

UNIVERSAL INSURANCE HOLDINGS, INC.
Form DEF 14A
May 06, 2009

SCHEDULE 14A

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

Universal Insurance Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

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May 7, 2009

Dear Shareholder:

On behalf of the Board of Directors, I invite you to attend the 2009 Annual Meeting of Shareholders (“Annual Meeting”) of Universal Insurance Holdings, Inc. (“Company”). The Annual Meeting will be held at 9:30 a.m., Eastern Daylight Time, on June 5, 2009 at the Westin Fort Lauderdale, 400 Corporate Drive, Fort Lauderdale, Florida 33334.

The shareholders will be asked (i) to elect six directors, each to hold office until the 2010 annual meeting or until their successors have been elected and qualified; and (ii) to ratify the appointment of Blackman Kallick LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2009. The Board of Directors has unanimously approved these proposals and we urge you to vote in favor of these proposals and in accordance with the Board’s recommendation on such other matters as may be submitted to you for a vote at the Annual Meeting.

We encourage you to vote, regardless of the number of shares you own. Please sign and return each proxy card that you receive in the enclosed postage-paid envelope, which is provided for your convenience. The return of your proxy card will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend the Annual Meeting. We look forward to seeing you on June 5, 2009.

In addition to the proxy materials, enclosed please find the Company’s Annual Report, as filed with the Securities and Exchange Commission on the Form 10-K.

Sincerely,

/s/ Bradley I. Meier
Bradley I. Meier, President

1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309, (954) 958-1200

Universal INSURANCE HOLDINGS, Inc.

**1110 West Commercial Boulevard, Suite 100
Fort Lauderdale, Florida 33309**

**NOTICE
ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD JUNE 5, 2009**

NOTICE IS HEREBY GIVEN that the 2009 Annual Meeting of Shareholders (“Annual Meeting”) of Universal Insurance Holdings, Inc., a Delaware corporation (“Company”), will be held at 9:30 a.m., Eastern Daylight Time, on June 5, 2009 at the Westin Fort Lauderdale, 400 Corporate Drive, Fort Lauderdale, Florida 33334, for the following purposes:

1. To elect six directors, each to hold office until the 2010 annual meeting or until their successors have been elected and qualified;
2. To ratify the appointment of Blackman Kallick LLP as the independent registered public accounting firm of the Company for the year ending December 31, 2009; and
3. To transact any other business as may properly come before the Annual Meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on May 6, 2009 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and at any adjournment thereof. A complete list of shareholders of record of the Company on the record date will be available for examination by any shareholder, for any purpose germane to the Annual Meeting, during ordinary business hours, for the ten-day period prior to the Annual Meeting, at the executive offices of the Company, 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309.

It is important that your shares be represented at the Annual Meeting. Whether or not you plan to attend, in order to assure proper representation of your shares at the Annual Meeting, we urge you to submit your proxy voting instructions to the Company by mail. By submitting your proxy voting instructions promptly, you can help the Company avoid the expense of follow-up mailings to ensure the presence of a quorum at the Annual Meeting. If you attend the Annual Meeting, you may, if so desired, revoke your prior proxy voting instructions and vote your shares in person.

In the event that there are not sufficient votes to approve any one of the foregoing proposals at the time of the Annual Meeting, the Annual Meeting may be adjourned to permit further solicitation of proxies by the Company.

IN ORDER TO SUBMIT PROXY VOTING INSTRUCTIONS PRIOR TO THE ANNUAL MEETING, COMPLETE, SIGN AND DATE YOUR PROXY CARD AND RETURN IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED.

YOUR PROXY IS BEING SOLICITED BY THE BOARD. THE BOARD RECOMMENDS THAT YOU VOTE IN FAVOR OF THE PROPOSED ITEMS.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Norman M. Meier
Norman M. Meier, Secretary

Fort Lauderdale, Florida
May 7, 2009

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Universal INSURANCE HOLDINGS, Inc.

**1110 West Commercial Boulevard, Suite 100
Fort Lauderdale, Florida 33309**

Proxy Statement

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (“Board”) of Universal Insurance Holdings, Inc., a Delaware corporation (“Company”), of proxies to be voted at the Annual Meeting of Shareholders of the Company (“Annual Meeting”), to be held at the Westin Fort Lauderdale, 400 Corporate Drive, Fort Lauderdale, Florida 33334, on June 5, 2009 at 9:30 a.m., Eastern Daylight Time, and at any and all postponements or adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting.

A copy of the Annual Report of the Company for its fiscal year ended December 31, 2008, including financial statements audited by Blackman Kallick LLP, is included. This Proxy Statement, Notice of Annual Meeting, accompanying proxy card, and Annual Report are first expected to be posted to <http://proxy.universalinsuranceholdings.com> on or about May 6, 2009.

Questions and Answers About the Meeting and Voting

1. What is a proxy?

It is your legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. We have designated James M. Lynch as proxy for the 2009 Annual Meeting.

2. What is a proxy statement?

It is a document that Securities and Exchange Commission (“SEC”) regulations require us to give you when we ask you to sign a proxy card designating James M. Lynch as proxy to vote on your behalf.

3. What is the difference between holding shares as a shareholder and as a beneficial shareholder?

If your shares are registered directly in your name with the Company’s registrar and transfer agent, Continental Stock Transfer & Trust Company, you are considered a shareholder of record with respect to those shares.

If your shares are held in a brokerage account or bank, you are considered the “beneficial owner” of those shares.

4. How do I attend the meeting? What do I need to bring?

You need to bring a photo ID to gain admission.

If you are a beneficial owner, bring your most recent brokerage statement with you to the meeting. We can use that to verify your ownership of shares and admit you to the meeting; however, you will not be able to vote your shares at the meeting without a legal proxy, as described in response to question 5.

Please note that cameras, sound or video recording equipment, cellular telephones, blackberries or other similar equipment, electronic devices, large bags, briefcases or packages will not be allowed in the meeting room.

5. How can I vote at the meeting if I am a beneficial owner?

You will need to ask your broker, bank or other intermediary to furnish you with a legal proxy. You will need to bring the legal proxy with you to the meeting and hand it in with a signed ballot that will be provided to you at the meeting. You will not be able to vote your shares at the meeting without a legal proxy.

Please note that if you request a legal proxy, any previously executed proxy will be revoked, and your vote will not be counted unless you appear at the meeting and vote in person or legally appoint another proxy to vote on your behalf.

If you do not receive the legal proxy in time, you can follow the procedures described in the response to question 4 to gain admission to the meeting; however, you will not be able to vote your shares at the meeting.

6. What different methods can I use to vote?

By Written Proxy: All shareholders can vote by written proxy card. If you are a beneficial owner, you will receive a written proxy card or a vote instruction form from your bank or broker.

In Person: All shareholders of record may vote in person at the meeting. Beneficial owners may vote in person at the meeting if they have a legal proxy, as described in response to question 5.

7. What is the record date and what does it mean?

The record date for the 2009 Annual Meeting is May 6, 2009. The record date is established by the Board as required by the Delaware General Corporation Law and the Company's By-Laws. Owners of record at the close of business on the record date are entitled to:

- receive notice of the meeting; and
- vote at the meeting and any adjournments or postponements of the meeting.

