UNIVERSAL INSURANCE HOLDINGS, INC.
Form 10-Q
May 11, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from ______________ to ______________

Commission File Number 000-20848

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

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

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

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

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

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

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

Large accelerated filer __ Accelerated filer x Non-accelerated filer __

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 38,523,172 shares of common stock, par value $0.01 per share, outstanding on May 5, 2009.

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UNIVERSAL INSURANCE HOLDINGS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of **Universal Insurance Holdings, Inc. and Subsidiaries** as of March 31, 2009 and the related condensed consolidated statements of operations and cash flows for the three-month periods ended March 31, 2009 and 2008. These interim financial statements are the responsibility of the Company's management.

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

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

/s/ Blackman Kallick LLP

Chicago, Illinois

May 11, 2009

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	(Unaudited) March 31, 2009	December 31, 2008
Cash and cash equivalents	$ 158,204,010	$ 256,964,637
Investments		
Fixed maturities, held to maturity, at amortized cost	45,621,548	4,334,405
Fixed maturities, available for sale, at fair value	65,855,861	-
Equity securities, available for sale, at fair value	60,425,345	1,314,370
Real estate, net	3,367,357	3,399,609
Prepaid reinsurance premiums	178,240,090	173,046,776
Reinsurance recoverables	45,349,520	44,009,847
Premiums receivable, net	46,568,202	40,358,720
Receivable from securities	353,118	-
Other receivables	2,595,461	5,130,402
Property and equipment, net	886,676	864,125
Deferred policy acquisition costs, net	347,924	407,946
Deferred income taxes	13,372,130	14,113,463
Other assets	310,509	692,612
Total assets	$ 621,497,751	$ 544,636,912
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Unpaid losses and loss adjustment expenses	$ 89,676,542	$ 87,947,774
Unearned premiums	275,409,412	258,489,460
Accounts payable	3,773,924	3,147,260
Payable for securities	3,305,754	1,273,941
Reinsurance payable, net	52,020,429	23,984,248
Income taxes payable	5,989,694	-
Dividends payable	4,515,715	-
Other accrued expenses	17,628,300	14,680,443
Other liabilities	34,917,612	28,560,131
Long-term debt	25,000,000	25,000,000
Total liabilities	512,237,382	443,083,257
STOCKHOLDERS' EQUITY:		
Cumulative convertible preferred stock, $.01 par value	1,087	1,387
Authorized shares - 1,000,000		
Issued shares - 108,640 and 138,640		
Outstanding shares - 108,640 and 138,640		
Minimum liquidation preference - $288,190 and $1,419,700		
Common stock, $.01 par value	402,328	401,578

Authorized shares - 55,000,000		
Issued shares - 40,233,019 and 40,158,019		
Outstanding shares - 37,617,172 and 37,542,172		
Treasury shares, at cost - 1,709,847 and 1,709,847 shares	(7,381,768)	(7,381,768)
Common stock held in trust, at cost - 906,000 shares	(733,860)	(733,860)
Additional paid-in capital	34,569,639	33,587,414
Accumulated other comprehensive income, net of taxes	2,580,975	24,834
Retained earnings	79,821,968	75,654,070
Total stockholders' equity	109,260,369	101,553,655
Total liabilities and stockholders' equity	$ 621,497,751	$ 544,636,912

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

(**Unaudited**)

	For the Three Months Ended March 31,	
	2009	2008
PREMIUMS EARNED AND OTHER REVENUES		
Direct premiums written	$ 145,212,145	$ 126,667,669
Ceded premiums written	(95,727,857)	(89,770,703)
Net premiums written	49,484,288	36,896,966
Increase in net unearned premium	(11,726,636)	(1,803,571)
Premiums earned, net	37,757,652	35,093,395
Net investment income	324,589	1,240,878
Realized gains on investments	1,111,333	-
Commission revenue	7,444,849	6,867,187
Other revenue	1,479,377	1,083,013
Total premiums earned and other revenues	48,117,800	44,284,473
OPERATING COSTS AND EXPENSES		
Losses and loss adjustment expenses	20,420,664	12,725,862
General and administrative expenses	7,515,228	8,209,374
Total operating costs and expenses	27,935,892	20,935,236
INCOME BEFORE INCOME TAXES	20,181,908	23,349,237
Income taxes, current	8,582,617	10,557,716
Income taxes, deferred	(838,539)	(1,516,795)
Income taxes, net	7,744,078	9,040,921
NET INCOME	$ 12,437,830	$ 14,308,316
Basic net income per common share	$ 0.33	$ 0.39
Weighted average of common shares outstanding – Basic	37,561,341	36,946,000
Fully diluted net income per share	$ 0.31	$ 0.35
Weighted average of common shares outstanding – Diluted	39,921,929	41,327,000
Cash dividend declared per common share	$ 0.22	$ 0.10

For the Three

	Months Ended March 31,	
	2009	2008
Comprehensive Income:		
Net income	$ 12,437,830	$ 14,308,316
Net unrealized gains on investments, net of tax	2,556,141	-
Comprehensive Income	$ 14,993,971	$ 14,308,316

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(Unaudited)

	Common Shares	Preferred Stock Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Stock Held in Trust	Treasury Stock	To Stockh Eq
For the Three Months Ended March 31, 2009										
Balance, December 31, 2008	40,158,019	138,640	$ 401,578	$ 1,387	$ 33,587,414	$ 75,654,070	$ 24,834	$ (733,860)	$ (7,381,768)	101,:
Preferred stock conversion	75,000	(30,000)	750	(300)	(450)					
Stock compensation plans					820,156					8
Net income						12,437,830				12,4
Amortization of deferred compensation					162,519					
Declaration of dividends						(8,269,932)				(8,2
Net unrealized gains on investments, net of tax effect of $1,595,467							2,556,141			2,:
Balance, March 31, 2009	40,233,019	108,640	$ 402,328	$ 1,087	$34,569,639	$ 79,821,968	$ 2,580,975	$ (733,860)	$ (7,381,768)	109,:
For the Three Months Ended March 31, 2008										
Balance, December 31, 2007	39,307,103	138,640	$ 393,072	$ 1,387	$24,779,798	$ 50,724,674	$ -	$ (2,349,000)	$ (974,746)	$ 72,:
Issuance of common shares	1,516,000		15,160		2,505,370				(3,407,234)	(8

Stock compensation plans					1,109,042					1,
Net income						14,308,316				14,
Tax benefit on exercise of stock options					3,039,081					3,
Amortization of deferred compensation					77,082					
Declaration of dividends						(3,799,661)				(3,7
Balance, March 31, 2008	40,823,103	138,640	$ 408,232	$ 1,387	$ 31,510,373	$ 61,233,329	$ -	$ (2,349,000)	$ (4,381,980)	$ 86,

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

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

(**Unaudited**)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities		
Net Income	$ 12,437,830	$ 14,308,316
Adjustments to reconcile net income to net cash provided by operating activities:		
Allowance for doubtful accounts	377,219	657,268
Amortization and depreciation	122,944	121,751
Amortization of FAS 123R cost of stock options	820,156	1,109,042
Amortization of restricted stock grant	162,519	77,082
Deferred taxes	(1,043,781)	(1,516,794)
Tax benefit on exercise of stock options	-	(2,513,609)
Other	135,387	4,568
Net change in assets and liabilities relating to operating activities:		
Reinsurance recoverables	(1,339,673)	(9,795,546)
Accrued investment income	(487,705)	-
Prepaid reinsurance premiums	(5,193,314)	(1,160)
Premiums receivable	(6,586,701)	(6,073,373)
Other receivables	2,892,527	292,702
Deferred acquisition costs, net	60,022	-
Other assets	382,103	(392,429)
Reinsurance payable	28,036,181	39,075,248
Deferred ceding commission, net	-	98,720
Other liabilities	6,357,481	12,723,135
Accounts payable	(647,277)	276,133
Taxes payable	5,989,694	10,099,043
Other accrued expenses	2,947,857	594,395
Unpaid losses and loss adjustment expenses	1,728,768	(1,534,443)
Unearned premiums	16,919,952	1,804,730
Net cash provided by operating activities	64,072,189	59,414,779
Cash flows from investing activities		
Purchases of fixed maturities:		
Held to maturity	(38,281,966)	(1,589,040)
Available for sale	(63,665,595)	-
Purchases of equity securities, available for sale	(65,258,180)	-
Sales of equity securities, available for sale	8,218,865	-
Capital expenditures and building improvements	(91,723)	(355,218)
Net cash used in investing activities	(159,078,599)	(1,944,258)
Cash flows from financing activities		
Preferred stock dividend	-	(12,487)
Common stock dividend	(3,754,217)	-
Issuance of common stock	-	130,530

Acquisition of treasury stock	-	(1,017,234)
Tax benefit on exercise of stock options	-	2,513,609
Repayments of loans payable	-	(2,820)
Net cash (used in) provided by financing activities	(3,754,217)	1,611,598
Net (decrease) increase in cash and cash equivalents	(98,760,627)	59,082,119
Cash and cash equivalents at beginning of period	256,964,637	216,696,704
Cash and cash equivalents at end of period	$ 158,204,010	$ 275,778,823
Non cash items:		
Dividends accrued	$ 4,515,715	$ 3,787,174

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2009
(Unaudited)

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.

Basis of Presentation

Our unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of Universal Insurance Holdings, Inc. and its subsidiaries. We have made all adjustments that, in our opinion, are necessary for a fair statement of results of the interim periods, and all such adjustments are of a normal recurring nature. All significant intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated financial statements should be read in conjunction with our annual audited consolidated financial statements and related notes. The condensed consolidated balance sheet at December 31, 2008 was derived from audited financial statements, but does not include all disclosures required by GAAP.

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

2. Significant Accounting Policies

We reported Significant Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2008. The following are new or revised disclosures.

Securities Held to Maturity. Investments for which the Company has the ability and intent to hold to maturity are reported at amortized cost, adjusted for amortization of premiums or discounts and other-than-temporary declines in fair value. Realized gains and losses are determined using the first in, first out ("FIFO") method. The securities held to maturity, currently held by the Company, are primarily to satisfy statutory deposits requirements of various states in which the Company is authorized to write insurance policies.

Securities Available for Sale. Investments available-for-sale are stated at fair value on the balance sheet. Unrealized gains and losses are excluded from earnings and are reported as a component of other comprehensive income within stockholders' equity, net of related deferred income taxes. Realized gains and losses are determined using the FIFO method.

Impairment of Securities. For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of deferred income taxes (as disclosed in Note 5), is reported as a component of accumulated other comprehensive income on the condensed consolidated Balance Sheet and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when the decline in fair value is deemed other than temporary. The assessment of whether the impairment of a security's fair value is other than temporary is performed using a portfolio review as well as a case-by-case review considering a wide range of factors.

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

The Company performed an evaluation of its investments classified as held to maturity and has determined that, as of March 31, 2009, there were aggregate unrealized losses of $11,436 on held to maturity investments. The Company performed an evaluation of its investments classified as available for sale and has determined that it held equiy securities as of March 31, 2009 with unrealized losses in the aggregate amount of $1,451,408. The Company held no securities for which impairment is other than temporary.

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 equivalents: the carrying amount approximates fair value because of the short maturity of those instruments.

Fixed maturities: the carrying amount for fixed maturities held to maturity securities reported in the condensed consolidated balance sheet represents amortized cost. The fair value of the Company's held to maturity securities determined using unadjusted quoted market prices is $45,738,751. The carrying amount for fixed maturities classified as available-for-sale represents fair value, which is determined using unadjusted quoted market prices, with unrealized gains and losses excluded from earnings and reported in a separate component of stockholders' equity, namely Accumulated Other Comprehensive Income.

Equity securities: the Company's equity securities are classified as "available-for-sale" and are, therefore, carried on the condensed consolidated balance sheet at fair value using unadjusted quoted market prices.

Long-term debt was held at a carrying value of $25,000,000 as of March 31, 2009 and December 31, 2008. The fair value of long-term debt as of March 31, 2009 was estimated based on discounted cash flows utilizing interest rates currently offered for similar products and determined to be $20,235,140.

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 money market accounts and repurchase agreements backed by the US Government and US Government Agency Securities with major national banks. These accounts are held by the Institutional Trust & Custody division of U.S. Bank, the Trust Department of SunTrust Bank and Evergreen Investment Management Company, LLC.

The Company maintains depository relationships with SunTrust Bank and Wachovia Bank, N.A. It is the Company's policy not to have a balance of more than $250,000 for any of its affiliates at either institution on any given day to minimize exposure to a bank failure. Both banks participate in FDIC's Temporary Liquidity Guarantee Program, which provides unlimited deposit insurance coverage through December 31, 2009 for non-interest bearing transaction accounts. Cash balances in excess of FDIC-insured limits are transferred daily into custodial accounts with SunTrust Bank where cash is immediately invested into shares of Ridgeworth Institutional US Treasury Securities Money Market.

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. UPCIC's largest reinsurer, Everest Reinsurance Company, has the following ratings from each of the rating agencies: A+ from A.M.

Best Company, A+ from Standard and Poor's Rating Services and Aa3 from Moody's Investors Service, Inc. As of March 31, 2009 and December 31, 2008, UPCIC's reinsurance portfolio contained the following authorized reinsurers that had unsecured recoverables for paid and unpaid losses, including incurred but not reported ("IBNR") reserves, loss adjustment expenses and unearned premiums whose aggregate balance exceeded 3% of UPCIC's statutory surplus:

Reinsurer	As of March 31, 2009	As of December 31, 2008
Everest Reinsurance Company	$155,135,698	$168,444,284
Florida Hurricane Catastrophe Fund	15,019,351	31,445,808
Total	$170,155,049	$199,890,092

As of March 31, 2009 and December 31, 2008, UPCIC did not have any unsecured recoverables from unauthorized reinsurers exceeding 3% of UPCIC's statutory surplus.

Stock Options. Under SFAS No. 123 (Revised 2004), Share-Based Payment, the compensation expense for the stock compensation plans that has been charged against income before income taxes was $820,156 and $1,109,042 for the three-month periods ended March 31, 2009 and 2008, respectively, with a corresponding deferred income tax benefit of $316,375 and $427,813, respectively. As of March 31, 2009 the total unrecognized compensation cost related to nonvested share-based compensation granted under the stock compensation plans was $942,837. The cost is expected to be recognized over a weighted average period of 0.9 years. The Company periodically issues restricted common stock as compensation. These restricted stock awards are expensed ratably over their respective vesting periods. The Company did not issue restricted common stock during the three-month periods ended March 31, 2009 and 2008.

Recent Accounting Pronouncements

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"), which amends and expands the disclosure requirements of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), to provide an enhanced understanding of an entity's use of derivative instruments, how they are accounted for under SFAS 133 and their effect on the entity's financial position, financial performance and cash flows. The provisions of SFAS 161 are effective as of the beginning of the Company's 2009 fiscal year. At this time the Company does not use any derivative instruments or hedging activities.

In May 2008, FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"), which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. SFAS 162 was issued to clarify that the GAAP hierarchy is directed to entities since it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The provisions of SFAS 162 are effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with GAAP." The Company has determined that this statement will not result in a change in current practice.

Also, in May 2008, FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts" ("SFAS 163") – an interpretation of FASB No. 60, "Accounting and Reporting by Insurance Enterprises," which requires an insurance enterprise to recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS 163 also clarifies how FASB No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. The provisions of SFAS 163 are effective as of the beginning of the Company's 2009 fiscal year. At this time the Company does not participate in any financial guarantee insurance contracts.portfolio.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"), which amends the criteria for the recognition of other-than-temporary impairments ("OTTI") for debt securities and requires that credit losses be recognized in earnings and losses resulting from factors other than credit of the issuer be recognized in other comprehensive income. Prior to adoption, all OTTI are recorded in earnings in the period of recognition. This FSP also expands and increases the frequency of existing disclosures. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, and requires a cumulative effect adjustment of initially applying the FSP as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Company is currently assessing the impact this FSP will have on the Company's financial condition and results of operations.

3. Insurance Operations

Unearned premiums represent amounts that UPCIC would be required to refund policyholders if their policies were canceled. UPCIC determines unearned premiums by calculating the pro-rata amount that would be due to the policyholders at a given point in time based upon the premiums due for the full policy term. At March 31, 2009, UPCIC was servicing approximately 498,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $275,409,412 and in-force premiums of approximately $534,300,000. At December 31, 2008, UPCIC was servicing 461,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $258,489,460 and in-force premiums of approximately $518,200,000.

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

		Reduction of in-force premium	
As of	Percentage of UPCIC policyholders receiving credits	Total credits	Percentage of in-force premium
6/1/2007	1.9%	$ 6,284,697	1.3%
12/31/2007	11.8%	$ 31,951,623	6.4%
3/31/2008	16.9%	$ 52,398,215	10.4%
12/31/2008	31.1%	$ 123,524,911	24.0%
3/31/2009	36.3%	$ 158,229,542	29.8%

4. Reinsurance

There have been no material changes during the period covered by this Report, outside of the ordinary course of the Company's business, to the Reinsurance note included in the Company's Annual Report on Form 10-K, for the year ended December 31, 2008.

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

Three Months Ended March 31, 2009

	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 145,212,145	$ 128,292,195	$ 41,324,392
Ceded	(95,727,857)	(90,534,543)	(20,903,728)
Net	$ 49,484,288	$ 37,757,652	$ 20,420,664

Three Months Ended March 31, 2008

	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 126,667,669	$ 124,862,938	$ 24,421,144
Ceded	(89,770,703)	(89,769,543)	(11,695,282)
Net	$ 36,896,966	$ 35,093,395	$ 12,725,862

Other Amounts:

Prepaid reinsurance premiums and reinsurance recoverables as of March 31, 2009 and December 31, 2008 were as follows:

	As of March 31, 2009	As of December 31, 2008
Prepaid reinsurance premiums	$ 178,240,090	$ 173,046,776
Reinsurance recoverable on unpaid losses and LAE	$ 44,949,118	$ 43,228,416
Reinsurance recoverable on paid losses	400,402	781,431
Reinsurance recoverables	$ 45,349,520	$ 44,009,847

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. Reinsurance payable to reinsurers has been offset by ceding commissions and inuring premiums receivable from reinsurers as follows:

	As of March 31, 2009	As of December 31, 2008
Reinsurance payable, net of ceding commissions due from reinsurers	$ 93,279,521	$ 60,099,512
Inuring premiums receivable	(41,259,092)	(36,115,264)
Reinsurance payable, net	$ 52,020,429	$ 23,984,248

5. Investments

Major sources of net investment income are summarized as follows:

	Three Months Ended,	
	March 31, 2009	March 31, 2008
Cash and cash equivalents	$ 215,983	$ 1,279,079
Fixed maturities	127,716	7,657
Equity securities	96,730	-
Total investment income	440,429	1,286,736
Less investment expenses	(115,840)	(45,858)
Net investment income	$ 324,589	$ 1,240,878

As of March 31, 2009 and December 31, 2008, the Company's investments consisted of cash and cash equivalents, and investments with carrying values of $330,106,764 and $262,613,412, respectively.

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

The Company maintains depository relationships with SunTrust Bank and Wachovia Bank, N.A. It is the Company's policy not to have a balance of more than $250,000 for any of its affiliates at either institution on any given day to minimize exposure to a bank failure. Both banks participate in FDIC's Temporary Liquidity Guarantee Program, which provides unlimited deposit insurance coverage through December 31, 2009 for non-interest bearing transaction accounts. Excess cash is transferred daily into custodial accounts with SunTrust Bank where cash is immediately invested into shares of Ridgeworth Institutional US Treasury Securities Money Market.

Cash and cash equivalents consisted of checking, repurchase and money market accounts with carrying values of $158,204,010 and $256,964,637 as of March 31, 2009 and December 31, 2008, respectively, held at the following financial institutions:

	As of March 31, 2009			
Financial Institution	Cash	Money Market Funds	Total	%
U. S. Bank IT&C (1)	0	74,162,209	74,162,209	46.9%
Evergreen Investment Management Company, L.L.C.	0	8,059,669	8,059,669	5.1%
SunTrust Bank	1,053,693	0	1,053,693	0.7%
SunTrust Bank Institutional Asset Services	0	72,691,356	72,691,356	45.9%
Wachovia Bank, N.A.	467,498	0	467,498	0.3%
All Other Banking Institutions	421,152	1,348,433	1,769,585	1.1%
	1,942,343	156,261,667	158,204,010	100.0%

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

	As of December 31, 2008			
Financial Institution	Cash	Money Market Funds	Total	%
U. S. Bank IT&C (1)	0	161,072,107	161,072,107	62.7%
Evergreen Investment Management Company, L.L.C.	0	10,575,615	10,575,615	4.1%
SunTrust Bank Institutional Asset Services	0	81,703,268	81,703,268	31.8%
All Other Banking Institutions	417,830	3,195,817	3,613,647	1.4%
	417,830	256,546,807	256,964,637	100.0%

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

SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Investments are classified into three categories: held to maturity, trading securities or available-for-sale. Investments classified as held to maturity include debt securities that the Company has the positive intent and ability to hold to maturity. Held to maturity securities are reported at amortized cost. Investments classified as available-for-sale include debt and equity securities that are not classified as held to maturity or as trading security investments. Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity, namely Other Comprehensive Income. The Company does not hold any trading security investments at March 31, 2008 and December 31, 2008.

The following table shows the realized gains (losses) for equity securities for the three-month periods ended March 31, 2009 and 2008.

Three-Months Ended	
March 31, 2009	March 31, 2008

	Gains (Losses)	Fair Value at Sale	Gains (Losses)	Fair Value at Sale
Equity securities	$1,111,333	$9,683,316	$ -	$ -
Total realized gains	$1,111,333	$9,683,316	$ -	$ -
Equity securities	-	-	-	-
Total realized losses	$ -	$ -	$ -	$ -

A summary of the amortized cost, estimated fair value, gross unrealized gains and losses of fixed maturities and equity securities at March 31, 2009 and December 31, 2008. The Company's foreign obligations consist of Canadian Government Bonds, Canadian Government Sovereign Notes, and Canadian Treasury Bills.

	March 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities - held to maturity:				
US government and agency obligations	$ 4,355,808	$ 101,804	$ -	$ 4,457,612
Foreign obligations	41,265,740	26,835	(11,436)	41,281,139
	$ 45,621,548	$ 117,203	$ -	$ 45,738,751
Fixed maturities - available for sale:				
US government and agency obligations	$ 63,535,400	$ 2,320,461	$ -	$ 65,855,861
	$ 63,535,400	$ 2,320,461	$ -	$ 65,855,861
Equity securities	$ 58,228,659	$ 3,648,094	$ (1,451,408)	$ 60,425,345

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities - held to maturity:				
US government and agency obligations	$ 4,334,405	$ 125,760	$ -	$ 4,460,165
	$ 4,334,405	$ 125,760	$ -	$ 4,460,165
Equity securities	$ 1,273,941	$ 40,738	$ (309)	$ 1,314,370

The table below reflects the Company's unrealized investment losses by investment class, aged for length of time in an unrealized loss position.

	Unrealized net losses	Less than 12 months	12 months or longer
Equity securities:			
Common stocks	$1,451,408	$ 1,451,408	$ -
Total equity securities	$1,451,408	$ 1,451,408	$ -

Below is a summary of fixed maturities at March 31, 2009 and December 31, 2008 by contractual or expected periods.

	March 31, 2009		December 31, 2008	
Held-to-maturity	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$22,355,238	$22,386,928	$ 2,626,958	$ 2,674,230
Due after one year through five years	23,266,310	23,351,823	1,707,447	1,785,935
Due after five years through ten years	-	-	-	-
Due after ten years	-	-	-	-
Total	$45,621,548	$45,738,751	$ 4,334,405	$ 4,460,165

	March 31, 2009		December 31, 2008	
Available-for-Sale	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	-	-
Due after five years through ten years	63,535,400	65,855,861	-	-
Due after ten years	-	-	-	-
Total	$63,535,400	$65,855,861	$ -	$ -

The Company has made an assessment of its invested assets for fair value measurement as further described in Note 12 – Fair Value Disclosure.

6. Loans Payable and Long-Term Debt

Surplus Note

On November 9, 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration (“SBA”) under the ICBUI Program. Under the ICBUI program, which was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the SBA matched UPCIC’s funds of $25.0 million that were earmarked for participation in the program. The surplus note brings the current capital and surplus of UPCIC to approximately $98.5 million. The $25.0 million is invested in a U.S. treasury money market account.

The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, UPCIC 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 the OIR. Principal repayments are scheduled to be made in equal quarterly installments of $367,647. The first scheduled principal payment is due January 1, 2010.

As of March 31, 2009 and December 31, 2008, the balances due under the surplus note are shown in the Company’s condensed consolidated Balance Sheets as Long-Term Debt with carrying values of $25,000,000.

Repayments of principal are estimated to be as follows as of March 31, 2009:

2009	$ 0
2010	1,470,588
2011	1,470,588
2012	1,470,588
2013	1,470,588
Thereafter	19,117,648
Total	$25,000,000

In May 2008, the Florida Legislature passed a law providing participants in the Program an opportunity to amend the terms of their surplus notes based on law changes. The new law contains methods for calculating compliance with the writing ratio requirements that are more favorable to UPCIC than prior law and the prior terms of the existing surplus note. On November 6, 2008, UPCIC and the SBA executed an addendum to the surplus note ("the addendum") that reflects these law changes. The terms of the addendum were effective July 1, 2008. In addition to other less significant changes, the addendum modifies the definitions of Minimum Required Surplus, Minimum Writing Ratio, Surplus, and Gross Written Premium, respectively, as defined in the original surplus note.

