

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 000-20848

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

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

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

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

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

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

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

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Large accelerated filer Accelerated filer Non-accelerated filer

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

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

UNIVERSAL INSURANCE HOLDINGS, INC.**TABLE OF CONTENTS**

Page No.

PART I: FINANCIAL INFORMATION

Item 1.	Financial Statements (Unaudited)	
	Report of Independent Registered Public Accounting Firm	3
	Condensed Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008	4
	Condensed Consolidated Statements of Operations for the Three-Month Periods Ended March 31, 2009 and 2008	5
	Condensed Consolidated Statements of Stockholders' Equity for the Three-Month Periods Ended March 31, 2009 and 2008	6
	Condensed Consolidated Statements of Cash Flows for the Three-Month Periods Ended March 31, 2009 and 2008	7
	Notes to Condensed Consolidated Financial Statements	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	31
Item 4.	Controls and Procedures	32
PART II: OTHER INFORMATION		
Item 1.	Legal Proceedings	32
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3.	Defaults Upon Senior Securities	33
Item 4.		33

Submission of Matters to a Vote of Security
Holders

Item 5.	Other Information	33
Item 6.	Exhibits	33
Signatures		35

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

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

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

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

/s/ Blackman Kallick LLP

Chicago, Illinois

May 11, 2009

PART I -- FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

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

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

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

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

(Unaudited)

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

For the Three

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

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

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

For the Three Months Ended March 31, 2009

	Common Shares	Preferred Stock Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Stock Held in Trust	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2008	40,158,019	138,640	\$ 401,578	\$ 1,387	\$ 33,587,414	\$ 75,654,070	\$ 24,834	\$ (733,860)	(7,381,768)	\$ 101,587,000
Preferred stock conversion	75,000	(30,000)	750	(300)	(450)					
Stock compensation plans					820,156					
Net income						12,437,830				12,437,830
Amortization of deferred compensation					162,519					162,519
Declaration of dividends						(8,269,932)				(8,269,932)
Net unrealized gains on investments, net of tax effect of \$1,595,467							2,556,141			2,556,141
Balance, March 31, 2009	40,233,019	108,640	\$ 402,328	\$ 1,087	\$ 34,569,639	\$ 79,821,968	\$ 2,580,975	\$ (733,860)	(7,381,768)	\$ 109,900,000

For the Three Months Ended March 31, 2008

Balance, December 31, 2007	39,307,103	138,640	\$ 393,072	\$ 1,387	\$ 24,779,798	\$ 50,724,674	\$ -	\$ (2,349,000)	\$ (974,746)	\$ 72,581,102
Issuance of common shares	1,516,000		15,160		2,505,370				(3,407,234)	(8,573,004)

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

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

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

(Unaudited)

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

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

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

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

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

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

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

2. Significant Accounting Policies

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

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

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

Impairment of Securities. For investments classified as available for sale, the difference between fair value and amortized cost for fixed income securities and cost for equity securities, net of deferred income taxes (as disclosed in Note 5), is reported as a component of accumulated other comprehensive income on the condensed consolidated Balance Sheet and is not reflected in the operating results of any period until reclassified to net income upon the consummation of a transaction with an unrelated third party or when the decline in fair value is deemed other than

temporary. The assessment of whether the impairment of a security's fair value is other than temporary is performed using a portfolio review as well as a case-by-case review considering a wide range of factors.

There are a number of assumptions and estimates inherent in evaluating impairments and determining if they are other than temporary, including: 1) the Company's ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; 2) the expected recoverability of principal and interest; 3) the length of time and extent to which the fair value has been less than amortized cost for fixed income securities or cost for equity securities; 4) the financial condition, near-term and long-term prospects of the issue or issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices; and 5) the specific reasons that a security is in a significant unrealized loss position, including market conditions which could affect liquidity. Additionally, once assumptions and estimates are made, any number of changes in facts and circumstances could cause us to subsequently determine that an impairment is other than temporary, including: 1)

general economic conditions that are worse than previously forecasted or that have a greater adverse effect on a particular issuer or industry sector than originally estimated; 2) changes in the facts and circumstances related to a particular issue or issuer's ability to meet all of its contractual obligations; and 3) changes in facts and circumstances obtained that causes a change in our ability or intent to hold a security to maturity or until it recovers in value.

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

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

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

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

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

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

Concentrations of Credit Risk. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, premiums receivable and reinsurance recoverables.

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

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

Concentrations of credit risk with respect to premiums receivable are limited due to the large number of individuals comprising the Company's customer base. However, the majority of the Company's revenues are currently derived from products and services offered to customers in Florida, which could be adversely affected by economic

downturns, an increase in competition or other environmental changes.

In order to reduce credit risk for amounts due from reinsurers, the Company seeks to do business with financially sound reinsurance companies and regularly evaluates the financial strength of all reinsurers used. UPCIC's largest reinsurer, Everest Reinsurance Company, has the following ratings from each of the rating agencies: A+ from A.M.

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

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

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

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

Recent Accounting Pronouncements

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

In May 2008, FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles” (“SFAS 162”), which identifies the sources of accounting principles and the framework for selecting the principles to be

used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. SFAS 162 was issued to clarify that the GAAP hierarchy is directed to entities since it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. The provisions of SFAS 162 are effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with GAAP." The Company has determined that this statement will not result in a change in current practice.

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

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

3. Insurance Operations

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

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

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

4. Reinsurance

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

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

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

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Three Months Ended March 31, 2009

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

Three Months Ended March 31, 2008

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

Other Amounts:

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

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

The Company has determined that a right of offset, as defined in FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," exists between the Company and its reinsurers, under its quota share reinsurance treaties. Reinsurance payable to reinsurers has been offset by ceding commissions and inuring premiums receivable from reinsurers as follows: