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UNIVERSAL INSURANCE HOLDINGS INC
Form 10QSB
November 14, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended September 30, 2006

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 small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

65-0231984
(I.R.S. Employer
Identification No.)

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

(954) 958-1200
(Issuer's telephone number)

State the number of shares outstanding of each of the issuer's classes of
common equity, as of the last practicable date: 38,057,103 shares of common
stock as of November 14, 2006.

Transitional Small Business Disclosure Format Yes ___ No X

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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We have reviewed the accompanying condensed consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries as of September 30, 2006 and the related condensed consolidated statements of income for the three and nine-month periods ended September 30, 2006 and 2005 and cash flows for the nine-month periods ended September 30, 2006 and 2005. 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 Bartelstein, LLP

Chicago, Illinois
November 14, 2006

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UNIVERSAL INSURANCE HOLDINGS, INC.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The following unaudited consolidated financial statements of Universal Insurance Holdings, Inc. have been prepared in accordance with the instructions to Form 10-QSB and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) necessary for a fair presentation of the financial information for the interim periods reported have been made. Results of operations for the three and nine-months ended September 30, 2006 are not necessarily indicative of the results for the year ending December 31, 2006.

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2006
(Unaudited)

ASSETS

Cash and cash equivalents

\$ 143,730,591

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| | |
|--------------------------------|----------------|
| Reinsurance recoverables | 174,213,999 |
| Premiums and other receivables | 30,374,142 |
| Deferred acquisition costs | 1,017,567 |
| Real estate | 3,159,181 |
| Property and equipment, net | 729,274 |
| Deferred income tax | 4,682,582 |
| Other assets | 29,113 |
| | ----- |
| Total assets | \$ 357,936,449 |
| | ===== |

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:

| | |
|--|----------------|
| Unpaid losses and loss adjustment expenses | \$ 39,274,177 |
| Unearned premiums | 166,301,342 |
| Advanced premiums | 4,689,166 |
| Accounts payable | 350,463 |
| Reinsurance payable | 112,607,018 |
| Income taxes payable | 7,006,677 |
| Dividends payable | 1,902,855 |
| Other accrued expenses | 9,932,592 |
| Loans payable | 690,790 |
| | ----- |
| Total liabilities | \$ 342,755,080 |
| | ===== |

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, 50,000,000 shares authorized, 38,057,103 shares issued and 34,948,458 shares outstanding | 301,977 |
| Common stock in treasury, at cost - 208,645 shares | (101,820) |
| Minority interest | 35,000 |
| Additional paid-in capital | 16,319,655 |
| Accumulated deficit | (1,374,830) |
| | ----- |
| Total stockholders' equity | 15,181,369 |
| | ----- |
| Total liabilities and stockholders' equity | \$357,936,449 |
| | ===== |

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 INCOME
(Unaudited)

| | Nine Months Ended | | Three M |
|--|-------------------|---------------|---------------|
| | September 30, | September 30, | September 30, |
| | 2006 | 2005 | 2006 |
| | ---- | ---- | ---- |

PREMIUMS EARNED AND OTHER REVENUES:

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| | | | |
|---|----------------|---------------|----------------|
| Direct premiums written | \$ 230,431,095 | \$ 61,040,560 | \$ 116,427,419 |
| Ceded premiums written | (148,517,735) | (37,341,229) | (70,571,961) |
| | ----- | ----- | ----- |
| Net premiums written | 81,913,360 | 23,699,331 | 45,855,458 |
| Increase in unearned premiums | (54,805,591) | (13,846,231) | (29,726,155) |
| | ----- | ----- | ----- |
| Premiums earned, net | 27,107,769 | 9,853,100 | 16,129,303 |
| Net investment income | 2,047,374 | 655,018 | 1,078,191 |
| Commission revenue | 4,525,861 | 1,839,828 | 1,995,396 |
| Transaction fees | - | 272,872 | - |
| Other revenue | 303,307 | 257,174 | 101,978 |
| | ----- | ----- | ----- |
| Total premiums earned and other revenues | 33,984,311 | 12,877,992 | 19,304,868 |
| | ----- | ----- | ----- |
| OPERATING COSTS AND EXPENSES | | | |
| Losses and loss adjustment expenses | 11,276,805 | 3,690,294 | 6,243,606 |
| General and administrative expenses | 10,253,685 | 5,251,968 | 7,270,889 |
| | ----- | ----- | ----- |
| Total operating costs and expenses | 21,530,490 | 8,942,262 | 13,514,495 |
| | ----- | ----- | ----- |
| INCOME BEFORE FEDERAL INCOME TAXES | | | |
| | 12,453,821 | 3,935,730 | 5,790,373 |
| | ----- | ----- | ----- |
| Federal income taxes current | 7,479,177 | 78,715 | 4,863,244 |
| Federal income taxes deferred | (4,075,283) | - | (2,836,613) |
| | ----- | ----- | ----- |
| Federal income taxes, net | 3,403,894 | 78,715 | 2,026,631 |
| | ----- | ----- | ----- |
| NET INCOME | | | |
| | \$ 9,049,927 | \$ 3,857,015 | \$ 3,763,742 |
| | ===== | ===== | ===== |
| INCOME PER COMMON SHARE | | | |
| Basic | \$ 0.26 | \$ 0.12 | \$ 0.11 |
| | ===== | ===== | ===== |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC | | | |
| | 34,409,000 | 32,808,000 | 34,891,000 |
| | ===== | ===== | ===== |
| INCOME PER COMMON SHARE Diluted | | | |
| | \$ 0.24 | \$ 0.11 | \$ 0.10 |
| | ===== | ===== | ===== |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED | | | |
| | 37,170,000 | 33,563,000 | 38,194,000 |
| | ===== | ===== | ===== |
| CASH DIVIDEND DECLARED PER COMMON SHARE | | | |
| | \$ 0.13 | \$ - | \$ 0.05 |
| | ===== | ===== | ===== |

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

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

| | |
|---|---|
| Nine Months Ended September 30, 2006 | Nine Months Ended September 30, 2005 |
| ----- | ----- |

