTS

A summary of the warrant activity for the years ended December 31, 2007 and 2006 is presented below:

| | Number of Shares | Warrants Exercisable | | | Weighted Average Number of Shares | Weight Average Exerci Price |
|-------------------------------|---------------------|----------------------|-------------------------|----------|--|--------------------------------------|
| | | Warrant Low | Price per Share High | Weighted | | |
| Outstanding January 1, 2006 | 1,932,006 | \$0.03 | \$4.25 | \$1.27 | 1,932,006 | \$1.2 |
| Exercised | (625,000) | \$0.05 | \$0.05 | \$0.05 | | |
| Cancelled | (457,006) | \$0.75 | \$3.00 | \$1.20 | | |
| Outstanding December 31, 2006 | 850,000 | \$0.03 | \$1.00 | \$0.72 | 850,000 | \$0.7 |
| Exercised | (250,000) | \$0.03 | \$0.05 | \$0.04 | | |
| Outstanding December 31, 2007 | 600,000 | \$1.00 | \$1.00 | \$1.00 | 600,000 | \$1.0 |

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The total intrinsic value of warrants exercised in 2007 was \$4,552. The total cash received in 2007 and 2006 for the exercise of stock warrants was \$10,500 and \$31,250 respectively.

The weighted average remaining contractual life on the options outstanding and exercisable as of December 31, 2007 was .96 years. All warrants are exercisable and fully vested.

The actual tax benefit realized for the tax deductions from option and warrant exercise of the share-based payment arrangements totaled \$1,753,812 for the year ended December 31, 2007 and \$376,747 for the year ended December 31, 2006.

OTHER STOCK ISSUANCES

On March 14, 2007, the Company issued 250,000 shares of restricted common stock at a price of \$3.70 per share to an employee in consideration for services rendered pursuant to the terms of an employee agreement. The shares will vest over a three year period. On May 1, 2007, the Company issued 22,143 shares of restricted common stock at a price of \$1.87 per share, on a "cashless" basis, to James M. Lynch, Executive Vice President and Chief Financial Officer of the Company, pursuant to Mr. Lynch's exercise of stock options. Also on May 1, 2007, the Company issued 387,234 shares of restricted common stock at a price of \$1.06 per share, on a "cashless" basis, to Norman M. Meier, a director of the Company, pursuant to Mr. Meier's exercise of stock options. Also on May 1, 2007, the Company issued 77,447 shares of restricted common stock at a price of \$1.06 per share, on a "cashless" basis, to Joel Wilentz, a director of the Company, pursuant to Mr. Wilentz's exercise of stock options. Also on May 1, 2007, the Company issued 77,447 shares of restricted common stock at a price of \$1.06 per share, on a "cashless" basis, to Reed Slogoff, a director of the Company, pursuant to Mr. Slogoff's exercise of stock options. On November 29, 2007, the

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Company issued 100,000 and 150,000 shares of restricted common stock at a price of \$.03 and \$.05 respectively to a private investor pursuant to the exercise of warrants to purchase restricted common stock. Unless otherwise specified, such as in the case of the exercise of stock options or warrants, the per share prices were determined using the closing price of the Company's common stock as quoted on the OTC Bulletin Board or the AMEX and the shares were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On October 4, 2007, the Company declared a dividend of \$.09 per share on its outstanding Common Stock to be paid on April 8, 2008 to the shareholders of record of the Company at the close of business on March 10, 2008. At December 31, 2007, the Company recorded a dividend payable in the amount of \$3,537,639 for this dividend and a net reduction to retained earnings in the amount of \$3,241,145, which represents the total dividend net of the dividends on the shares held in treasury stock and in the Stock Grantor Trust described in Note 11 - Stockholders' Equity. During the fourth quarter, the Company paid a dividend of \$0.08 per share of outstanding Common Stock that was accrued at the end of third quarter. The aggregate amount of the dividend was \$2,861,018. During the third quarter, the Company paid a dividend of \$0.07 per share of outstanding Common Stock that was accrued at the end of the first quarter. The aggregate amount of the dividend was \$2,503,391. During the second quarter, the Company paid a dividend of \$0.05 per share of outstanding Common Stock that was accrued in December 31, 2006. The aggregate amount of the dividend was \$1,759,922.