8. What securities will be voted at the Annual Meeting?

The securities to be voted at the Annual Meeting consist of (i) shares of Common Stock of the Company, \$0.01 par value per share ("Common Stock"), with each share entitling its record owner to one vote, (ii) shares of Series M Preferred Stock of the Company, \$0.01 par value per

share (“Series M Preferred Stock”), with each share entitling its record owner to one vote and (iii) shares of Series A Preferred Stock of the Company, \$0.01 par value per share (“Series A Preferred Stock”), with each share entitling its record owner to one vote. The holders of Series M Preferred Stock, voting separately as a series, are entitled to elect two directors. The holders of Common Stock, Series M Preferred Stock and Series A Preferred Stock, voting together as one class, are entitled to elect the remaining directors.

The table below sets forth the number and classes of Company stock entitled to vote at the Annual Meeting.

<u>Class of Voting Stock</u>	<u>Number of Record Holders</u> <u>as of the Record Date</u>	<u>Number of Shares</u> <u>Outstanding</u> <u>as of the Record Date</u>	<u>Amount of Votes Entitled</u> <u>to be Cast</u> <u>as of the Record Date</u>
Common Stock	40	39,540,719	39,540,719
Series M Preferred Stock	5	88,690	88,690
Series A Preferred Stock	2	19,950	19,950

The Company had no other voting securities outstanding on the Record Date.

9. What shares are included on the proxy card?

If you are a shareholder of Common Stock and/or Series A Preferred Stock, you will receive one proxy card for all the shares of Common Stock and/or Series A Preferred Stock you hold in certificate form and/or in book-entry form.

If you are a shareholder of Series M Preferred Stock, you will receive a proxy card for all the shares of Series M Preferred Stock you hold in certificate form and/or in book-entry form.

10. What constitutes a quorum at the Annual Meeting?

The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of the Series M Preferred Stock entitled to vote at the Annual Meeting for those matters where a separate vote of the Series M Preferred Stock is required, and of at least a majority of the total number of outstanding shares of the Common Stock, Series M Preferred Stock and Series A Preferred Stock entitled to vote at the Annual Meeting for those matters where the Common Stock, Series M Preferred Stock and Series A Preferred Stock, voting together as a class, is required, is necessary to constitute a quorum at the Annual Meeting. If a quorum is not present at the Annual Meeting, a majority of the shares so represented may vote to adjourn the Annual Meeting from time to time without further notice.

11. What can I do if I change my mind after I vote my shares?

Shareholders can revoke a proxy prior to the completion of voting at the meeting by:

- sending written notice to Norman M. Meier, Secretary, Universal Insurance Holdings, Inc., 110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309;

- delivering a later-dated proxy; or
- appearing at the Annual Meeting and giving the Secretary notice of your intention to vote in person (unless you are a beneficial owner without a legal proxy, as described in the response to question 5).

12. Are votes confidential? Who counts the votes?

We will continue our practice of holding the votes of all shareholders in confidence from directors, officers and employees except:

- as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company;
- in the case of a contested proxy solicitation;
- if a shareholder makes a written comment on the proxy card or otherwise communicates his or her vote to management; or
- to allow the independent inspector of the election to certify the results of the vote.

13. What are my voting choices when voting for director nominees identified in this proxy statement, and what vote is needed to elect directors?

In the vote on the election of the six director nominees identified in this proxy statement to serve until the 2010 annual meeting, shareholders may:

- vote in favor of all nominees;
- vote in favor of specific nominees;
- vote against all nominees;
- vote against specific nominees;
- abstain from voting with respect to all nominees; or
- abstain from voting with respect to specific nominees.

Directors will be elected by a majority of the votes cast by the shareholders voting in person or by proxy at the meeting.

The Board recommends a vote FOR each of the nominees.

14. What are my voting choices when voting on the ratification of the appointment of Blackman Kallick LLP as independent registered public accounting firm for the fiscal year ending December 31, 2009, and what vote is needed to ratify their appointment?

In the vote on approval of Blackman Kallick LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2009, shareholders may:

- vote in favor of ratification;

- vote against ratification; or
- abstain from voting on the ratification.

The proposal to ratify the appointment of Blackman Kallick LLP as the independent registered public accounting firm will require approval by a majority of votes cast by the total number of votes that those present at the Annual Meeting, in person or by proxy, are entitled to cast.

The Board recommends a vote FOR the ratification.

15. What if I do not specify a choice for a matter when returning a proxy?

Shareholders should specify their choice for each matter on the enclosed proxy card. If no specific instructions are given, proxies which are signed and returned will be voted:

- **FOR** the election of all Director nominees as set forth in this proxy statement; and
- **FOR** the proposal to ratify the appointment of Blackman Kallick LLP as the independent registered public accounting firm for the fiscal year 2009.

16. What are abstentions and broker non-votes and how are they counted?

Abstentions and broker non-votes are included in determining whether a quorum is present. A broker non-vote occurs when a nominee holding shares for a beneficial owner (i.e., a broker) does not vote on a particular proposal because such nominee does not have discretionary voting power for that particular matter and has not received instructions from the beneficial owner. The election of directors and the ratification of the appointment of our independent registered public accounting firm are proposals for which brokers do have discretionary voting authority. Abstentions and broker-non-votes will have no effect on the election of directors or the ratification of the appointment of Blackman Kallick LLP.

17. Who pays the cost in connection with the solicitation of proxies?

The Company will bear the cost of soliciting proxies in the enclosed form. Officers and regular employees of the Company may solicit proxies by a further mailing or personal conversations or via telephone or facsimile, provided that they do not receive compensation for doing so. The Company will, upon request, reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation material to the beneficial owners of stock.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS
FOR THE STOCKHOLDER MEETING of
Universal Insurance Holdings, Inc. TO BE HELD ON June 5, 2009**

The Notice of Annual Meeting, Proxy Statement, and Annual Report on Form 10-K for the fiscal year ended December 31, 2008 are available at <http://proxy.universalinsuranceholdings.com>.

Election of Directors

(Proposal 1)

The Board has the ultimate authority for the management of the Company's business, objectives and operations. It selects the Company's executive officers, delegates responsibilities for the conduct of the Company's day-to-day operations to those officers, and monitors the performance of the officers.

Meetings of the Board are held regularly each quarter and as required. The Board held five meetings during 2008. All directors attended at least 75% of the meetings of the Board and the committees on which he served during 2008.

The Company encourages its Board members to attend the Company's Annual Meeting of Shareholders.

Compensation of Directors

The Company pays an annual director's fee equal to \$80,000, paid monthly, to each director of the Company except Bradley Meier and Sean Downes. The Company also reimburses all directors for costs and expenses for attending these meetings. The Company has agreed to indemnify all directors, to the fullest extent permitted by law, for claims made against them in connection with their positions as directors of the Company. Directors are also entitled to receive discretionary grants of non-qualified stock options under the Incentive Plan.

Director Summary Compensation Table

The table below summarizes the compensation paid by the Company to the Company's non-executive directors for the fiscal year ended December 31, 2008.

Name	Fees Earned or Paid in Cash(\$)	Stock Awards(\$)	Option Awards(\$) (2)	Change in Pension Value and Deferred Compensation Earnings(\$)	All Other Compensation(\$)	Total(\$)
Joel M. Wilentz	\$80,000	0	\$118,566	0	0	\$198,566
Norman M. Meier (1)	\$80,000	0	\$118,566	0	0	\$198,566
Reed J. Slogoff	\$80,000	0	\$118,566	0	0	\$198,566
Ozzie A. Schindler	\$80,000	0	\$118,566	0	0	\$198,566

- (1) Effective January 1, 2008, the Company's Compensation Committee authorized the employment of Norman Meier as Secretary of the Company at an annual salary of \$20,000 and for such salary to be deducted from any compensation Mr. Meier is otherwise entitled to receive as a director of the Company.
- (2) Each director received in 2008 a grant of 50,000 stock options that become fully vested on May 16, 2009 and expire on May 16, 2013.