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CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|--|----------------|---------------|
| Net income | | |
| Net income | \$ 9,061,431 | \$ 3,857,015 |
| Minority interest | (11,504) | - |
| | ----- | ----- |
| Net income | 9,049,927 | 3,857,015 |
| | | |
| Adjustments to reconcile net income to cash provided by operations: | | |
| Amortization and depreciation | 185,062 | 235,343 |
| Issuance of common stock as compensation | 1,102,014 | 90,466 |
| Net change in assets and liabilities relating to operating activities: | | |
| Reinsurance recoverables | (52,276,131) | 35,897,545 |
| Premiums and other receivables | (24,900,247) | (3,665,873) |
| Deferred taxes | (4,075,283) | - |
| Reinsurance payable | 68,154,665 | (183,923) |
| Deferred acquisition costs | (1,017,567) | - |
| Deferred ceding commission | (1,043,544) | - |
| Advanced premiums | 3,681,337 | 1,204,113 |
| Accounts payable | (585,071) | (2,343,111) |
| Taxes payable | 7,006,677 | 657,937 |
| Other accrued expenses | 5,296,594 | (241,900) |
| Unpaid losses and loss adjustment expenses | (27,725,779) | (39,095,817) |
| Unearned premiums | 115,411,337 | 19,891,968 |
| Other assets | 917,133 | (128,538) |
| | ----- | ----- |
| Net cash provided by operating activities | 99,181,124 | 16,175,225 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | 27,164 | (321,181) |
| Building Improvements | (71,290) | - |
| Purchase of real estate | - | (1,489,321) |
| | ----- | ----- |
| Net cash used in investing activities | (44,126) | (1,810,502) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Referred stock dividend | (37,464) | (37,464) |
| Common stock dividend paid | (3,007,135) | - |
| Issuance of common stock | 45,249 | - |
| Repayments of loans payable | (461,297) | (480,905) |
| Proceeds from loans payable | - | 1,039,933 |
| Minority interest | 15,504 | - |
| | ----- | ----- |
| Net cash (used in) provided by financing activities | (3,445,143) | 521,564 |
| | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 95,691,855 | 14,886,287 |
| | | |
| CASH AND CASH EQUIVALENTS, Beginning of period | 48,038,736 | 22,443,579 |
| | | |
| CASH AND CASH EQUIVALENTS, End of period | \$ 143,730,591 | \$ 37,329,866 |
| | | |
| Non-cash items | | |
| Declared dividends payable | \$ 1,902,855 | \$ - |
| | ===== | ===== |

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

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(Unaudited)

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements include the accounts of Universal Insurance Holdings, Inc. ("Company"), its wholly owned subsidiary, Universal Property & Casualty Insurance Company ("UPCIC"), and other wholly owned entities; Sterling Premium Finance Company, which is wholly owned by Atlas Florida Financial Corporation which is wholly owned by certain officers of the Company; and the Universal Insurance Holdings, Inc. Stock Grantor Trust. All intercompany accounts and transactions have been eliminated in consolidation.

To conform to the 2006 presentation, certain amounts in the prior year's consolidated financial statements and notes have been reclassified.

The condensed consolidated balance sheet of the Company as of September 30, 2006, the related condensed consolidated statements of income for the three and nine months ended September 30, 2006 and 2005 and cash flows for the nine months ended September 30, 2006 and 2005 are unaudited. There were no items comprising comprehensive income for the nine months ended September 30, 2006 and 2005. Accordingly, consolidated statements of comprehensive income are not presented. The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005 except for the adoption of new accounting pronouncements as noted below. The interim financial statements reflect all adjustments (consisting primarily of normal and recurring accruals and adjustments) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The Company's operating results for any particular interim period may not be indicative of results for the full year and thus should be read in conjunction with the Company's annual statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 period. Actual results could differ from those estimates.

OFF-BALANCE SHEET ARRANGEMENTS. There were no off-balance sheet arrangements during the first nine months of 2006.

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 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

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2004) requires a public entity to measure the cost of employee services received

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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 Financial Accounting Standards Board (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. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of FIN 48 on our results of operations, financial position and cash flows.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES. Management has reassessed the critical accounting policies as disclosed in our 2005 Annual Report to Stockholders on Form 10-KSB and determined that no changes, additions or deletions are needed to the policies as disclosed. Also there were no significant changes in our estimates associated with those policies.

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RISKS AND UNCERTAINTIES. The Company's business could be affected by regulatory and competitive restrictions on pricing for new and renewal business, the availability and cost of catastrophic reinsurance, adverse loss experience and federal and state legislation or governmental regulations of insurance companies. Changes in these areas could adversely affect the Company's operations in the future.

Management continues to take action to improve and strengthen UPCIC's financial condition. Premium rate increases have been implemented. UPCIC changed the geographic and coverage mix of the property insurance it writes, which is a key determinant in the amount and pricing of reinsurance procured by UPCIC. In light

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of the four windstorm catastrophes Florida experienced in 2004, and three windstorm catastrophes Florida experienced in 2005, there was a significant increase in catastrophe reinsurance cost for the June 1, 2006 renewal which the Company had planned and factored into its original policy pricing. Effective May 1, 2004 the Company brought in house the system it utilizes for policy issuance and administration. This has enhanced UPCIC's operating results through its ability to improve and better control underwriting and loss adjusting activities. Management believes the implementation of, and results attributable to, the actions described above will continue to maintain UPCIC's surplus. However, there can be no assurance of the ultimate success of these plans, or that the Company will be able to maintain profitability.

The Company is currently involved in efforts to bring additional capital into the Company. UPCIC has been approved by the State Board of Administration of Florida for a \$25 million surplus note in connection with Florida's Insurance Capital Build-Up Incentive Program. The program was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in the wake of the 2004 and 2005 hurricane seasons. UPCIC's approval under the program was contingent upon it matching funds in the amount of \$25 million. The Company has finalized the financing necessary to meet the matching obligation under the program and on November 9, 2006 received \$25 million from the State Board of Administration of Florida. (See Note 10)

Effective June 1, 2006, the Company reduced the rate of cession on its quota share reinsurance. Quota share reinsurance is used primarily to increase the Company's underwriting capacity and to reduce exposure to losses. Quota share reinsurance refers to a form of reinsurance under which the reinsurer participates in a specified percentage of the premiums and losses on all reinsured policies in a given class of business. As a result of this reduction of the Company's quota share reinsurance from 80% to 50%, the Company will retain and earn more premiums the Company writes, but will also retain more related losses. The Company's increased exposure to potential losses could have a material adverse effect on the Company's business, financial condition and results of operations.

NOTE 2 - RESULTS OF OPERATIONS

INSURANCE OPERATIONS

UPCIC commenced its insurance activity in February 1998 by assuming policies from the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"). UPCIC received the unearned premiums and began servicing such policies. Since then, UPCIC has been renewing these policies as well as soliciting business actively in the open market through independent agents.

Unearned premiums represent amounts that UPCIC would refund policyholders if

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their policies were canceled. UPCIC determines unearned premiums by calculating the pro-rata amount that would be due to the policyholder at a given point in time based upon the premiums owed over the life of each policy. At September 30, 2006, the Company had unearned premiums totaling \$166,301,342.

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Premiums earned are included in earnings evenly over the terms of the policies. UPCIC does not have policies that provide for retroactive premium adjustments.

Policy acquisition costs, consisting of commissions and other costs that vary with and are directly related to the production of business, net of ceding commissions, are deferred and amortized over the terms of the policies, but only to the extent that unearned premiums are sufficient to cover all related costs and expenses. At September 30, 2006, deferred policy acquisition costs amounted to \$1,017,567.

An allowance for uncollectible premiums receivable is established when it becomes evident that collection is doubtful, typically after 90 days past due. No allowance is deemed necessary at September 30, 2006.

Loss and loss adjustment expenses ("LAE"), less related reinsurance, are provided for as claims are incurred. The provision for unpaid loss and LAE includes: (1) the accumulation of individual case estimates for loss and LAE reported prior to the close of the accounting period; (2) estimates for unreported claims based on past experience modified for current trends; and (3) estimates of expenses for investigating and adjusting claims based on past experience. During 2005, Florida experienced three windstorm catastrophes (Hurricanes Dennis, Katrina and Wilma) which resulted in losses. As a result of these storms, the Company currently estimates that it incurred \$79,661,543 in losses prior to reinsurance and \$4,121,253 net of reinsurance.

Liabilities for unpaid claims and claims adjustment expenses are based on estimates of ultimate cost of settlement. Changes in claims estimates resulting from the continuous review process and differences between estimates and ultimate payments are reflected in expense for the period in which the revision of these estimates first becomes known. UPCIC estimates claims and claims expenses based on its historical experience and payment and reporting patterns for the type of risk involved. These estimates are continuously reviewed by UPCIC's management professionals and any resulting adjustments are reflected in operations for the period in which they are determined.

Inherent in the estimates of ultimate claims are expected trends in claims 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 historical claims experience relative to the development period, knowledge of the actual facts and circumstances, and the amount of insurance risk retained.

ONLINE COMMERCE OPERATIONS

The Company has formed subsidiaries that were to specialize in selling insurance and generating insurance leads via the Internet. Tigerquote.com Insurance & Financial Services Group, Inc. ("Tigerquote.com") and Tigerquote.com Insurance Solutions, Inc. were incorporated in Delaware on June 6, 1999 and August 23, 1999, respectively. Tigerquote.com was an Internet insurance lead generating network while Tigerquote.com Insurance Solutions, Inc. was a network of Internet insurance agencies. None of the agencies are currently active as the Company changed its focus to sell leads to other companies and independent agents.

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During the fourth quarter of 2005, the Company decided to stop generating new business on its online commerce operations and focus on its core operations.

CORPORATE AND OTHER OPERATIONS

Operating segments that are not individually reportable based on the current operations in such segments, are included in Corporate and Other. The segment currently includes the operations of Universal Insurance Holdings, Inc., Tiger Home Services, Inc. and other entities. During 2001, the Company formed Tiger Home Services, Inc., which furnished pool services to homeowners until the operation was sold during the second quarter of 2005.

NOTE 3 - REINSURANCE

In the normal course of business, UPCIC seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsurance contracts. Reinsurance premiums, losses and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance ceding commissions received are deferred and netted against policy acquisition costs and amortized over the effective period of the related insurance policies.

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. 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 at least typical for a company of its size in the Florida homeowner's insurance industry.

Effective June 1, 2006, UPCIC entered into a quota share reinsurance treaty and excess per risk agreements with various reinsurers. 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 from losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services ("PCS") office of \$55,000,000. Effective 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, 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.

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Effective June 1, 2006 through May 31, 2007, under an excess catastrophe contract, UPCIC obtained catastrophe coverage of \$76,000,000 in excess of \$25,000,000 covering certain loss occurrences including hurricanes. The contract contains a provision for one reinstatement in the event coverage is exhausted; additional premium is calculated pro rata as to amount and 100% as to time. 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, 2006, 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. UPCIC also obtained coverage from the Florida Hurricane Catastrophe Fund ("FHCF"). The approximate coverage is estimated to be for \$231,382,000 in excess of \$81,364,000. Also at June 1, 2006, the FHCF made available \$10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies, such as UPCIC. This particular layer of coverage is \$10,000,000 in excess of \$3,750,000.

The estimated total cost of the Company's underlying catastrophe private reinsurance program at June 1, 2006 is \$46,920,000 of which the Company's estimated cost is 50%, or \$23,460,000, and the quota share reinsurers cost is the remaining 50%. In addition, the Company purchases reinsurance premium protection as described above which amounts to \$10,785,563. The estimated cost of the subsequent catastrophe event excess of loss reinsurance is \$3,034,706. The estimated premium the Company plans to cede to the FHCF for the 2006 hurricane season is \$15,432,459, which includes the 25% surcharge the FHCF is dictating for the 2006 hurricane season, of which the Company's estimated cost is 50%, or \$7,716,230, and the quota share reinsurers estimated cost is the remaining 50%. The Company is also participating in the additional coverage option for Limited Apportionment Companies offered by the FHCF, the premium for which is estimated to be \$5,000,000 of which the Company's estimated cost is 50%, or \$2,500,000, and the quota share reinsurers estimated cost is the remaining 50%.