STOCK GRANTOR TRUST

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

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NOTE 12 - COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENTS

The Company's employment agreement with Bradley Meier is dated as of August 11, 1999. The Company and Mr. Meier have amended the employment agreement, with the most recent amendment dated March 21, 2007 (the employment agreement and the amendments are collectively referred to as the "Meier Agreement"). Under the terms of the Meier Agreement, Mr. Meier will serve as the Company's President and Chief Executive Officer. Mr. Meier received a base salary of \$830,324 in 2006, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Meier Agreement, Mr. Meier is entitled to an annual performance bonus equal to three percent (3%) of the pretax income of the Company up to \$5 million, and four percent (4%) of the pretax income of the Company in excess of \$5 million; provided, however, that any such bonus is

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contingent upon the Company's shareholders approving such bonus formula, which they have done. Mr. Meier is also eligible for other benefits customarily provided by the Company to its executive employees, and the Meier Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Meier Agreement), the Company shall pay Mr. Meier an amount equal to 48 months base salary, plus two times any bonus paid for the preceding fiscal year. Further, in the event of a Change in Control, all options held by Mr. Meier vest and become immediately exercisable. Also, in the event that the Company terminates the Meier Agreement, the Company shall pay Mr. Meier 24 months total compensation. The Meier Agreement expires on December 31, 2009; however, the agreement is automatically extended each year thereafter unless the Company or Mr. Meier provides written notice that the agreement is being terminated 60 days in advance of the anniversary date of the Meier Agreement.

The Company's employment agreement with Sean Downes is dated as of January 1, 2005 and provides that Mr. Downes will serve as Chief Operating Officer and Senior Vice President of the Company. The Company and Mr. Downes have amended the employment agreement, with the most recent amendment dated July 12, 2007 (the employment agreement and the amendments are collectively referred to as the "Downes Agreement"). Mr. Downes received a base salary of \$691,500 in 2007, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Downes Agreement, Mr. Downes is entitled to an annual performance bonus equal to three percent (3%) of the pre-tax profits of the Company; provided, however, that any such bonus is contingent upon the Company's shareholders approving such bonus formula, which they have done. Under the Downes Agreement, the Company may grant Mr. Downes options or warrants to purchase the Company's Common Stock. Mr. Downes is also eligible for other benefits customarily provided by the Company to its executive employees and the Downes Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Downes Agreement), the Company shall pay Mr. Downes an amount equal to 12 months base salary, plus the annual bonus paid for the preceding fiscal year. Also, effective January 1, 2009, if a Change of Control occurs, the Company shall pay Mr. Downes an amount equal to 2.99 times Mr. Downes' "base amount" as defined in Section 280G of the Internal Revenue Code. Further, in the event of a Change in Control, all options held by Mr. Downes vest and become immediately exercisable. The Downes Agreement expires on December 31, 2009 unless extended in writing by the Company.

On October 11, 2006, the Company entered into an employment agreement (the "Lynch Agreement") with James M. Lynch, who has served as the Company's Executive Vice President and Chief Financial Officer since August 1998. Under the terms of the Lynch Agreement, Mr. Lynch will continue to serve in such capacity. Mr. Lynch received a base salary of \$349,385 in 2007, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Lynch Agreement, Mr. Lynch is entitled to an annual performance bonus determined at the discretion of the Board of Directors of the Company; provided, however, that such bonus shall be no less than \$50,000. Mr. Lynch is also eligible for other benefits customarily provided by the Company to its executive employees. The Lynch Agreement contains noncompete and nondisclosure provisions. If Mr. Lynch's employment is terminated (i) by the Company or a succeeding entity without Cause (as defined in the Lynch Agreement) or (ii) by Mr. Lynch for Good Reason (as defined in the Lynch Agreement) within one year following a Change in Control of the Company (as defined in the Lynch Agreement), then the Company shall pay Mr. Lynch an amount equal to the greater of Mr. Lynch's current base salary (x) through December 31, 2009 or (y) for period of twelve (12) months, and Mr. Lynch will also be entitled to receive payment for COBRA premiums. The Lynch Agreement expires on December 31, 2009.

