HOME PRODUCTS INTERNATIONAL INC
Form 10-Q
May 17, 2005

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended April 2, 2005

or

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

Commission file number 0-17237

HOME PRODUCTS INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	36-4147027
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4501 West 47th Street Chicago, Illinois	60632
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number including area code (773) 890-1010.

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 shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2 of the Exchange Act). Yes o No þ

Common shares, par value $0.01, outstanding as of May 7, 2005 8,154,587

HOME PRODUCTS INTERNATIONAL, INC.

INDEX

	Page Number
Part I. Financial Information	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22
Item 4. Controls and Procedures	23
Part II. Other Information	
Item 1. Legal Proceedings	24
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3. Defaults Upon Senior Securities	24
Item 4. Submission of Matters to a Vote of Security Holders	24
Item 5. Other Information	24
Item 6. Exhibits	25
Signatures	26
Certification by Douglas R. Ramsdale, CEO	
Certification of James E. Winslow, Executive Vice President and CFO	

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOME PRODUCTS INTERNATIONAL, INC.

Condensed Consolidated Balance Sheets
(Amounts in thousands, except share and per share amounts)
(Unaudited)

	April 2, 2005	January 1, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 1,421	$ 1,146
Accounts receivable, net	30,512	51,473
Inventories	33,974	30,292
Prepaid expenses and other current assets	1,843	2,787
Total current assets	67,750	85,698
Property, plant and equipment - at cost	95,367	95,361
Less accumulated depreciation	(65,383)	(63,718)
Property, plant and equipment, net	29,984	31,643
Other intangibles, net	75	100
Goodwill, net	72,780	73,182
Other non-current assets	1,734	1,865
Total assets	$ 172,323	$ 192,488
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Revolving line of credit and other current debt	$ 11,852	$ 25,091
Accounts payable	20,653	25,723
Accrued liabilities	17,455	14,450
Total current liabilities	49,960	65,264
Long-term obligations - net of current debt	120,646	120,655
Other liabilities	4,397	4,199
Total liabilities	175,003	190,118
Stockholders equity (deficit):		
Preferred Stock - authorized, 500,000 shares, $.01 par value; - None issued		
	90	90

Common Stock - authorized 15,000,000 shares, $.01 par value; 8,964,781 shares issued at April 2, 2005 and January 1, 2005		
Additional paid-in capital	50,677	50,677
Accumulated deficit	(46,898)	(41,848)
Common stock held in treasury - at cost; 810,194 shares at April 2, 2005 and January 1, 2005	(6,501)	(6,501)
Accumulated other comprehensive loss	(48)	(48)
Total stockholders equity (deficit)	(2,680)	2,370
Total liabilities and stockholders equity (deficit)	$ 172,323	$ 192,488

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

Table of Contents

HOME PRODUCTS INTERNATIONAL, INC.

Condensed Consolidated Statements of Operations

(Amounts in thousands, except share and per share amounts)
(Unaudited)

	Thirteen weeks ended	
	April 2, 2005	**March 27, 2004**
Net sales	$ 51,391	$ 53,190
Cost of goods sold	45,107	43,289
Gross profit	6,284	9,901
Operating expenses:		
Selling and marketing	3,796	3,720
General and administrative	3,885	2,720
Shareholder transaction costs	118	273
Amortization of intangible assets	25	124
Operating profit (loss)	(1,540)	3,064
Non-operating income (expense):		
Interest income		3
Interest expense	(3,486)	(3,255)
Other expense, net	(13)	(8)
Net non-operating expense	(3,499)	(3,260)
Loss before income taxes	(5,039)	(196)
Income tax expense	(11)	(7)
Net loss	$ (5,050)	$ (203)
Net loss per common share:		
Basic	$ (0.62)	$ (0.03)
Diluted	$ (0.62)	$ (0.03)
Weighted average common shares outstanding-basic	8,154,587	7,986,556

Weighted average common shares outstanding-diluted	8,154,587	7,986,556

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

Table of Contents

HOME PRODUCTS INTERNATIONAL, INC.

Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Thirteen weeks ended	
	April 2, 2005	**March 27, 2004**
Operating activities:		
Net loss	$ (5,050)	$ (203)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,938	2,130
Loss on the disposal of assets	13	
Changes in working capital:		
Decrease in accounts receivable	20,961	13,769
Increase in inventories	(3,682)	(5,185)
(Increase) decrease in other current assets	944	(381)
(Decrease) increase in accounts payable	(5,070)	1,713
Increase in accrued liabilities	3,005	590
Other non current assets	131	798
Other long term liabilities	198	255
Other, net		(14)
Net cash provided by operating activities	13,388	13,472
Investing activities:		
Settlement of environmental escrow	402	
Capital expenditures, net	(267)	(924)
Net cash used in investing activities	135	(924)
Financing activities:		
Net repayments under loan and security agreement	(13,222)	(9,811)
Payments of capital lease obligation	(26)	(32)
Exercise of stock options, issuance of common stock under stock purchase plan and other		8
Net cash used in financing activities	(13,248)	(9,835)
Net increase in cash and cash equivalents	275	2,713
Cash and cash equivalents at beginning of period	1,146	797
Cash and cash equivalents at end of period	$ 1,421	$ 3,510

Supplemental disclosures		
Cash paid in the period:		
Interest	$ 558	$ 334
Income taxes	$ 4	$ 14

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

HOME PRODUCTS INTERNATIONAL, INC.

Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)
(Unaudited)

Note 1. Summary of Significant Accounting Policies

The Company

Home Products International, Inc. (the Company), based in Chicago, is a leading designer, manufacturer and marketer of a broad range of value-priced, quality consumer houseware products. The Company s products are marketed principally through mass-market trade channels in the United States and internationally.

Financial Statement Presentation

The condensed consolidated financial statements for the thirteen weeks ended April 2, 2005 and March 27, 2004, include, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows as of April 2, 2005 and for all periods presented.

Certain information and note disclosures normally included in financial statements prepared in accordance with U. S. generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company s Form 10-K for the year ended January 1, 2005. The results of operations for the thirteen weeks ended April 2, 2005 are not necessarily indicative of the operating results to be expected for the full year.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year s presentation.

Recent Accounting Pronouncements

In March 2005, Staff Accounting Bulletin No. 107 (SAB 107) was issued which expressed views of the Securities and Exchange Commission (SEC) regarding the interaction between Statement of Financial Accounting Standards (SFAS) No. 123R, Share-based Payment and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. The accounting provisions of SFAS 123R are effective as of the beginning of the first annual period beginning after June 15, 2005. Although the Company has not yet determined whether adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123, the Company is evaluating the requirement under SFAS 123R, acceptable methods of determining fair market value, and the magnitude of the impact on its fiscal 2006 consolidated net income

and earnings per share.

Table of Contents

Note 2. Stock-Based Compensation Plans

SFAS No. 123, Accounting for Stock-Based Compensation encourages companies to adopt a fair value approach to valuing stock-based compensation that would require compensation cost to be recognized based upon the fair value of the stock-based instrument issued. The Company has elected, as permitted by SFAS No. 123, to apply the provisions of Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Based Compensation and the related interpretations in accounting for stock option awards under the stock option plans. Under APB Opinion No. 25, compensation expense is recognized if the market price on the date of grant exceeds the exercise price. All options granted by the Company have been granted at the market price of stock on the date of grant. The following table shows the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123. The fair value of these stock options was estimated at the date of grant using a Black-Scholes option pricing model.

	Thirteen weeks ended	
	April 2, 2005	March 27 , 2004
Net loss as reported	$ (5,050)	$ (203)
Less: total stock-based compensation expense determined under fair value based method for all awards	(12)	(31)
Pro forma net loss	$ (5,062)	$ (234)
Basic loss per common share as reported	$ (0.62)	$ (0.03)
Basic loss per common share pro forma	$ (0.62)	$ (0.03)
Diluted loss per common share as reported	$ (0.62)	$ (0.03)
Diluted loss per common share pro forma	$ (0.62)	$ (0.03)

No stock options were granted during the thirteen weeks ended April 2, 2005 and March 27, 2004.

Note 3. Shareholder Transaction

On December 13, 2004, Storage Acquisition Company, L.L.C., a Delaware limited liability company (Acquirer) completed its tender offer for the outstanding shares of common stock (including the associated preferred stock purchase rights) of the Company for $2.25 per share, net to the seller, in cash, without interest. As a result of the tender offer, the Acquirer obtained 93% of the Company s outstanding common shares. Collectively, the process that led to the offer and the completion of the tender offer is referred to herein as the Shareholder Transaction .

On December 15, 2004 the Company s common stock was deregistered and is no longer trading on The NASDAQ SmallCap Market. There is no assurance that the Company s shares will be traded on the over-the-counter bulletin board, or that price quotations will be reported through any other sources. In addition, the Company has suspended its

reporting obligations under the Securities Exchange Act of 1934, effective as of March 15, 2005.

Notwithstanding the suspension of its obligation to file periodic financial reports, by the terms of the Company s indenture governing its 9-5/8% Senior Subordinated Notes due May 14, 2008, the Company is required to voluntarily file annual, periodic and current reports with the SEC as a voluntary filer so long as the indenture covenants remain in effect.

In connection with the Shareholder Transaction, the Company incurred costs during the first quarter of 2005 and 2004. These costs included legal fees and other related costs. The costs incurred during the first quarter of 2004 were associated with terminated Agreement and Plan of Merger, by and between the Company and JRT Acquisition, Inc. For further information please see the Company s Form 10-K for fiscal 2004, which is incorporated by reference. The following table provides a breakdown of the costs incurred in the first quarter of 2005 and 2004.

Table of Contents

	Thirteen weeks ended	
	April 2, 2005	March 27, 2004
Legal fees	$ 117	$ 223
Other related costs	1	50
Total	$ 118	$ 273

Note 4. Eagan Shutdown

On July 29, 2003, the Company announced its intention to close its Eagan, Minnesota manufacturing and warehouse facility in January 2004 (Eagan Shutdown). The facility was exited on January 31, 2004. The Eagan, Minnesota facility was closed as part of an effort to reduce operating costs and utilize capacity in the Company s other injection molding plants. The Company terminated approximately 130 hourly and salaried employees as part of the Eagan Shutdown.

During the first quarter of 2005 and 2004, the Company incurred $32 and $606, respectively, of Eagan Shutdown charges. These charges related to costs associated with the Eagan, Minnesota plant closure, employee severance, costs associated with the relocation of equipment and inventory and employee related fringe benefits. Eagan Shutdown charges incurred were included in cost of goods sold in the Company s condensed consolidated statements of operations.

The following tables reflect the changes in the accrual during the thirteen weeks ended April 2, 2005 and March 27, 2004 associated with the Eagan Shutdown. This accrual was included in accrued liabilities on the Company s condensed consolidated balance sheets.

Description of Accrual	Accrual balance at January 1, 2005	Charged to Earnings 2005	Cash Utilization	Non-Cash Utilization	Accrual balance at April 2, 2005
Employee separations	$	$	$	$	$
Other		32	(32)		
Total Eagan Shutdown costs	$	$ 32	$ (32)	$	$

Description of Acrual	Accrual balance at December 27, 2003	Charged to Earnings 2004	Cash Utilization	Non-Cash Utilization	Accrual balance at March 27, 2004
Employee separations	$ 428	$	$ (245)	$	$ 183
Other		606	(606)		

Total Eagan Shutdown costs	$ 428	$ 606	$ (851)	$	$ 183

Table of Contents

Note 5. Inventories

The components of the Company s inventory consists of direct labor, direct materials and the applicable portion of overhead required to manufacture the goods.

	April 2, 2005	January 1, 2005
Finished goods	$ 20,860	$ 19,540
Work-in-process	1,601	1,167
Raw materials	11,513	9,585
	$ 33,974	$ 30,292

Note 6. Goodwill and Patents and Non-Compete Agreements

Goodwill relates to the excess of purchase price over the fair value of tangible assets acquired. Goodwill is tested at least annually for impairment or more often if an event or circumstance indicates that an impairment loss has been incurred.

The change in the carrying amount of goodwill for the thirteen weeks ended April 2, 2005 was as follows:

	Total
Balance at January 1, 2005	$ 73,182
Settlement of environmental escrow account	(402)
Balance at April 2, 2005	$ 72,780

During the first quarter of 2005, the carrying amount of goodwill was decreased by $402 as a result of the settlement of an environmental escrow account related to an acquisition made in 1997.

Patents and non-compete agreements are amortized over their useful lives, and are evaluated annually to determine whether events and circumstances warrant a revision to the remaining period of amortization. For patents that remain subject to amortization provisions, amortization expense is expected to be $75 for the remainder of 2005.

Patents and non-compete agreements consist of the following:

	April 2, 2005			
	Average Life (Yrs.)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:				
Patents	7 to 14	$ 1,008	$ (933)	$ 75

Non-compete agreements	10	2,928		(2,928)		
Total		$ 3,936	$	(3,861)	$	75

Table of Contents

	January 1, 2005			
	Average Life (Yrs.)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:				
Patents	7 to 14	$ 1,008	$ (908)	$ 100
Non-compete agreements	10	2,928	(2,928)	
Total		$ 3,936	$ (3,836)	$ 100

Aggregate amortization expense for the thirteen weeks ended April 2, 2005 and March 27, 2004 was $25 and $124, respectively.

Note 7. Commitments and Contingencies

The Company has entered into commitments to purchase certain core commodities at formula-based prices. The agreements expire in 2005 and 2006. Future related minimum commitments to purchase commodities, assuming April 2005 price levels, are $73,000 in 2005.

The Company was a party to a legal action described below. In addition, the Company is party to various claims, legal actions and complaints including product liability litigation, arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or will not have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

On June 4, 2004, a complaint was filed in the Chancery Division of the Circuit Court of Cook County, Illinois against the Company and the Company s directors. The complaint purported to be filed by a stockholder and alleged that in entering into the Agreement and Plan of Merger, by and between the Company and JRT Acquisition, Inc. (JRT), as amended by the First Amendment to the Agreement and Plan of Merger, dated October 11, 2004 (the JRT Agreement), the Company s board of directors breached their fiduciary duties of loyalty, due care, independence, good faith and fair dealing. The complaint included a request for a declaration that the action be maintained as a class action. On May 5, 2005, the Chancery Division of the Circuit Court of Cook County, Illinois dismissed the action without prejudice.

Note 8. Income Taxes

The Company uses the asset and liability method of SFAS No. 109 in accounting for income taxes. Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, tax credits and operating loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

SFAS No. 109 requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence needs to be considered, including historical earnings and projected operating results, applicable net operating loss carryforward expiration dates, and identified actions under the control of the Company in realizing the associated carryforward benefits. SFAS No. 109 further states that forming a conclusion that a valuation allowance is not needed is difficult

when there is negative evidence such as cumulative losses in recent years and current operating losses.

Table of Contents

The Company expects to provide a full valuation allowance on future tax benefits until an appropriate level of profitability is sustained. Until an appropriate level of profitability is reached, the Company does not expect to recognize any significant tax benefits in future results of operations.