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

| | Nine Months Ended September 30, 2006 | | | Nine Months Ended September 30, 2005 | |
|--------|---|--------------------|---|---|--------------------|
| | Premiums Written | Premiums Earned | Loss and Loss Adjustment Expenses | Premiums Written | Premiums Earned |
| Direct | \$230,431,095 | \$115,019,758 | \$43,582,331 | \$61,040,560 | \$41,100,000 |
| Ceded | (148,517,735) | (87,911,989) | (32,305,526) | (37,341,229) | (31,200,000) |
| Net | \$81,913,360 | \$27,107,769 | \$11,276,805 | \$23,699,331 | \$9,900,000 |

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| | Three Months Ended September 30, 2006 | | | Three Months Ended September 30, 2005 | |
|--------|--|--------------------|---|--|--------------------|
| | Premiums Written | Premiums Earned | Loss and Loss Adjustment Expenses | Premiums Written | Premiums Earned |
| Direct | \$116,427,419 | \$55,698,634 | \$15,392,134 | \$26,507,558 | \$17,100,000 |
| Ceded | (70,571,961) | (39,569,331) | (9,148,528) | (16,458,314) | (11,300,000) |
| Net | \$45,855,458 | \$16,129,303 | \$6,243,606 | \$10,049,244 | \$5,800,000 |

OTHER AMOUNTS:

| | September 30, 2006 | September 30, 2005 |
|--|--------------------|--------------------|
| Reinsurance recoverable on paid and unpaid losses and loss adjustment expenses | \$ 41,000,000 | \$ 41,000,000 |
| Unearned premiums ceded | 102,000,000 | 102,000,000 |
| Other reinsurance receivable | 30,000,000 | 30,000,000 |
| Reinsurance recoverable | \$ 173,000,000 | \$ 173,000,000 |

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. No allowance is deemed necessary at September 30, 2006. UPCIC 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. 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. In addition, UPCIC does not have any unauthorized reinsurers which have recoverable balances that are not secured by a letter of credit or that have ceded balances payable that are greater than the amount of the recoverable.

In light of the four windstorm catastrophes Florida experienced in 2004, and three windstorm catastrophes Florida experienced in 2005, there was a significant increase in catastrophe reinsurance cost for the June 1, 2006 renewal which the Company had planned and factored into its original policy pricing.

Effective June 1, 2006, the Company reduced the rate of cession on its quota share reinsurance. Quota share reinsurance is used primarily to increase the Company's underwriting capacity and to reduce exposure to losses. Quota share reinsurance refers to a form of reinsurance under which the reinsurer participates in a specified percentage of the premiums and losses on all reinsured policies in a given class of business. As a result of this reduction

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of the Company's quota share reinsurance from 80% to 50%, the Company will retain and earn more premiums the Company writes, but will also retain more related losses. The Company's increased exposure to potential losses could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may also be subject to assessments by Citizens Property Insurance Corporation, the state-run insurer of last resort and the FHCF as a result of

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operating deficiencies related to windstorm catastrophes. In addition, 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 June 12, 2006, the Florida Office of Insurance Regulation ("OIR") ordered an emergency FHCF assessment of 1% of direct premiums written effective January 1, 2007, which the Company will collect from policyholders, as the assessment is to policyholders, not the Company. This assessment was a result of catastrophe losses Florida experienced in 2004 and 2005.

During its meeting on June 16, 2006 the Board of Directors of Florida Insurance Guaranty Association ("FIGA") determined the need for an assessment upon its member companies. The Board decided on an assessment on member companies of 2% of the Florida net direct premiums for the calendar year 2005. Based on the 2005 net direct premium 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 is currently underwriting the recoupment in connection with this assessment.

NOTE 4 - 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.

A reconciliation of shares used in calculating basic and diluted EPS for the nine month periods ended September 30, 2006 and September 30, 2005, respectively, follows:

| | Nine Months En September 30, 2006 | S |
|---|--------------------------------------|---|
| Basic EPS | 34,409,000 | |
| Effect of assumed conversion of common stock equivalents | 2,761,000 | |
| Diluted EPS | 37,170,000 | |

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Options and warrants totaling approximately 3,940,000 shares of common stock and 839,000 shares of common stock respectively, were excluded from the calculation of diluted earnings per share as their effect was anti-dilutive for the nine months ended September 30, 2006. Options and warrants totaling approximately 7,684,000 shares of common stock and 3,297,000 shares of common stock respectively, were excluded from the calculation of diluted earnings per share as their effect was anti-dilutive for the nine months ended September 30, 2005. Such options and warrants could potentially dilute basic EPS in the future but

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were excluded from the computation of diluted earnings per share due to being anti-dilutive.

A reconciliation of shares used in calculating basic and diluted EPS for the three month periods ended September 30, 2006 and September 30, 2005, respectively, follows:

| | Three Months En | |
|---|---------------------|-------|
| | September 30, 2006 | S |
| | ----- | ----- |
| Basic EPS | 34,891,000 | |
| Effect of assumed conversion of common stock equivalents | 3,303,000 | |
| Diluted EPS | ----- 38,194,000 | |

Options and warrants totaling approximately 3,515,844 shares of common stock and 721,000 shares of common stock respectively, were excluded from the calculation of diluted earnings per share as their effect was anti-dilutive for the three months ended September 30, 2006. Options and warrants totaling approximately 7,441,000 shares of common stock and 3,499,000 shares of common stock respectively, were excluded from the calculation of diluted earnings per share as their effect was anti-dilutive for the three months ended September 30, 2005. Such options and warrants could potentially dilute basic EPS in the future but were excluded from the computation of diluted earnings per share due to being anti-dilutive.

NOTE 5 - STOCK-BASED COMPENSATION PLANS AND WARRANTS

Effective January, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123 (R), "Share-Based Payments," and began recognizing compensation expense in its Consolidated Statements of Income for its stock option grants based on the fair value of the awards. Prior to January 1, 2006, the Company accounted for stock options grants under the recognition and measurement of APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." No stock-based compensation expense was reflected in the net income prior to adopting SFAS 123 (R) as all options were granted at an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. 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

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Add:

| | | |
|--|-------|--|
| Total stock-based compensation expense included in reported net income, net of related tax effects | 3,632 | |
|--|-------|--|

Deduct:

| | | |
|---|---------|-----|
| Total stock-based compensation expense determined under fair value based method, net of related tax effects | (3,632) | (6) |
|---|---------|-----|

| | | |
|---------------------------------------|-------------|---------|
| SFAS No. 123 (R) pro forma net income | \$3,763,742 | \$2,831 |
|---------------------------------------|-------------|---------|

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Pro forma earnings per share

| | | |
|-------|--------|----|
| Basic | \$0.11 | \$ |
|-------|--------|----|

| | | |
|---------------|--------|----|
| Fully diluted | \$0.10 | \$ |
|---------------|--------|----|

| | | |
|--|--------|----|
| Earnings per share, as reported Basic | \$0.11 | \$ |
|--|--------|----|

| | | |
|---------------|--------|----|
| Fully diluted | \$0.10 | \$ |
|---------------|--------|----|

At September 30, 2006, there were options outstanding and currently exercisable to purchase 5,990,000 shares of common stock with a weighted average remaining contract term of 2.70 years and a weighted exercise price of \$0.92. There were options to purchase 220,000 shares of common stock exercised during the nine months ended September 30, 2006.