The Board has nominated Bradley I. Meier, Norman M. Meier, Sean P. Downes, Ozzie A. Schindler, Reed J. Slogoff and Joel M. Wilentz for reelection to the Board to serve as directors until the 2010 annual meeting or until their successors are duly elected and qualified. The nominees have consented to be named and have indicated their intent to serve if elected. The Board has no reason to believe that the nominees will be unavailable or that any other vacancy on the Board will occur. If any nominee becomes unavailable for any reason, or if any other vacancy in the class of directors to be elected at the Annual Meeting should occur before the election, the shares represented by the proxy will be voted for the person, if any, who is designated by the Board to replace the nominee or to fill such other vacancy on the Board.

The holders of Series M Preferred Stock, voting separately as a series, are entitled to elect directors to fill the seats currently held by Bradley I. Meier and Norman M. Meier, both of whom the Board recommends for reelection; such directors shall be elected by a majority of votes in the affirmative of the Series M Preferred Stock shares cast at the Annual Meeting. The holders of Common Stock, the holders of Series M Preferred Stock and the holders of Series A Preferred Stock, voting together as one class, are entitled to elect directors to fill the seats currently held by Sean P. Downes, Ozzie A. Schindler, Reed J. Slogoff and Joel M. Wilentz, all of whom the Board recommends for reelection; such directors shall be elected by a majority of votes in the affirmative of the Common Stock shares, Series M Preferred Stock shares and Series A Preferred Stock shares, voting together as a class, cast at the Annual Meeting. If elected, all nominees are expected to serve until the 2010 annual meeting or until their successors are duly elected and qualified.

The Board unanimously recommends that the nominees described above be elected as directors to serve until the 2010 annual meeting or until their successors are duly elected and qualified.

Information Concerning the Board of Directors and Executive Officers

The current directors and executive officers of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>First Year as Director</u> (Term Expires)
Bradley I. Meier (Director Nominee)	41	President, Chief Executive Officer and Director	1990 (2009)
Norman M. Meier (Director Nominee)	70	Director and Secretary	1992 (2009)
Ozzie A. Schindler	40	Director	2007

(Director Nominee)			(2009)
Reed J. Slogoff (Director Nominee)	40	Director	1997
Joel M. Wilentz, M.D. (Director Nominee)	75	Director	(2009) 1997
Sean P. Downes (Director Nominee)	39	Chief Operating Officer, Senior Vice President and Director	(2009) 2005
James M. Lynch	54	Executive Vice President and Chief Financial Officer	(2009)

Biographical Information

Biographical information regarding the directors and executive officers of the Company is as follows:

Bradley I. Meier has been President, Chief Executive Officer and a Director of the Company since its inception in November 1990. He has served as President of Universal Property and Casualty Insurance Company (“UPCIC”), a wholly owned subsidiary of the Company, since its formation in April 1997. In 1990, Mr. Meier graduated from the Wharton School of Business with a B.S. in Economics.

Norman M. Meier has been a Director of the Company since July 1992 and Secretary of the Company since January 1, 2008. Presently Mr. Meier serves as Executive Chairman of DermWorx Incorporated, a privately held dermatologic specialty pharmaceutical company. From February 2000 until January 2006, Mr. Meier was President and Chief Executive Officer of PharmaMatrix, Inc., a medical marketing and advertising company. From December 1986 until November 1999, Mr. Meier was President, Chief Executive Officer and a Director of Columbia Laboratories, Inc., a publicly-traded corporation in the pharmaceuticals business. From 1977 until 1986, Mr. Meier served as a consultant to Key Pharmaceuticals. From 1971 to 1977, Mr. Meier was Vice President of Sales and Marketing for Key Pharmaceuticals.

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

Reed J. Slogoff has been a Director of the Company since March 1997. Mr. Slogoff is currently a principal with Pearl Properties, LLC, a commercial real estate investment firm based in Philadelphia, Pennsylvania. Mr. Slogoff was formerly with Entercom Communications Corp., a publicly-traded radio broadcasting company, and was previously a member of the corporate and real estate group of the law firm of Dilworth, Paxson, LLP. Mr. Slogoff received a B.A. with

honors from the University of Pennsylvania in 1990, and a J.D. from the University of Miami School of Law in 1993.

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

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

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

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

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

Committees and Corporate Governance

Audit Committee

The Company has a separately designated Audit Committee, whose members are Ozzie A. Schindler, Reed J. Slogoff and Joel M. Wilentz, each of whom was determined by the Board to be independent under the applicable rules of the SEC and the Financial Industry Regulatory Authority ("FINRA"). The Company's Board of Directors has determined that Ozzie A. Schindler is an "audit committee financial expert" as defined by Item 407(d)(5) of Regulation S-B promulgated by the SEC.

The Audit Committee recommends the firm to be appointed as the independent registered public accounting firm of the Company to audit the Company's financial statements and to perform services related to the audit, review the scope and results of the audit with the independent registered public accounting firm, review with management and the independent registered public accounting firm the Company's year-end operating results and consider the adequacy of the internal accounting procedures.

The Audit Committee met separately two times during 2008, and the full Board, including the members of the Audit Committee, met five times during the year to discuss the financial position of the Company, provide recommendations and guidance to management and evaluate strategies and financial opportunities and initiatives.

The Audit Committee operates under a written charter that was adopted by the Board of Directors on January 9, 2007. The Audit Committee Charter is publicly available at the Company's headquarters in Fort Lauderdale, Florida. Upon completion of the development of the Company's website, the Audit Committee Charter will be posted there. The Audit Committee Charter will be reviewed annually for changes, as appropriate.

Audit Committee Report

The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended December 31, 2008, which include the balance sheet of the Company as of December 31, 2008 and 2007, and the related statements of operations, changes in shareholders' equity and cash flows for the years ended December 31, 2008, 2007 and 2006 and the notes thereto. The information contained in this report shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended ("Exchange Act"), except to the extent that the Company specifically incorporates it by reference in such filing.

Composition

The Audit Committee of the Board of Directors is composed of the three directors named below. Each member of the Audit Committee meets the independence and financial experience requirements under the applicable rules of the SEC and the FINRA.

Review with Management

The Audit Committee has reviewed and discussed the Company's audited financial statements with management.

Review and Discussions with Independent Registered Public Accounting Firm

The Audit Committee has discussed with Blackman Kallick LLP, the Company's independent registered public accounting firm for 2008, the matters required to be discussed in accordance with the standards of the Public Company Accounting Oversight Board which include, among other items, matters related to the conduct of the audit of the Company's financial statements.

The Audit Committee has received written disclosures and the letter from Blackman Kallick LLP required by Independence Standards Board Standard No. 1 (which relates to the accountant's independence from the Company and its related entities) and has discussed with Blackman Kallick LLP its independence from the Company.

Conclusion

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

SUBMITTED BY THE AUDIT COMMITTEE OF
THE BOARD OF DIRECTORS

Ozzie A. Schindler
Reed J. Slogoff
Joel M. Wilentz

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Reed J. Slogoff and Joel M. Wilentz, each of whom was determined by the Board to be independent under the applicable rules of the SEC and the FINRA. Among its duties, the Compensation Committee assists the Board in discharging its responsibilities relating to corporate goals and objectives relevant to the compensation of the Company's executive officers, evaluating the performance of executive officers in light of those goals and objectives and determining compensation based on such evaluation. The Compensation Committee operates under a written charter that was adopted by the Board on March 13, 2007. The Compensation Committee Charter is publicly available at the Company's headquarters in Fort Lauderdale, Florida. Upon completion of the development of the Company's website, the Compensation Committee Charter will be posted there. The Compensation Committee Charter will be reviewed annually for changes, as appropriate.

Director Nominations

A director can be nominated by a member of the Board. The Company has not established a Nominating Committee. Given the size of the Company, the Board believes that this is appropriate.

Code of Business Conduct and Ethics

The Company adopted a Code of Business Conduct and Ethics on January 9, 2007 that is applicable to all directors, officers and employees of the Company. The code is publicly available at the Company's headquarters in Fort Lauderdale, Florida. Upon completion of the development of the Company's website, the code will be posted there. A copy of the Company's Code of Business Conduct and Ethics may be obtained free of charge by written request to James

M. Lynch, CFO, Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Suite 100, Fort Lauderdale, Florida 33309.

Shareholder Communications

The Company has not established a set process for shareholders to send communications to the Board. Given the size of the Company, the Board believes that this is appropriate.

Certain Relationships and Related Party Transactions

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

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida, performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Chief Operating Officer and Senior Vice President of UPCIC. During 2008 and 2007, the Company expensed claims adjusting fees of \$410,000 and \$675,237, respectively, to Downes and Associates.

The Company acquired all of the outstanding common stock of Atlas Florida Financial Corporation, which owned all of the outstanding common stock of Sterling Premium Finance Company, Inc. ("Sterling"), from the Company's Chief Executive Officer and Chief Operating Officer for \$50,000, which approximated Sterling's book value. On March 6, 2008, the Company received approval of this acquisition from the Florida Office of Insurance Regulation. Sterling has been renamed Atlas Premium Finance Company and commenced offering premium finance services in November 2007.

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

Executive Compensation

Compensation Discussion and Analysis

Please note that the following Compensation Discussion and Analysis is current as of December 31, 2008. The compensation committee of the Company's board of directors ("Compensation Committee") oversees and reviews the Company's executive compensation practices. The Compensation Committee is responsible for ensuring that the compensation of the executive officers of the Company aligns with and supports the growth objectives. The Company's Chief Executive Officer, the Company's Chief Financial Officer, and the Company's Chief Operating Officer may be referred to as "named executive officers" or "executive officers."

Objectives of the Company's Compensation Practices

The Company's principal business objective is sound, profitable growth. Achievement of this objective requires not only writing additional insurance volume, but also continued improvements in the Company's underwriting criteria to identify acceptable risks, development of the Company's broker network, strengthened claims processing methodologies to improve customer service and accurately pay claims, aggressive product and geographic diversification facilitated by the internal capabilities developed by the Company, flexible but focused reinsurance strategies and prudent strategies for investment of reserves.

In 2008 and prior years, the Company has made great strides in these areas. The Company added internal underwriting, reinsurance, claims processing and investment capabilities and engaged in extensive negotiation with independent brokers throughout its marketing area. The Company added and trained internal staff to pursue these objectives as opposed to contracting with outside service providers intended to assure that these functions serve the Company's interests exclusively. In 2009 and for the longer term, the Company will continue to seek sound profitable growth by:

- expanding the Company's product offerings and product mix;
- exploiting opportunities in states in which it has recently been licensed, South Carolina, North Carolina, Hawaii and Georgia, largely by bringing existing internal capabilities to bear;
- further penetrating the Florida market by establishing relationships with additional independent agents in order to expand its distribution network;
- continuing to expand processes the Company has recently internalized, including marketing strategies, agent incentive and management (in Florida and expanding to other states), policy development, risk management, claims, reinsurance analysis and investment analysis; and
- refining the proprietary claims, premium, reinsurance and management system developed by the Company on a scalable basis so that growth and diversification costs are controlled.

As of December 31, 2008, the Compensation Committee believed that the Company's compensation practices are linked to these business objectives and that the Company's compensation practices recognize past achievements and meet three principal goals:

- reward and retain entrepreneurial officers and other key employees who have risk, portfolio, reinsurance and general management skills and motivation desirable in the marketplace;
- scale pay to performance by structuring the compensation of the Company's Chief Executive Officer and Chief Operating Officer so that the opportunity to earn bonuses is tied to the net income of the Company; and
- provide long-term incentives in the form of stock options and restricted stock awards to incentivize the Company's executive officers and align their interests with those of the Company's stockholders.

How the Company Determines Each Element of Compensation and Why the Company Pays Each Element

General

Several years ago, the Company entered into employment agreements with Mr. Meier and Mr. Downes that have evergreen renewal terms and annual base pay increases among their terms. The Compensation Committee has determined that the Company's and the Company's shareholders' interests are best served by continuing these employment agreements without renegotiation as of December 31, 2008. As of December 31, 2008, the Compensation Committee believed that these two individuals possess unique skill sets and motivation and, jointly, have been the engine driving the Company's growth development. As of December 31, 2008, the Compensation Committee believed that such employment arrangements benefit the Company and the Company's shareholders by permitting the Company to retain these executive officers and ensure their continued focus on the Company's progress.

Pursuant to the employment agreements, each executive receives an annual base salary that automatically increases twenty percent (20%) each year. As of December 31, 2008, the Compensation Committee believed that the level of increase reflects the additional management responsibilities undertaken as a result of the growth of the Company's internal operations and geographic diversification goals. The Company's Chief Executive Officer and the Company's Chief Operating Officer also receive an annual performance bonus measured as a percentage of the pretax income of the Company. The Company has used this approach to motivate the Company's executives toward producing pretax net income because the Company believes that pretax net income is not only the hallmark of sound, profitable growth looked to by investors but also the cash generated fuels the Company's internal development and diversification efforts. As a result, the Company's Chief Executive Officer and Chief Operating Officer are paid more if the Company's pretax net income performance warrants it.

While the cash bonus formula for the Company's Chief Executive Officer and Chief Operating Officer focuses exclusively on pretax net income, in maintaining this structure, the Committee takes into account the Company's plans for internalizing and refining the risk management, reinsurance, claims processing and investment functions described above. Achievements in these internalization and refinement processes in a prior year is an indicator that a focus on pretax net income in the subsequent year is appropriate because the achievements become a platform for continued revenue and profit improvements in future years.

Comparator Companies

In 2008, the Compensation Committee used information provided by The Delves Group, a compensation consultant, to compile two distinct comparable groups to frame the Compensation Committee's discussions on prospective executive compensation for the Company's executive officers. The Delves Group has no other relationship with the Company and performs no other services with the Company. Accordingly, the Committee believes that The Delves Group is completely independent of the Company and its advice cannot be colored by any other revenue derived from working with the Company.

One group is a conventionally arranged comparator group; that is, 21 casualty insurance carriers engaged in the Florida market within a range of premium volume, net revenue and market capitalization that bracket the Company (the "Insurance Group"). However, no company meeting these conventional comparator characteristics matched the Company's net income growth (measured either as one year increases or five year compound annual growth rates or "CAGR"), five year total shareholder return including reinvestment of dividends or "TSR" or other relevant measures. Because of the extent of the difference between the Company's growth and the performance of these insurance company comparators, the Committee believed it important to review the practices at companies that reflected the growth characteristics of the Company as nearly as could be determined.

Accordingly, the Committee requested The Delves Group to search public filings for companies beyond the insurance industry with CAGR, TSR and annual revenue that bracketed the Company's performance as well as had employment levels of no greater than 2,000 as opposed to the Company's approximately 200 employees (the "Growth Group"). The Compensation Committee believed that the dual comparator groups approach is reasonable to accurately assess the performance and compensation of the Chief Executive Officer and the Chief Operating Officer. The Insurance Group informs the Compensation Committee about companies in direct competition with the Company. The Growth Group informs the Compensation Committee about how the Company compared with other companies with similar performance.

The Compensation Committee does not target any particular percentile among comparator groups or member companies at which to align compensation. The Committee is confident that its exercise of discretion in choosing pretax net income as the determinant of cash bonus payments best serves the goals of the Company and, by using a variable performance measure, cash bonus compensation will vary directly with achievement. When the Compensation Committee cross-checks compensation levels against comparator groups and member companies, the focus is on a broader and more flexible orientation, which provides the ability to address the specific business conditions relevant to the Company, including:

- Recognizing that the Chief Executive Officer and the Chief Operating Officer are the two key employees of the Company, responsible for all functions, including the processes for developing the proprietary models and processes for underwriting, claims, reinsurance and investment;
- Recognizing that, at the present state of the Company's development, continued growth and internalization of functions is critical and, in this regard, the Company is very entrepreneurial in nature;
- Rewarding past and continued performance in the establishment and profitable growth of the insurance business by the Chief Executive Officer and Chief Operating Officer;
- Recognizing the contributions of the Chief Executive Officer and Chief Operating Officer in internalizing the operations of the Company, including marketing strategies, agent incentive and management, policy development, risk management, claims, reinsurance analysis, rating engine, investment analysis and broker relations;
- Recognizing that the continued growth of the Company is dependent on the services of the Chief Executive Officer and Chief Operating Officer; and
- Differentiating compensation based on experience and performance levels among executives.

For the purpose of its evaluation, the Compensation Committee takes into account the differences in the types or nature of businesses of the companies in the comparator groups. Consideration is also given to the differences in size, scope, and complexity between the Company and the various members of the respective comparator groups. These are among the judgmental factors the Compensation Committee considers and are not based on a formula or tied to a comparator group.

For the surveys of the comparable groups, the Compensation Committee considered peers to be companies, using data reported in 2008 for 2007 performance, that met the following criteria:

For the Insurance Group:

- Significant casualty exposure in Florida;
- Subject to regulation by the Florida Office of Insurance Regulation;
- Gross premiums ranging from \$743 million to \$133 million bracketing the Company's \$498 million;
- Net Revenue ranging from \$704 million to \$119 million as compared to the Company's \$154 million; and
- Market capitalization ranging from \$1.5 billion to \$36 million in relation to the

Company's \$315 million.

For the Growth Group:

- Annualized five year TSR greater than 50%;
- Annual revenue between \$1.5 billion and \$100 million bracketing the Company's \$188.5 million; and
- Employed no more than 2,000 people.

The Delves Group determined that the following companies met the criteria for the Insurance Group:

- RLI Corp.
- Safety Insurance Group, Inc.
- ProAssurance Corporation
- United America Indemnity, Ltd.
- Tower Group, Inc.
- PMA Capital Corporation
- United Fire & Casualty Company
- Donegal Group, Inc.
- CastlePoint Holdings, Ltd.
- Affirmative Insurance Holdings, Inc.
- CNA Surety Corporation
- Employers Holdings, Inc.
- First Mercury Financial Corporation
- National Interstate Corporation
- Hallmark Financial Services, Inc.
- EMC Insurance Group, Inc.
- Gainsco, Inc.
- Mercer Insurance Group, Inc.
- Baldwin & Lyons, Inc.
- Specialty Underwriters' Alliance, Inc.
- 21st Century Holdings, Inc.

The Delves Group determined that the following companies met the criteria for the Growth Group:

- Southwestern Energy Co.
- Northwestern Corp.
- Hansen Natural Corp.
- Nutrisystem Inc.
- Tower Group, Inc.
- Insteel Industries
- Hallmark Financial Services, Inc.

- CKX Inc.
- Dynamic Materials Corp.
- Flotek Industries Inc.
- Contango Oil & Gas Co.
- Arabian American Development
- Arena Resources Inc.

Several commonalities stood out among the Insurance Group. 19 of 21 companies use earnings (definitions of earnings varied) as a principal determinant in annual incentive compensation. The Committee believed that the Company's focus on net income is consistent with that view. 9 of the 21 put some to significant weight on attainment of individual objectives by named officers. The Compensation Committee believed that separate individual objectives for annual incentive purposes are not necessary because the direction toward internalization and improvement of functions is clear in the Company's business plan for achieving sound, profitable growth and that plan provides specific guidance to executive officers as to the steps in achieving its goals. 2 of the 21 companies focus primarily on underwriting results and 3 others give significant weight to underwriting results. The Compensation Committee believed that the requirements for developing the Company's capabilities in not just underwriting but also claim processing, reinsurance, investment and dealer networks are sufficiently clear prerequisites to sound, profitable growth that separate measures would not be appropriate.

With respect to long term compensation, 20 of the 21 comparable companies in the Insurance Group award time vested options and/or restricted stock from time to time as long term incentives. This is consistent with the Company's past practices. However, it should be noted that the Chief Executive Officer and the Chief Financial Officer accepted options and restricted stock in lieu of cash compensation in some years and not as separate long term compensation awards.

The compensation consultant's survey of the Insurance Group indicates that the compensation of the Chief Executive Officer and the Chief Operating Officer was at or above the 90th percentile for the Insurance Group. However, the performance of the Company for the same period defined the 100th percentile for the Insurance Group in 1 year net growth, 1 year net margin, 1 year shareholder return, 5 year net income CAGR, 5 year revenue CAGR and 5 year shareholder return. The Committee also noted that the Company's net margin exceeded the net margin of each other member of the Insurance Group notwithstanding the relatively conservative reinsurance and investment practices of the Company. The Committee believed this net margin result reflects the efficiencies of the internalized processes described above.

The Growth Group represents the attempt by the Committee to review the compensation practices of companies that have sustained high levels of growth over a multi-year period. Because the companies come from diverse industries, comparisons of specific skill sets based on industry knowledge are not appropriate. However, this group does indicate how other companies that have been successful in growing their business compensate their senior executives. The compensation consultant's survey of the Growth Group indicates that total compensation over the most recent three years was slightly below the 90th percentile for Mr. Meier and slightly above the 90th percentile for Mr. Downes. Compensation for 2008 was above the 90th percentile for both individuals. The compensation consultant's report indicated that the Company was substantially above the 75th percentile in each important measure of growth and profitability although the Company was not the leader in any category. However, the Company's performance was not exceeded consistently by any member of the Growth Group. More specifically, the survey indicated that:

- the Company's net profit margin for 2007 was exceeded only by two companies and those companies were engaged in the oil and natural gas industries,
- the Company's one year growth was exceeded only by one natural gas company,
- the Company's five year growth was exceeded only by another oil and natural gas company and a company engaged in weight management programs, and
- the Company's five year return to shareholders (stock price increases plus dividends) was exceeded only by electricity and natural gas company (not one of the energy companies described above) and an entertainment company engaged in the marketing of productions such as *American Idol*.

The Committee believed this balance of very high growth and very high returns to shareholders is the performance that the Company's compensation arrangements should reward. In this context, the Committee believed the Company's compensation structure and formulae reinforce the Company's plans and goals.

Base Salary

Against these groups, the base salaries of Mr. Meier and Mr. Downes are each relatively high in comparison. However, the Compensation Committee points out that the degree of difference between the Company's base pay practices for these two individuals and those of the officers of others in the groups is justified when the duties involved in these positions at the Company are taken into account. Mr. Meier and Mr. Downes perform a broader range of functions with fewer support staff than the named individuals in the companies in the survey. In particular, Messrs. Meier and Downes are responsible for all aspects of the internalization processes. This is consistent with the Company's belief that Messrs. Meier and Downes are the entrepreneurial center of the Company's growth and their individual involvement in the steps toward sound, profitable growth is essential. The Compensation Committee will continue to monitor whether the Company's compensation structure continues to appropriately reward and incentivize the Company's executive officers.

Elements of Compensation Provided to the Named Executive Officers

The principal components of compensation for the Company's executive officers were:

- base salary;
- cash bonus compensation; and
- long-term equity incentive compensation.

Base Salary

The Company pays a base salary to its named executive officers. As noted above, pursuant to employment agreements entered into between the Company and the named executive officers, each such executive receives an annual base salary that automatically increases twenty percent (20%) each year. The Compensation Committee from time to time reviews the base salaries the Company pays its named executive officers. In doing so, it considers a number of factors, including the individual performance of the executive.

Bonus Compensation

As noted above, the Company's Chief Executive Officer and the Company's Chief Operating Officer also receive an annual performance bonus equal to a percentage of the pretax income of the Company. The Company has used this approach to compensate the Company's executives because the Company believed that only successful performance by the Company's management would increase the Company's pretax net income. The Company's Chief Financial Officer, pursuant to his employment agreement, is entitled to an annual performance bonus determined at the discretion of the Board of Directors of the Company; provided, however, that such bonus shall be no less than \$50,000. The Compensation Committee also has the discretion to increase a bonus beyond the compensation contained in an executive's employment agreement.

Long-Term Equity Incentive Compensation

The Compensation Committee does not use a specific formula to calculate the number of options or shares awarded to executives. The Compensation Committee does not explicitly set future award levels/opportunities on the basis of what the executives earned from prior awards. While the Compensation Committee takes past awards into account, it does not solely base future awards in view of those past awards. In determining the specific amounts to be granted to each employee, the Compensation Committee will take into account factors such as the executive's position, his or her contribution to the Company's performance, and the overall package of cash and equity compensation for the executive.

Perquisites and Fringe Benefits

The Company's executive officers receive health and welfare benefits, such as group medical, group life and long-term disability coverage. The Company provides an automobile allowance of \$7,500 per annum to each of Mr. Meier and Mr. Downes. As of December 31, 2008, the Company believed that its executives should be able to provide for their retirement needs from the total annual compensation they earn based on the Company's performance. Accordingly, other than an employer matching contribution to the accounts of the named officers under the Company's qualified defined contribution plan, which is the same matching contribution rate that the Company provides all of its eligible full time employees, the Company does not offer its executives any qualified or nonqualified pension plans, supplemental executive retirement plans, deferred compensation plans or other forms of compensation for retirement.

Employment Agreements

The Company entered into employment agreements with its three executive officers: Bradley I. Meier, the Company's Chief Executive Officer; Sean P. Downes, the Company's Chief Operating Officer; and James M. Lynch, the Company's Chief Financial Officer. These agreements and potential post employment payments are described in "Employment Agreements and Potential Payments Upon Termination of Employment" below.

Tax Considerations

Under Section 162(m) of the Internal Revenue Code of 1986, as amended, the federal income tax deductibility of compensation paid to Mr. Meier and Mr. Downes may be limited to the extent that it exceeds \$1.0 million in any one year. The Company can deduct compensation in excess of that amount if it qualifies as "performance-based compensation" under Section 162(m). For the performance bonuses of Messrs. Meier and Downes to qualify as "performance-based compensation," the performance-based formulas used to determine them must be approved by the Company's shareholders. The performance based formulas under the Company's annual bonus plan for Messrs. Meier and Downes were approved by the shareholders of the Company in May 2007 thereby permitting the Company to receive a federal income tax deduction for the payment of this performance based compensation. In 2008, Mr. Meier received \$164,424 in compensation under his employment agreement (described below) that was in excess of the limitation on federal income tax deductibility and was not performance based compensation. Therefore, this amount cannot be deducted by the Company for federal income tax purposes on its 2008 return. The Compensation Committee believed the amount to have been appropriate compensation for Mr. Meier's services.

Compensation Committee Report

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board of Directors of the Company that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee

Reed J. Slogoff

Joel M. Wilentz, M.D.

Summary Compensation Table

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

Name and Principal Position	Year	Salary	Bonus	Stock Awards(\$) (1)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation	All Other Compensation	Total (\$)
							Earnings (\$)	(\$)	
Bradley I. Meier Chief Executive Officer, President, and Director	2008	\$1,164,424	-	-	-\$1,454,526	\$2,783,377	-	\$44,052	\$5,446,379
	2007	\$977,228	-	-	\$969,924	\$3,835,271	-	\$42,191	\$5,824,614
	2006	\$830,324	-	-	-	\$1,075,310	-	\$36,989	\$1,942,623
James M. Lynch Executive Vice President and Chief Financial Officer	2008	\$414,154	\$127,692	-	\$118,566	-	-	\$38,107	\$698,519
	2007	\$349,385	\$100,000	-	\$88,415	-	-	\$38,071	\$575,871
	2006	\$251,250	\$90,000	\$42,582	-	-	-	\$32,223	\$416,055
Sean P. Downes Senior Vice President, Chief Operating Officer and Director	2008	\$820,800	-	-	-\$1,739,671	\$2,125,033	-	\$69,312	\$4,754,816
	2007	\$691,500	-	-	-\$1,436,421	\$2,913,953	-	\$69,045	\$5,110,919
	2006	\$537,678	-	\$418,462	-	\$843,982	-	\$65,217	\$1,865,339

(1) Stock Awards of \$141,500 for Mr. Lynch were erroneously reported in the 2007 Form 10-KSB.

(2) The following Option Awards were erroneously recorded in the 2007 Form 10-KSB: \$1,920,800 for Mr. Meier, \$145,134 for Mr. Lynch and \$2,454,445 for Mr. Downes. The correct amounts for 2007 are shown in the above table.

Salary

Salary includes wages, paid time off such as vacation, and company holidays.

Bonus

Per the Lynch Employment Agreement, Mr. Lynch is entitled to an annual performance bonus determined at the discretion of the Board of Directors of the Company; provided, however, that such bonus shall be no less than \$50,000.

Stock Awards

Stock awards in 2006 include stock issued to Messrs. Lynch and Downes for accrued vacation wages and bonuses in lieu of cash.

Option Awards

Option awards are calculated in accordance with the provisions of SFAS 123 R.

Non-Equity Incentive Plan Compensation

Per the Meier agreement, Mr. Meier is entitled to an annual performance bonus equal to three percent (3%) of the pre-tax income of the Company up to \$5 million and four percent (4%) of the pre-tax income of the Company in excess of \$5 million. Per the Downes agreement, Mr. Downes is entitled to an annual performance bonus equal to three percent (3%) of the pre-tax profits of the Company.

All Other Compensation

All other compensation for the year ended December 31, 2008 consisted of the following:

Name	Year	Insurance Premiums		Long-Term Care (3)	Simple IRA Match (4)	Auto Allowance (5)	Total
		Medical/Dental (1)	Life/Disability (2)				
Bradley I. Meier	2008	\$5,608	\$1,149	\$29,795		\$7,500	\$44,052
	2007	\$4,372	\$1,149	\$29,795		\$6,875	\$42,191
	2006	\$4,504	\$1,149	\$23,836		\$7,500	\$36,989
James M. Lynch	2008	\$9,533	\$6,417	\$7,158	\$9,000	\$6,000	\$38,108
	2007	\$9,496	\$6,417	\$7,158	\$9,000	\$6,000	\$38,071
	2006	\$9,255	\$5,010	\$7,158	\$7,050	\$3,750	\$32,223
Sean P. Downes	2008	\$9,533	\$9,005	\$32,775	\$10,500	\$7,500	\$69,313
	2007	\$9,496	\$8,774	\$32,775	\$10,500	\$7,500	\$69,045
	2006	\$9,255	\$8,667	\$29,795	\$10,000	\$7,500	\$65,217

(1)

The Company pays medical / dental insurance premiums for the named executive officers for coverage not provided to all employees.

- (2) The Company pays life insurance premiums for the named executive officers for coverage not provided to all employees.
- (3) The Company provides long-term care insurance premiums for the named executive officers for coverage not provided to all employees.
- (4) The Company matches employee contributions to the Simple IRA accounts of Messrs.

Lynch and Downes subject to limitations of the Simple IRA Plan. Mr. Meier does not participate in the Simple IRA Plan and, therefore, does not receive a matching contribution from the Company.

(5) The Company provides an automobile expense allowance to the named executive officers.

Grants of Plan Based Awards

The table below sets forth the information concerning each grant of an award made by the Company to a named executive officer in the Company's fiscal year ended December 31, 2008 under any plan, including awards that subsequently have been transferred.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/sh)	Grant Date Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
Bradley I. Meier	5/16/2008								250,000	\$3.90	\$438,575
	12/5/2008								500,000	\$2.31	\$370,700
James M. Lynch	5/16/2008								50,000	\$3.90	\$98,640
Sean P. Downes	5/16/2008								600,000	\$3.90	\$1,052,580
	12/5/2008								200,000	\$2.31	\$148,280
	12/5/2008							300,000		\$2.31	\$693,000

Effective December 5, 2008, the Company issued 300,000 share of restricted common stock at a price of \$2.31 per share to Sean Downes, Senior Vice President, Chief Operating Officer and Director, in consideration for services rendered pursuant to terms of an employment agreement and to provide to Mr. Downes with a continued incentive to share in the success of the Company. The stock will vest over a two-year period as follows: 150,000 shares each on the first and second anniversary dates of the effective date of the award.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information with respect to the Company's named executive officers concerning unexercised options; stock that has not vested; and equity incentive plan awards for each named executive officer outstanding as of December 31, 2008.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price(\$)	Option Expiration Date (1)	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested
Bradley I. Meier	1,500,000	1,500,000		\$1.06	1/15/10				
	250,000	250,000		\$1.06	1/15/10				
	150,000			\$1.10	1/26/10				
	20,000			\$0.70	12/12/10				
	325,000			\$0.70	12/12/10				
	150,000			\$0.60	12/21/11				
	700,000			\$6.50	7/12/12				
	250,000	250,000		\$3.90	5/16/13				
	500,000	400,000		\$2.31	12/5/13				
James M. Lynch	35,000			\$6.50	7/12/12				
	50,000	50,000		\$3.90	5/16/13				
Sean P. Downes	700,000			\$6.50	7/12/12				
						300,000	\$729,000		
	600,000	600,000		\$3.90	5/16/13				
	200,000	160,000		\$2.31	12/5/13				

(1) Expires on earlier of the option expiration date or a Change in Control of the company, as defined in the option agreements.

Options Exercised and Stock Vested

The following table sets forth certain information with respect to the Company's named executive officers concerning options exercised and stock vested during the calendar year 2008.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired On Exercise(#)	Value Realized on Exercise(\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Bradley I. Meier	1,250,000	\$5,432,500	-	-
James M. Lynch	165,000	\$904,350	-	-
Sean P. Downes	465,000	\$1,667,850	-	-

Pension Benefits

The Company does not provide any of its employees with pension benefits.

The Company does, however, make matching contributions to all employees, including the named executive officers, except for Mr. Meier. The Company made matching contributions in cash of 100% of the employees' elective deferral contributions up to 3.0% of the employees' pay for those employees who contributed to the Company's Simple IRA plan in 2008, subject to limitations of the plan.

Effective January 1, 2009 the Company instituted a Section 401(k) plan. The Company intends to make a matching contribution in cash of 100% of the employees' elective deferral contributions up to 5.0% of the employees' pay for those employees who contribute to the plan, subject to limitations of the plan.

Nonqualified Deferred Compensation

The Company does not provide any of the Company's employees with any nonqualified deferred compensation plans.

Employment Agreements and Potential Payments Upon Termination of Employment

The following summaries describe the employment agreements between the Company and three executive officers and set forth potential payments payable to the Company's named executive officers upon termination of employment or a change in control under their current employment agreements.

Meier Employment Agreement

The Company's employment agreement with Mr. Meier is dated as of August 11, 1999. The Company and Mr. Meier have amended the employment agreement, with the most recent amendment dated December 5, 2008 (the employment agreement and the amendments are collectively referred to as the "Meier Employment Agreement"). Under the terms of the Meier Employment Agreement, Mr. Meier will serve as the Company's President and Chief Executive Officer. Mr. Meier received a base salary of \$1,164,424 in 2008, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Meier Employment Agreement, Mr. Meier is entitled to an annual performance bonus equal to three percent (3%) of the pretax income of the Company up to \$5 million, and four percent (4%) of the pretax income of the Company in excess of \$5 million. The bonuses under the Meier Employment Agreement were contingent upon the Company's shareholders approving such bonus formula, which they have done.

Mr. Meier is also eligible to receive health and welfare benefits, such as group medical, group life and long-term disability coverage. The Meier Employment Agreement contains noncompete and nondisclosure provisions.

In the event that the Company terminates the Meier Employment Agreement, the Company shall pay Mr. Meier 24 months total compensation. In addition, in the event of a change in control of the Company, the Company shall pay Mr. Meier an amount equal to 48 months base salary, plus two times any bonus paid for the preceding fiscal year. Further, in the event of a change in control, all options held by Mr. Meier vest and become immediately exercisable. For the purposes of the Meier Employment Agreement, a change in control shall be deemed to have occurred if, at any time, substantially all the assets of the Company shall have been sold or transferred by sale, merger or otherwise, or if any person becomes the beneficial owner, directly or indirectly, of securities of the company representing fifty percent (50%) or more of the combined voting power of the then-existing outstanding securities of the Company.

If Mr. Meier dies during the term of his employment, the Company shall pay to his estate compensation which would otherwise be payable to Mr. Meier for the shorter of (i) three (3) years from the date of his death, or (ii) through to the termination date of his employment agreement. If Mr. Meier becomes disabled during the term of his employment for a consecutive period of three hundred sixty five (365) days, the Company may terminate the officership held. In the event of such termination, Mr. Meier shall remain an employee of the Company and receive seventy (70%) percent of his compensation and all of his fringe benefits.

The Meier Employment Agreement expires on December 31, 2010; however, the agreement is automatically extended each year thereafter unless the Company or Mr. Meier provides written notice that the agreement is being terminated 60 days in advance of the anniversary date of the Meier Employment Agreement.