Note 9. Net Loss Per Share

The following information presents net loss per share, basic and diluted:

	Thirteen weeks ended	
	April 2, 2005	**March 27 , 2004**
Net loss	$ (5,050)	$ (203)
Weighted average shares outstanding - basic	8,154,587	7,986,556
Impact of stock options and warrants		
Weighted average shares outstanding - diluted	8,154,587	7,986,556
Net loss per share - basic	$ (0.62)	$ (0.03)
Net loss per share - diluted	$ (0.62)	$ (0.03)

Net loss per share - basic is computed based on the weighted average number of outstanding common shares. Net loss per share - diluted normally includes the weighted average effect of dilutive stock options and warrants on the weighted average shares outstanding. At April 2, 2005, stock options and warrants to purchase the Company s common stock totaling 171,900 were not included in the net loss per share diluted since impact would have been anti-dilutive. At March 27, 2004, stock options and warrants to purchase the Company s common stock totaling 983,420 were not included in the net loss per share diluted since their impact would have been anti-dilutive.

Note 10. Other Comprehensive Loss

Accumulated other comprehensive loss encompasses foreign currency translation adjustments and is recorded within stockholders equity.

The following table summarizes other comprehensive loss for the periods presented:

Thirteen weeks ended	
April 2 , 2005	**March 27 , 2004**

Net loss	$ (5,050)	$ (203)
Other comprehensive loss:		
Foreign currency translation adjustments	(0)	(14)
Total comprehensive loss	$ (5,050)	$ (217)

Table of Contents

The following is a summary of accumulated other comprehensive loss balances:

	April 2, 2005	January 1, 2005
Foreign currency translation losses	$ (48)	$ (48)
Accumulated other comprehensive loss	$ (48)	$ (48)

Note 11. Segment of an Enterprise

The Company consists of a single operating segment that designs, manufactures and markets quality consumer housewares products. This segmentation is based on the financial information presented to the chief operating decision maker. The following table sets forth the net sales by product category within the Company s single operating segment.

Product Category Information Net Sales

	Thirteen weeks ended	
	April 2, 2005	March 27, 2004
General storage	$ 17,758	$ 21,603
Laundry management	17,701	18,028
Closet storage	10,687	8,434
Bathware	3,138	2,847
Kitchen storage	2,107	2,278
Total net sales	$ 51,391	$ 53,190

Major Customers

The Company is dependent upon a few customers for a large portion of its consolidated net sales. During the first quarter of 2005, Wal-mart, Kmart and Target accounted for 42.2%, 21.2% and 4.4%, respectively, of the Company s consolidated net sales. During the first quarter of 2004, Wal-mart, Kmart and Target accounted for 33.8%, 24.4% and 15.7%, respectively, of the Company s consolidated net sales. The loss of one of these customers could have a material adverse effect on the Company. No other customer accounted for more than 10% of consolidated net sales during the thirteen weeks ended April 2, 2005 and March 27, 2004.

Table of Contents

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This commentary should be read in conjunction with the Company s consolidated financial statements and related notes and management s discussion and analysis of financial condition and results of operations contained in the Company s Annual Report on Form 10-K for the year ended January 1, 2005.

Overview

The Company designs, manufactures and markets a broad range of quality houseware products. The following are key factors in understanding the Company s performance.

Table of Contents

Customer base

The Company s business is highly concentrated among mass merchandisers, including discount stores, home centers and other category specific retailers. Sales to our top three customers, Wal-Mart, Kmart and Target, were 68% of net sales in the thirteen weeks ended April 2, 2005, 72% of net sales in fiscal year 2004 and 73% of net sales in fiscal year 2003. The Company s products generally have few unique or patented features and are sold at entry level price points. As such, the Company s financial success is highly dependent on profitably meeting certain price points as demanded by customers. The competitive atmosphere continually pressures our selling prices. After several years of steadily falling selling prices, the Company was able to secure limited selling price increases in 2004 and into 2005.

The size of the mass merchandisers gives them strong bargaining power with suppliers. They encourage high levels of competition among suppliers, demand that manufacturers supply innovative new products, require suppliers to match or beat quoted prices received from other potential suppliers, demand reduced lead times and demanded that product be warehoused until the customer desires delivery. These customers also actively engage in the direct importation of competitive generic products from multiple sources.

The high concentration of sales to mass merchandisers also makes the Company s results dependent upon the operating results and financial viability of its key customers. The Company s operating results in recent years have been impacted by developments at Kmart, one of the Company s largest customers. As set forth in Kmart s public filings, since emerging from bankruptcy in May 2003, Kmart has improved its financial performance. However, Kmart continues to report that it has experienced declines in same store sales and has announced further reductions in store count in connection with its merger with Sears. Kmart has paid all of its current obligations to the Company on time.

Cost of raw materials

The Company s primary raw materials are plastic resin and steel. Changing prices for such raw materials can cause the Company s results of operations to fluctuate significantly. The cost of raw materials is impacted by several factors outside the control of the Company including supply and demand characteristics, oil and natural gas prices and the overall state of the economy. As the cost of raw materials rises it results in immediate declines in profitability since the Company has historically been unable to recover all of the cost increase by passing it through to customers. Conversely, when raw material costs decline, the Company s margins generally are favorably impacted in the short-term, though competitive factors may force a decrease in selling prices that erodes some of the improved profitability. During the first thirteen weeks of fiscal 2005, the average cost of plastic resin increased approximately 48% and average steel prices increased approximately 59% as compared to the average costs in the first thirteen weeks of 2004. The increase in steel and plastic resin costs added approximately $5.9 million to cost of goods sold. Management expects the average cost of both plastic resin and steel to increase during 2005 as compared to 2004.

Product mix

The Company sells a variety of household items. For various reasons, some items provide a better return than others. As the mix of items sold changes, profitability and cash flow are affected. Although we have had some success at getting an increase in selling prices during 2005, there can be no assurance that we will be able to secure additional selling price increases to offset any future rise in raw material costs. To the extent that selling price increases can not be achieved, certain unprofitable products may be discontinued. The costs related to discontinuing a product are relatively minor and relate primarily to the non-cash write-off of related tooling.

Molding machine utilization

The Company has four injection molding facilities with a variety of injection molding machine sizes. Customer ordering patterns and mix of product manufactured impacts utilization of these machines. When demand exceeds capacity, the Company must place production at third party facilities that are more costly than internal manufacturing. In addition, the mix of product sold impacts profitability since low margin items take the same amount of production time as higher margin items. The Company s future profitability is dependent on selling to its optimum capacity and product mix so that constrained capacity is devoted to products with higher margins. We have no plans for expansion or reduction of our molding capacity until it can profitably operate the facilities it currently owns

Financial liquidity

Seasonal working capital needs are provided by the Company s $60 million asset-based line of credit. Ability to borrow is a function of the Company s eligible asset base and outstanding borrowings. During the first thirteen weeks of 2005, cash flow was positive and on April 2, 2005 there were $11.8 million of borrowings outstanding under the line of credit. At April 2, 2005, unused available line of credit was $31.4 million. A significant decline in eligible asset base or cash flow could result in constrained funds for operations. In recent years, the Company has experienced positive cash flow in the first quarter and negative cash flow for the balance of the year. This is due to seasonal cash needs as well as the semi annual payments in May and November of interest on subordinated debt. However, management believes it has sufficient borrowing capability for at least the next 12 months. See Capital Resources and Liquidity below for additional discussion of the Company s cash flows and financing situation.

Shareholder Transaction

On December 13, 2004, Storage Acquisition Company, L.L.C., a Delaware limited liability company (Acquirer) completed its tender offer for the outstanding shares of common stock (including the associated preferred stock purchase rights) of the Company for $2.25 per share, net to the seller, in cash, without interest. As a result of the tender offer, the Acquirer obtained 93% of the Company s outstanding common shares. Collectively, the process that led to the offer and the completion of the tender offer is referred to herein as the Shareholder Transaction .