OPERATING LEASE

The Company has leased certain computer equipment and software under a master equipment lease agreement with Relational Funding, Inc. with an original equipment cost of \$1,019,295. The following is a schedule of future minimum rental payments required under the non-cancelable operating lease as of December 31, 2007:

| | |
|------|------------|
| 2008 | \$ 216,692 |
| 2009 | 141,820 |
| 2010 | 82,298 |
| 2011 | 65,695 |
| | ----- |
| | \$ 506,505 |
| | ===== |

NOTE 13 - LITIGATION

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

On February 7, 2005, Marty Steinberg as a court appointed receiver for the entities consisting of Lancer Management Group LLC, Lancer Management Group II LLC, Lancer Offshore Inc., Omnifund Ltd., LSPV Inc., LSPV LLC, Alpha Omega Group Inc. and G.H. Associates LLC (collectively the "Lancer Entities") filed suit against Alfred Taubman, Anthony Cullen, British American Racing, Centrack International, Inc., Kuwait & Middle East Financial Investment Co., Liberty International Asset Management, Macroview Investments Limited, Opus Portfolio Ltd., Reva Stocker, Roger Dodger, LLC, Signet Management Limited, Thornhill Group Inc. Trust, World Class Boxing and the Company (collectively the "Defendants") in the United States District Court for the Southern District of Florida. The Company received the notice of suit by mail on September 8, 2005. The suit alleged that the Lancer Entities fraudulently transferred funds to the Defendants and that the transfers unduly enriched the Defendants. The receiver asked the Company to pay \$658,108. The Company had no record of the alleged transfers and vigorously defended the suit. The lawsuit was dismissed with prejudice by the receiver in 2006.

NOTE 14 - EARNINGS PER SHARE

The following table reconciles the numerator (earnings) and denominator (shares) of the basic and diluted earnings per share computations for net income for the years ended December 31, 2007 and 2006.

| | For year ended December 31, 2007 | | | For y Decembe |
|---|-------------------------------------|--------|------------------|--|
| | ----- | | | ----- |
| Income Available to Common Stockholders | Amount | Shares | Per Share Amount | Income Available to Common Stockholders Amount |

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| | | | | | |
|---|--------------|------------|--------|--------------|---|
| | ----- | ----- | ----- | ----- | |
| Net income (loss) | \$54,002,288 | | | \$17,186,860 | |
| Less: Preferred stock dividends | (49,950) | | | (49,950) | |
| | ----- | | | ----- | |
| Income (loss) available to common stockholders | 53,952,338 | 35,550,503 | \$1.52 | 17,136,910 | 3 |
| | | | ----- | | |
| Effect of dilutive securities: | | | | | |
| Stock options and warrants | - | 5,241,192 | (0.02) | - | |
| Preferred stock | 49,950 | 568,325 | - | 49,950 | |
| | ----- | ----- | ----- | ----- | |
| Income (loss) available to common stockholders and assumed conversion | \$54,002,288 | 41,360,020 | \$1.31 | \$17,186,860 | 3 |
| | ----- | ----- | ----- | ----- | |

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NOTE 15 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest and income taxes during the years ended December 31, 2007 and 2006 were as follows:

| | | |
|--------------|---------------------|-------------------|
| | For the years ended | |
| | ----- | |
| | December 31, 2007 | December 31, 2006 |
| | ----- | ----- |
| Interest | \$1,524,223 | \$178,529 |
| Income Taxes | \$54,200,673 | \$2,696,500 |

NOTE 16 - SUBSEQUENT EVENTS

On January 23, 2008, the Company declared a dividend of \$.10 per share on its outstanding Common Stock of the Company to be paid on August 7, 2008 to the shareholders of record of the Company at the close of business on July 9, 2008. The Company expects to pay an aggregate dividend of approximately \$3,601,273.

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