Downes Employment Agreement

The Company's employment agreement with Mr. Downes is dated as of January 1, 2005 and provides that Mr. Downes will serve as Chief Operating Officer and Senior Vice President of the Company. The Company and Mr. Downes have amended the employment agreement, with

the most recent amendment dated December 5, 2008 (the employment agreement and the amendments are collectively referred to as the “Downes Employment Agreement”). Mr. Downes received a base salary of \$820,800 in 2008, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Downes Employment Agreement, Mr. Downes is entitled to an annual performance bonus equal to three percent (3%) of the pre-tax profits of the Company; provided, however, that any such bonus is contingent upon the Company’s shareholders approving such bonus formula, which they have done. Under the Downes Employment Agreement, the Company may grant Mr. Downes options or warrants to purchase the Company’s Common Stock.

Mr. Downes is also eligible to receive health and welfare benefits, such as group medical, group life and long-term disability coverage. The Downes Employment Agreement contains noncompete and nondisclosure provisions.

In the event of a change in control of the Company, the Company shall pay Mr. Downes an amount equal to 12 months base salary, plus the annual bonus paid for the preceding fiscal year. Also, effective January 1, 2009, if a change in control occurs, the Company shall pay Mr. Downes an amount equal to 2.99 times Mr. Downes’s “base amount,” as defined in Section 280G(b)(3) of the Internal Revenue Code. Further, in the event of a change in control, all options held by Mr. Downes vest and become immediately exercisable. For the purposes of the Downes Employment Agreement, a change in control shall be deemed to have occurred if, at any time, substantially all the assets of the Company shall have been sold or transferred by sale, merger or otherwise, or if any person becomes the beneficial owner, directly or indirectly, of securities of the company representing fifty percent (50%) or more of the combined voting power of the then-existing outstanding securities of the Company.

If Mr. Downes dies during the term of his employment, the Company shall pay to his estate compensation which would otherwise be payable to Mr. Downes for the shorter of (i) one (1) years from the date of his death, or (ii) through the termination date of his employment agreement. If Mr. Downes becomes disabled during the term of his employment for a consecutive period of ninety (90) days, the Company may terminate the officership held. In the event of such termination, Mr. Downes shall remain an employee of the Company and receive fifty (50%) percent of his compensation and all of his fringe benefits for a period ending on the next December 31st or two hundred seventy (270) days, whichever is longer.

The Downes Employment Agreement expires on December 31, 2010 unless extended in writing by the Company.

Lynch Employment Agreement

On October 11, 2006, the Company entered into an employment agreement (the “Lynch Employment Agreement”) with Mr. Lynch, who has served as the Company’s Executive Vice President and Chief Financial Officer since August 1998. Under the terms of the Lynch Employment Agreement, Mr. Lynch will continue to serve in such capacity. Mr. Lynch received a base salary of \$414,154 in 2008, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Lynch Employment Agreement, Mr. Lynch is entitled to an annual performance bonus determined at the discretion of the Board of Directors of the Company; provided, however, that such bonus shall be no less than \$50,000.

Mr. Lynch is also eligible to receive health and welfare benefits, such as group medical, group life and long-term disability coverage. The Lynch Employment Agreement contains noncompete and nondisclosure provisions.

If the Company terminates Mr. Lynch's employment without cause or Mr. Lynch terminates his employment for good reason, then the Company shall (1) pay Mr. Lynch unpaid base salary accrued up to the effective date of termination; (2) pay Mr. Lynch a prorated portion of Mr. Lynch's annualized bonus; (3) pay Mr. Lynch a lump sum payment equal to Mr. Lynch's current base salary for period of twelve (12) months; and (4) pay on Mr. Lynch's behalf Mr. Lynch's COBRA premiums for a period of twelve (12) months.

For the purposes of the Lynch Employment Agreement "cause" means (i) Mr. Lynch's abuse of alcohol or any controlled substance; (ii) Mr. Lynch's willful act of fraud, dishonesty or breach of fiduciary duty with respect to the business or affairs of the Company; (iii) Mr. Lynch's knowing and material failure to comply with material applicable laws and regulations or professional standards relating to the business of the Company; (iv) Mr. Lynch's documented and continuing grossly unsatisfactory performance of his duties (as documented in at least one performance improvement plan to Mr. Lynch) or a material breach by Mr. Lynch of the Lynch Employment Agreement except, in each case, where such failure or breach is caused by the illness or other similar incapacity or disability of Mr. Lynch; (v) Mr. Lynch being subject to an inquiry or investigation by a governmental authority or self-regulatory organization such that the existence of such inquiry or investigation may result in damage to the Company's business interests, licenses, reputation or prospects; or (vi) Mr. Lynch's conviction of a misdemeanor involving moral turpitude or any felony.

For the purposes of the Lynch Employment Agreement "good reason" shall mean and include any of the following without Mr. Lynch's prior written consent: (i) assignment to Mr. Lynch of duties materially inconsistent with Mr. Lynch's position under the Lynch Employment Agreement; (ii) failure to pay Mr. Lynch's base salary or bonus; (iii) requiring Mr. Lynch to move his sites of employment more than fifty (50) miles from his sites of employment prior to such move; or (iv) the Company's material breach of the Lynch Employment Agreement.

In addition, if within one year following a change in control of the Company Mr. Lynch's employment is terminated (i) by the Company or a succeeding entity without cause or (ii) by Mr. Lynch for good reason, then the Company shall (1) pay Mr. Lynch unpaid base salary accrued up to the effective date of termination; (2) pay Mr. Lynch a prorated portion of Mr. Lynch's annualized bonus; (3) pay Mr. Lynch a lump sum payment equal to the greater of Mr. Lynch's current base salary (x) through December 31, 2009 or (y) for period of twelve (12) months; and (4) pay on Mr. Lynch's behalf Mr. Lynch's COBRA premiums for a period not to exceed eighteen (18) months. For the purposes of the Lynch Employment Agreement, a change in control shall be deemed to have occurred if, (i) there shall be consummated (A) any consolidation or merger in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's common stock would be converted into cash, securities or other property, other than a consolidation or a merger having the same proportionate ownership of common stock of the surviving corporation immediately after the consolidation or merger or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions other than in the ordinary course of business of the Company) of all, or substantially all, of the assets of the Company to any corporation, person or other entity which is not a direct

or indirect wholly-owned subsidiary of the Company, or (ii) any person, group, corporation or other entity shall acquire beneficial ownership (as determined pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended, and rules and regulations promulgated hereunder) of 50% or more of the Company's outstanding common stock. In all cases pursuant to the Lynch Employment Agreement, the determination of whether a change of control has occurred shall be made in accordance with Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations, notices and other guidance of general applicability issued there under.

If Mr. Lynch dies of natural causes during the term of his employment, the Company shall pay to his estate (1) Mr. Lynch's unpaid base salary accrued up to the effective date of termination; and (2) a prorated portion of Mr. Lynch's annualized bonus. If Mr. Lynch becomes disabled during the term of his employment for (i) a period of three (3) consecutive months, or (ii) for shorter periods aggregating ninety (90) calendar days during any twelve-month period, the Company may at any time after the last day of the three (3) consecutive months of disability or the day on which the shorter periods of disability equal an aggregate of ninety days, suspend the term of Mr. Lynch's employment and discontinue payments of his base salary for the duration of the disability. Mr. Lynch shall be entitled to the full compensation payable to him hereunder for shorter periods of disability shorter than the periods specified above.

The Lynch Employment Agreement expires on December 31, 2009.

The following table presents the potential post employment payments and payments the Company's named executive officers would be entitled under their employment agreements and assumes that the triggering event took place on December 31, 2008.

Name	Benefit	Before Change in Control without cause or for Good Reason	After Change in Control without cause or for Good Reason	Death	Disability
Bradley I. Meier	Base Salary	\$2,328,848	\$4,657,696	\$3,074,079	\$2,151,856