At September 30, 2006, there were warrants outstanding and currently exercisable to purchase 981,700 shares of common stock with a weighted average remaining contract term of 1.80 years and a weighted exercise price of \$0.72. There were warrants to purchase 625,000 shares of common stock exercised during the nine months ended September 30, 2006.

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.

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 values of options granted prior to adoption of SFAS 123 (R), of which a portion is unvested, 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

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percent for grants issued in 2004 and 2002, respectively. No options were granted in the first nine months of 2006.

NOTE 6 - SEGMENT INFORMATION

The Company and its subsidiaries operate principally in two business segments consisting of insurance and online commerce. The insurance segment consists primarily of underwriting through UPCIC, managing general agent operations through Universal Risk Advisors, Inc., claims processing through Universal Adjusting Corporation, property inspections through Universal Inspection Corporation and marketing and distribution through Coastal Homeowners Insurance

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Specialists, Inc. and Universal Florida Insurance Agency, Inc. The insurance segment sells homeowner's insurance and includes substantially all aspects of the insurance, distribution and claims process. The online commerce segment consists of Internet insurance leads generated through Tigerquote.com and commissions on policies placed by Tigerquote.com Insurance Solutions, Inc.

The accounting policies of the segments are the same as those described in the summary of the significant accounting policies and practices. The Company evaluates its business segments based on GAAP pretax operating earnings. Corporate overhead expenses are allocated to business segments. Transactions between reportable segments are accounted for at fair value.

Operating segments that are not individually reportable, based on the extent of the current operations in such segments, are included in the "All Other" category. The "All Other" category currently includes the operations of Universal Insurance Holdings, Inc., and other entities.

Information regarding components of operations for the three months and nine months ended September 30, 2006 and 2005 follows:

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| | Nine months ended September 30, 2006 ---- | 2005 ---- |
|-------------------------------------|---|--------------|
| Total Revenue | | |
| Insurance segment | \$33,975,511 | \$12,5 |
| Online commerce segment | 444 | 2 |
| Corporate and other | 84,200 | |
| | ----- | ----- |
| Total operating segments | 34,060,155 | 12,8 |
| Intercompany eliminations | (75,844) | |
| | ----- | ----- |
| Total revenues | \$33,984,311 | \$12,8 |
| | ===== | ===== |
| Earnings (loss) before income taxes | | |
| Insurance segment | \$14,796,324 | \$5,0 |
| Online commerce segment | (76,504) | (|

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| | | |
|-------------------------------------|----------------------------------|--------|
| Corporate and other | (2,265,999) | (1,0 |
| | ----- | ----- |
| Total earnings before income taxes | \$12,453,821 | \$3,9 |
| | ===== | ===== |
| | Three months ended September 30, | |
| | 2006 | 2005 |
| | ---- | ---- |
| Total revenue | | |
| Insurance segment | \$19,315,158 | \$11,6 |
| Online commerce segment | 74 | 1 |
| Corporate and other | 14,937 | (1 |
| | ----- | ----- |
| Total operating segments | 19,330,169 | 11,7 |
| Intercompany eliminations | (25,301) | (4,5 |
| | ----- | ----- |
| Total revenues | \$19,304,868 | \$7,1 |
| | ===== | ===== |
| Earnings (loss) before income taxes | | |
| Insurance segment | \$7,189,031 | \$3,2 |
| Online commerce segment | (21,047) | |
| Corporate and other | (1,377,611) | (3 |
| | ----- | ----- |
| Total earnings before income taxes | \$5,790,373 | \$2,9 |
| | ===== | ===== |

Information regarding total assets as of September 30, 2006:

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Information regarding total assets as of September 30, 2006:

| | |
|---------------------------|--------------------|
| | September 30, 2006 |
| | ----- |
| Total assets | |
| Insurance segment | \$348,817,744 |
| Online commerce segment | 76,377 |
| Corporate and other | 11,850,051 |
| | ----- |
| Total operating segments | 360,744,172 |
| Intercompany eliminations | (2,807,723) |
| | ----- |
| Total assets | \$357,936,449 |
| | ===== |

NOTE 7 - RELATED PARTY TRANSACTIONS

Dennis Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Dennis Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Chief Operating Officer, Senior Vice President and a Director of the Company. During the nine months ended September 30, 2006 and

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2005, the Company expensed claims adjusting fees of \$630,429 and \$538,978, respectively, to Dennis Downes and Associates.

In July 2004, the Company borrowed monies from a private investor in the amount of \$175,000 for working capital. In August 2005, this individual's son, Michael P. Moran, became UPCIC's Vice President of Claims. The loan was paid off in January 2006.

NOTE 8 - STOCK ISSUANCES

In February 2006, pursuant to section 4(2) of the Securities Act of 1933, as amended ("Securities Act"), the Company issued 325,000 shares of restricted common stock at a price of \$.05 per share to a private investor pursuant to the exercise of warrants. In April 2006, pursuant to section 4(2) of the Securities Act, the Company issued 200,000 shares of common stock at a price of \$.05 per share to a vendor pursuant to the exercise of warrants. Also in April 2006, the Company issued 200,000 shares of restricted common stock at a price of \$.04 per share to Sean P. Downes, COO of the Company, pursuant to Mr. Downes' exercise of stock options and 123,077 shares of restricted common stock at a price of \$.93 per share pursuant to Mr. Downes' election to receive such shares in lieu of accrued vacation. The shares were issued to Mr. Downes in a private transaction pursuant to section 4(2) of the Securities Act. Also in April 2006, pursuant to section 4(2) of the Securities Act, the Company issued 10,000 shares of restricted common stock at a price of \$.50 per share to Reed J. Slogoff, a director of the Company, pursuant to the exercise of options. In May 2006, the Company issued 400,000 shares of restricted common stock to one employee at \$1.23 per share and 25,000 to a second employee at \$1.30 per share in conjunction with employment agreements. Also in May 2006, pursuant to section 4(2) of the Securities Act, the Company issued 10,000 shares of restricted common stock at a price of \$.50 per share to an employee of the Company pursuant to the exercise of options. In June 2006, pursuant to section 4(2) of the Securities Act, the Company issued 25,000 shares of restricted common stock at a

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price of \$1.52 per share to each of the outside directors of the Company (Norman M. Meier, Reed Slogoff, and Joel Wilentz) and 200,000 shares of restricted common stock at a price of \$1.52 per share to Sean P. Downes, COO of the Company, as a bonus. Also in June 2006, pursuant to section 4(2) of the Securities Act, the Company issued James M. Lynch, CFO of the Company, 25,807 shares of restricted common stock at a price of \$1.65 per share as a bonus. In August 2006, pursuant to section 4(2) of the Securities Act, the Company issued 100,000 shares of restricted common stock at a price of \$.05 per share to a private investor pursuant to the exercise of warrants. 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.

NOTE 9 - PROVISION FOR INCOME TAX EXPENSE

A provision for income tax expense of \$3,403,894 is recorded for the nine months ended September 30, 2006 as a result of utilization of operating loss carry-forwards and current profitable operations. A provision for income tax expense of \$78,715 was recorded for the nine months ended September 30, 2005 due to the substantial operating loss carry-forwards and corresponding valuation allowance that existed at that time.

NOTE 10 - SUBSEQUENT EVENTS

On October 24, 2006, the Company declared a dividend of \$.05 per share on the outstanding common stock of the Company to be paid on April 9, 2007 to the

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shareholders of record of the Company at the close of business on March 19, 2007.

On November 9, 2006 UPCIC entered into a \$25 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 million that were earmarked for participation in the program.

The surplus note brings the current capital and surplus of UPCIC to approximately \$57 million. Under Florida law, the current surplus will allow UPCIC to write up to approximately \$500 million in gross written premiums in the 2007 calendar year.

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.

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If UPCIC fails to increase its writing ratio for two consecutive quarters prior to June 1, 2007, fails 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.

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 will accrue at the market rate of 12.75% per annum. The outstanding principal is 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 Inc. as their reinsurance intermediary for all of their reinsurance placements for the year beginning on June 1, 2007.

Item 2. Management's Discussion and Analysis or Plan of Operation

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The following discussion and analysis by management of the Company's consolidated financial condition and results of operations should be read in conjunction with the Company's Condensed Consolidated Financial Statements and Notes thereto.

FORWARD-LOOKING STATEMENTS

Certain statements made by the Company's management may be considered to be "forward-looking statements" within the meaning of the Private Securities Reform Litigation Act of 1995. Forward-looking statements are based on various factors and assumptions that include known and unknown risks and uncertainties. The words "believe," "expect," "anticipate," and "project," and similar expressions, identify forward-looking statements, which speak only as of the date the statement was made. Such statements may include, but not be limited to, projections of revenues, income or loss, expenses, plans, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future results could differ materially from those described in forward-looking statements as a result of the risks set forth in the following discussion, among others.

OVERVIEW

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

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administrative fees from the marketing of UPCIC's and third-party 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. In addition, the Company has formed an independent claims adjusting company, Universal Adjusting Corporation, which adjusts UPCIC claims, and an inspection company, Universal Inspection Corporation, which performs property inspections for homeowners' policies underwritten by UPCIC.

The Company has formed subsidiaries that were to specialize in selling insurance and generating insurance leads via the Internet. Tigerquote.com Insurance & Financial Services Group, Inc. was to be an Internet insurance lead generating network, and Tigerquote.com Insurance Solutions, Inc., was to be a network of Internet insurance agencies. None of the agencies are currently active as the Company changed its focus to sell leads to other companies and independent agents. During the fourth quarter of 2005, the Company decided to stop generating new business on its direct sales operation and focus on its core operations.

The Company also formed Tiger Home Services, Inc., which furnished pool services to homeowners until the operation was sold during the second quarter of 2005.

FINANCIAL CONDITION

Cash and cash equivalents at September 30, 2006 aggregated \$143,730,591. The source of liquidity for possible claims payments consists of net premiums after deductions for expenses, reinsurance recoverables and short-term loans.

UPCIC believes that premiums will be sufficient to meet UPCIC's working capital

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requirements for at least the next twelve months. The Company's policy is to invest amounts considered to be in excess of current working capital requirements. At September 30, 2006, the Company's investments were comprised of \$143,730,591 in cash and overnight repurchase agreements and \$3,159,181 in real estate consisting of a building purchased by UPCIC that the Company is currently using as its home office.

Policies originally obtained from the Florida Residential Property and Casualty Joint Underwriting Association ("JUA") provided the opportunity for UPCIC to solicit future renewal premiums. Less than 15% of the policies obtained from the JUA are currently renewed with the Company. UPCIC does not expect to participate in takeouts of additional policies from the JUA. In 1998 the Company began to solicit business actively in the open market in an effort to further grow its insurance operations. UPCIC is currently servicing approximately 210,000 homeowners and dwelling fire insurance policies.

The Company, as noted above, diversified its operations by establishing online commerce and other ancillary operations. However, the Company is currently contemplating the sale of the online commerce division in order to further focus on the core property and casualty insurance business.

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RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2006 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2005

Gross premiums written increased 277.5% to \$230,431,095 for the nine-month period ended September 30, 2006 from \$61,040,560 for the nine-month period ended September 30, 2005. The increase in gross premiums written is primarily attributable to an increase in new business as well as premium rate increases. The increase in new business is attributable to improving relationships with existing agents, an increase in new agents due to increased marketing efforts to agents, a new web-based policy administration platform and the disruption in the marketplace as a result of the windstorm catastrophes in 2004 and 2005.

Net premiums earned increased 175.1% to \$27,107,769 for the nine-month period ended September 30, 2006 from \$9,853,100 for the nine-month period ended September 30, 2005. The increase is due to an increase in new business, premium rate increases and changes in the reinsurance program.

Investment income increased 212.6% to \$2,047,374 for the nine-month period ended September 30, 2006 from \$655,018 for the nine-month period ended September 30, 2005. The increase is primarily due to higher investment balances and a higher interest rate environment during the nine-month period ended September 30, 2006.

Transaction fee revenue decreased 100.0% to \$0 for the nine-month period ended September 30, 2006 from \$272,872 for the nine-month period ended September 30, 2005. The decrease is primarily due to the discontinuance of sales of on-line insurance leads to insurance agents during the nine-month period ended September 30, 2006.

Other revenue increased 17.9% to \$303,307 for the nine-month period ended September 30, 2006 from \$257,174 for the nine-month period ended September 30, 2005. The increase is primarily attributable to an increase in miscellaneous revenues during the nine-month period ended September 30, 2006.

Commission income increased 146.0% to \$4,525,861 for nine-month period ended September 30, 2006 from \$1,839,828 for the nine-month period ended September 30, 2005. Commission income is comprised principally of the managing general agent's policy fee income on all new and renewal insurance policies and commissions generated from agency operations. The increase is primarily

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attributable to an increase in commissions generated from agency operations on new policies.