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

The original surplus note provided for increases in interest rates for failure to meet the Minimum Writing Ratio. Under the terms of the surplus note agreement, at December 31, 2007, the interest rate on the note was increased by 450 basis points. As of June 30, 2008, the additional interest rate on the note was decreased from 450 basis points to 25 basis points. Under the terms of the surplus note, as amended, the net written premium to surplus requirement and gross written premium to surplus requirement have been modified. As of March 31, 2009, UPCIC's net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC was not subject to increases in interest rates.

Finance Facility

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

Interest Expense

Interest expense, comprised primarily of interest on the surplus note, was $139,778 and $544,321, respectively, for the three-month periods ended March 31, 2009 and 2008.

7. Related Party Transactions

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Chief Operating Officer and Senior Vice President of UPCIC. During the three-month periods ended March 31, 2009 and 2008, the Company expensed claims adjusting fees of $90,000 and $60,000, respectively, to Downes and Associates.

8. Income Tax Provision

Deferred income taxes as of March 31, 2009 and December 31, 2008 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:

	As of March 31, 2009	As of December 31, 2008
Deferred income tax assets:		
Unearned premiums	$ 7,496,613	$ 6,591,903
Advanced premiums	1,222,589	886,088
Unpaid losses	1,342,026	1,290,615
Regulatory assessments	957,691	1,662,854
Executive compensation	-	269,942
Shareholder compensation	268,846	409,351
Stock option expense per SFAS 123 (R)	2,835,721	2,519,346
Accrued wages	341,439	251,948
Allowance for uncollectible receivables	683,247	540,049
Total deferred income tax assets	15,148,172	14,422,096
Deferred income tax liabilities:		
Property and equipment	-	(26,617)
Deferred policy acquisition costs, net	(134,212)	(157,365)
Restricted stock grant	(46,363)	(109,056)
Unrealized gains on common stock	(1,595,467)	(15,595)
Total deferred income tax liabilities	(1,776,042)	(308,633)
Net deferred income tax asset	$ 13,372,130	$ 14,113,463

A valuation allowance is deemed unnecessary as of March 31, 2009 and December 31, 2008, 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%.

The Company's earliest open tax year for purposes of examination of its income tax liability due to taxing authorities is the year ended December 31, 2005. The Company's U.S. Corporation Income Tax Return for the 2006 tax year is currently undergoing examination by the Internal Revenue Service.

9. Stockholders' Equity

Cumulative Preferred Stock

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

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.

A summary of the option activity for the three-month period ended March 31, 2009 is presented below:

	Options Exercisable				
	Number of Shares	Option Price per Share Low	High	Weighted	Aggregate Intrinsic Value
Outstanding December 31, 2008	6,650,000	$ 0.50	$ 6.50	$ 3.15	$ 3,795,250
Granted	-				
Exercised	-				
Expired	-				
Outstanding March 31, 2009	6,650,000	$ 0.50	$ 6.50	$ 3.15	$ 8,574,600

Common Stock

The following table summarizes the activity relating to shares of the Company's common stock during the three-month period ended March 31, 2009:

	Issued Shares	Treasury Shares	Shares held in trust	Outstanding Shares
Balance, as of December 31, 2008	40,158,019	(1,709,847)	(906,000)	37,542,172
Preferred stock conversion	75,000			75,000
Balance, as of March 31, 2009	40,233,019	(1,709,847)	(906,000)	37,617,172

Stock Issuances

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

10. Earnings Per Share

Earnings per share ("EPS") amounts are calculated in accordance with SFAS No. 128, "Earnings per Share." Basic EPS is based on the weighted average number of shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution that could occur if securities to issue common stock were exercised.

The following table reconciles the numerator (i.e., income) and denominator (i.e., shares) of the basic and diluted earnings per share computations for net income for the three-months ended March 31, 2009 and 2008.

	Three Months Ended March 31, 2009			Three Months Ended March 31, 2008		
	Income Available to Commom Stockholders	Shares	Per-Share Amount	Income Available to Commom Stockholders	Shares	Per-Share Amount
Net income	$12,437,830			$14,308,316		
Less: preferred stocks dividends	(10,654)			(12,488)		
Income available to common stockholders	$12,427,176	37,561,341	$0.33	$14,295,828	36,946,000	$0.39
Effect of dilutive securities:						