Net losses and LAE incurred increased 205.6% to \$11,276,805 for the nine-month period ended September 30, 2006 from \$3,690,294 for the nine-month period ended September 30, 2005. Losses and LAE incurred increased as a result of increased premium volume, changes in the Company's reinsurance program and additional losses related to 2004 catastrophes. The Company's net loss ratio for the nine-month period ended September 30, 2006 was 41.6% compared to 37.5% for the nine-month period ended September 30, 2005. Losses and LAE are influenced by loss severity and frequency. The Company's net loss ratio increased principally due to additional net losses of \$5,251,968 related to 2004 catastrophes recognized in the nine-month period ended September 30, 2006. Losses and LAE, the Company's most significant expenses, represent actual payments made net of reinsurance and

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changes in estimated future net payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses.

Catastrophes are an inherent risk of the property-liability insurance business which may contribute to material year-to-year fluctuations in UPCIC's and the Company's results of operations and financial position. During 2005, Florida experienced three windstorm catastrophes (Hurricanes Dennis, Katrina and Wilma) which resulted in losses. As a result of these storms, the Company currently estimates it incurred \$79,661,543 in losses prior to reinsurance and \$4,121,253 net of reinsurance. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. While management believes UPCIC's and the Company's catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses.

General and administrative expenses increased 95.2% to \$10,253,685 for the nine-month period ended September 30, 2006 from \$5,251,968 for the nine-month period ended September 30, 2005. General and administrative expenses increased primarily due to a decrease in ceding commissions associated with the dollar amount of ceded premiums written to quota share reinsurers related to changing policy retention from 20% to 50% at June 1, 2006.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2006 VERSUS THREE MONTHS ENDED SEPTEMBER 30, 2005

Gross premiums written increased 339.2% to \$116,427,419 for the three-month period ended September 30, 2006 from \$26,507,558 for the three-month period ended September 30, 2005. The increase in gross premiums written is primarily attributable to an increase in new business as well as premium rate increases. The increase in new business is attributable to improving relationships with existing agents, an increase in new agents due to increased marketing efforts to agents, a new web-based policy administration platform and the disruption in the marketplace as a result of the windstorm catastrophes in 2004 and 2005.

Net premiums earned increased 174.4% to \$16,129,303 for the three-month period ended September 30, 2006 from \$5,878,040 for the three-month period ended September 30, 2005. The increase is due to an increase in new business, premium rate increases and changes in the reinsurance program effective June 1, 2005.

Investment income increased 228.3% to \$1,078,191 for the three-month period ended September 30, 2006 from \$328,449 for the three-month period ended September 30, 2005. The increase is primarily due to higher investment balances and a higher interest rate environment during the three-month period ended September 30, 2006.

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Transaction fee revenue decreased to \$0 for the three-month period ended September 30, 2006 from \$112,721 for the three-month period ended September 30, 2005. The decrease is primarily due to the decreased sales of on-line insurance leads to insurance agents.

Other revenue decreased 38.3% to \$101,978 for the three-month period ended September 30, 2006 from \$165,187 for the three-month period ended September 30,

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2005. The decrease is primarily attributable to a decrease in miscellaneous revenues during the three-month period ended September 30, 2006.

Commission income increased 183.7% to \$1,995,396 for the three-month period ended September 30, 2006 from \$703,435 for the three-month period ended September 30, 2005. Commission income is comprised principally of the managing general agent's policy fee income on all new and renewal insurance policies and commissions generated from agency operations. The increase is primarily attributable to an increase in commissions generated from agency operations on new policies.

Net losses and LAE incurred increased 92.4% to \$6,243,606 for the three-month period ended September 30, 2006 from \$3,244,879 for the three-month period ended September 30, 2005. Losses and LAE incurred increased as a result of increased premium volume, changes in the Company's reinsurance program and additional losses related to 2004 catastrophes. The Company's net loss ratio for the three-month period ended September 30, 2006 was 38.7% compared to 55.2% for the three-month period ended September 30, 2005. Losses and LAE are influenced by loss severity and frequency. The Company's net loss ratio decreased due to a decrease in claim frequency and severity, premium rate increases and a greater percentage of the Company's new business being written on a policy form on which the Company is experiencing favorable loss experience. This was mitigated by additional net losses of \$3,031,968 related to 2004 catastrophes recognized in the three-month period ended September 30, 2006. Losses and LAE, the Company's most significant expenses, represent actual payments made net of reinsurance and changes in estimated future net payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses.

Catastrophes are an inherent risk of the property-liability insurance business which may contribute to material year-to-year fluctuations in UPCIC's and the Company's results of operations and financial position. During 2005, Florida experienced three windstorm catastrophes (Hurricanes Dennis, Katrina and Wilma) which resulted in losses. As a result of these storms, the Company currently estimates it incurred \$79,661,543 in losses prior to reinsurance and \$4,121,253 net of reinsurance. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. While management believes UPCIC's and the Company's catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses.

General and administrative expenses increased 608.6% to \$7,270,889 for the three-month period ended September 30, 2006 from \$1,026,093 for the three-month period ended September 30, 2005. General and administrative expenses increased primarily due to a decrease in ceding commissions associated with the dollar amount of ceded premiums written to quota share reinsurers related to changing policy retention from 20% to 50% at June 1, 2006.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of cash flow are premium revenues, commissions,

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policy fees, investment income and reinsurance recoverables and short-term loans.

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For the nine-month period ended September 30, 2006, cash flows provided by operating activities were \$99,181,124. 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 almost entirely of cash and readily marketable securities.

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 in July 31, 2006 and commences on the other note on November 30, 2006. 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.

In order to improve the Company's financial position and achieve profitable operations, management has implemented rate increases for new and renewal business, has restructured the homeowners' coverage offered, has restructured its catastrophic reinsurance coverage to reduce cost, and has worked to control future general and administrative expenses. However, there can be no assurance of the ultimate success of these plans, or that the Company will be able to maintain profitability.

The Company is currently involved in efforts to bring additional capital into the Company. UPCIC has been approved by the State Board of Administration of Florida for a \$25 million surplus note in connection with Florida's Insurance Capital Build-Up Incentive Program. The program was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in the wake of the 2004 and 2005 hurricane seasons. UPCIC's approval under the program was contingent upon it matching funds in the amount of \$25 million. The Company has finalized the financing necessary to meet the matching obligation under the program and on November 9, 2006 received \$25 million from the State Board of Administration of Florida. See Part II, Item 5 - "Other Information" for additional information regarding the Florida program and surplus note.

Management believes that the continued implementation of these plans will be successful over the next twelve months. However, there can be no assurance that successful implementation of these plans will be achieved or will be sufficient to ensure UPCIC's future compliance with Florida insurance regulations, or that the Company will be able to maintain profitability. Failure by UPCIC to maintain the required level of statutory capital and surplus could result in the suspension of UPCIC's authority to write new or renewal business, other regulatory actions or ultimately, in the revocation of UPCIC's certificate of authority by the OIR.

The Company believes that its current capital resources together with management's plan as described above will be sufficient to support current operations and expected growth for at least twelve months.

On October 24, 2006 the Company declared a dividend of \$.05 per share on the 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. On August 22, 2006, the Company declared a dividend of \$.05 per share on

the outstanding common stock of the Company to be paid on November 8, 2006 to the shareholders of record of the Company at the close of business on October 25, 2006. The dividend payable amount of \$1,902,855 for the dividend declared on August 22, 2006 is accrued in the September 30, 2006 balance sheet. During the quarter the Company paid a dividend of \$0.04 per share that was accrued at the end of the quarter ended June 30, 2006. The aggregate amount of the dividend was \$1,518,284. During the quarter ended June 30, 2006, the Company paid a dividend of \$0.04 per share that was accrued at the end of first quarter. The aggregate amount of the dividend was \$1,488,851.

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.

The balance of cash and cash equivalents at September 30, 2006 is \$143,730,591. Most of this amount is available to pay claims in the event of catastrophic events pending reimbursement by reinsurers. Catastrophic reinsurance is recoverable upon presentation to the reinsurer of evidence of claim payment.

Generally accepted accounting principles differ 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. UPCIC's statutory capital and surplus exceeded the minimum capital and surplus requirements of \$4,000,000 as of September 30, 2006. 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 OIR Commissioner is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by UPCIC 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 surplus as of the preceding year end. Statutory unassigned surplus (deficit) at December 31, 2005 was \$(1,995,376).

The Company is required to comply with the National Association of Insurance Commissioner's ("NAIC") Risk-Based Capital ("RBC") requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC's RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2005, based on calculations using the appropriate NAIC RBC formula, the Company's reported total adjusted capital was in excess of the requirements.

OFF-BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements during the first nine months of 2006.

Item 3. Controls and Procedures

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The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief 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 Securities Exchange Act of 1934 as of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There was no change in the Company's internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company did not have any reportable legal proceedings during the nine months ending September 30, 2006. Certain claims and complaints have been filed or are pending against the Company with respect to various matters. In the opinion of management, none of these lawsuits is material, and they are adequately provided for or covered by insurance or, if not so covered, are without any or have little merit or involve such amounts that if disposed of unfavorably would not have a material adverse effect on the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In February 2006, pursuant to section 4(2) of the Securities Act, the Company issued 325,000 shares of restricted common stock at a price of \$.05 per share to a private investor pursuant to the exercise of warrants. In April 2006, pursuant to section 4(2) of the Securities Act, the Company issued 200,000 shares of common stock at a price of \$.05 per share to a vendor pursuant to the exercise of warrants. Also in April 2006, the Company issued 200,000 shares of restricted common stock at a price of \$.04 per share to Sean P. Downes, COO of the Company, pursuant to Mr. Downes' exercise of stock options and 123,077 shares of restricted common stock at a price of \$.93 per share pursuant to Mr. Downes' election to receive such shares in lieu of accrued vacation. The shares were issued to Mr. Downes in a private transaction pursuant to Section 4(2) of the Securities Act. Also in April 2006, pursuant to section 4(2) of the Securities Act, the Company issued 10,000 shares of restricted common stock at a price of \$.50 per share to Reed J. Slogoff, a director of the Company, pursuant to the exercise of options. In May 2006, the Company issued 400,000 shares of restricted common stock to one employee at \$1.23 per share and 25,000 to a second employee at \$1.30 per share in conjunction with employment agreements. Also in May 2006, pursuant to section 4(2) of the Securities Act, the Company issued 10,000 shares of restricted common stock at a price of \$.50 per share to an employee of the Company pursuant to the exercise of options. In June 2006, pursuant to section 4(2) of the Securities Act, the Company issued 25,000 shares

of restricted common stock at a price of \$1.52 per share to each of the outside directors of the Company (Norman M. Meier, Reed Slogoff, and Joel Wilentz) and

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200,000 shares of restricted common stock at a price of \$1.52 per share to Sean P. Downes, COO of the Company, as a bonus. Also in June 2006, pursuant to section 4(2) of the Securities Act, the Company issued James M. Lynch, CFO of the Company, 25,807 shares of restricted common stock at a price of \$1.65 per share as a bonus. In August 2006, pursuant to section 4(2) of the Securities Act, the Company issued 100,000 shares of restricted common stock at a price of \$.05 per share to a private investor pursuant to the exercise of warrants. 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.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

Effective May 1, 2006, the terms of the employment agreements of Bradley I. Meier, President and Chief Executive Officer of the Company and Sean P. Downes, COO of the Company were amended to provide for an increase in base salary of \$150,000 per annum.

On November 9, 2006 UPCIC entered into a \$25 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 million that were earmarked for participation in the program.

The surplus note brings the current capital and surplus of UPCIC to approximately \$57 million. Under Florida law, the current surplus will allow UPCIC to write up to approximately \$500 million in gross written premiums in the 2007 calendar year.

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

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note.

If UPCIC fails to increase its writing ratio for two consecutive quarters prior to June 1, 2007, fails 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.

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 will accrue at the market rate of 12.75% per annum. The outstanding principal is 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 Inc. as their reinsurance intermediary for all of their reinsurance placements for the year beginning on June 1, 2007.

Item 6. Exhibits

| Exhibit No. ----- | Exhibit ----- |
|----------------------|---|
| 10.1 | Note Purchase Agreement by and between the Company and Benfield Greig (Holdings), Inc., dated November 3, 2006 |
| 10.2 | Secured Promissory Note dated November 3, 2006 |
| 10.3 | Insurance Capital Build-Up Incentive Program Surplus Note dated November 9, 2006 |
| 11.1 | Statement Regarding Computation of Per Share Income |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification 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 |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIVERSAL INSURANCE HOLDINGS, INC.

Date: November 14, 2006

/s/ Bradley I. Meier

Bradley I. Meier, President and Chief Executive Officer

/s/ James M. Lynch

James M. Lynch, Chief Financial Officer