On December 15, 2004 the Company s common stock was deregistered and is no longer trading on The NASDAQ SmallCap Market. There is no assurance that the Company s shares will be traded on the over-the-counter bulletin board, or that price quotations will be reported through any other sources. In addition, the Company has suspended its reporting obligations under the Securities Exchange Act of 1934, effective as of March 15, 2005.

Notwithstanding the suspension of its obligation to file periodic financial reports, by the terms of the Company s indenture governing its 9-5/8% Senior Subordinated Notes due May 14, 2008, the Company is required to voluntarily file annual, periodic and current reports with the SEC as a voluntary filer so long as the indenture covenants remain in effect.

In connection with the Shareholder Transaction, the Company incurred costs during the first quarters of 2005 and 2004 of $0.1 million and $0.3 million, respectively. These costs included legal fees and other related costs.

Critical Accounting Estimates

The estimates and assumptions involved in the application of generally accepted accounting principles (GAAP) have an impact on the Company s reported financial condition and operating performance. The Company has identified the critical accounting estimates as those that involve high

Table of Contents

levels of subjectivity and judgment to account for uncertain or difficult to predict matters that could have a material impact on financial condition or operating performance.

A summary of the critical accounting estimates is as follows:

Allowances for retailer deductions and trade programs

Allowances for retailer deductions and customer programs are recognized when sales are recorded. Allowances are based on various market data, historical trends and information from customers. Although the best information reasonably available to the Company is used to establish the allowances, such information is often based on estimates of retailer recovery rates and future sales to retailers. Retailer programs are often based on annual sales levels in total and by product category. Different recovery rates apply depending on the annual sales levels achieved. As such, judgments are required on an interim basis of the expected full year sales level by customer and product category. Because of the judgment involved, interim estimates can vary significantly from the full year actual determination of program costs. At year-end a more accurate assessment of the current year s costs can be made. Retailers recover the program costs through deductions against future amounts owed to the Company. It is not unusual for retailers to have a different judgment of the amounts earned than does the Company. Accordingly, the Company maintains allowances for any differences that may arise. Resolution of such differences can sometimes take up to several years depending on the particular program. Allowances are reviewed quarterly and are adjusted based on current estimates of retailer recovery and future sales. Due to changes in estimates, changes in retailer activity and the length of time required for many programs to run their course, it is possible for allowance activity to materially impact operating performance and financial condition in any given period. In the first thirteen weeks of 2005, the allowances for retailer deductions and trade programs as a percentage of gross sales were 5.8%, unchanged from the first quarter of 2004. Due to changes in estimates during the year, interim results can vary from the full year result.

Allowance for doubtful accounts

The Company evaluates the collectibility of its accounts receivable based upon an analysis of historical trends, aging of accounts receivable, write-off experience and credit evaluations of selected high risk customers. In the event of a specific customer bankruptcy or reorganization, specific allowances are established to write down accounts receivable to the level of anticipated recovery. The Company may consult with third-party purchasers of bankruptcy receivables when establishing specific allowances. The determination of specific allowances involves management judgments about the expected financial viability of its customers. Changes in specific allowances for doubtful accounts would only be material to financial condition and operating performance to the extent any change involved one of the Company s 10 largest customers. The 10 largest customers accounted for approximately 82% of net sales in the first thirteen weeks of 2005 and 75% of accounts receivable at April 2, 2005. No material changes in allowances for doubtful accounts involving any of our 10 largest customers was recorded in the first thirteen weeks of 2005.

Inventory valuation

The Company values inventory at cost (not in excess of market) determined by the first-in, first-out (FIFO) method. Inventory costs are based on standard costs, adjusted for actual manufacturing and raw material purchase price variances. The Company includes material, labor and manufacturing overhead in the cost of inventories. Management regularly reviews inventory for salability and has established allowances to record inventory at the lower of cost or market. The allowances are based on management s judgments regarding future selling prices and costs of disposal. Such judgments are impacted by economic conditions, condition of the inventory and age of the inventory. Such judgments involve high degrees of uncertainty and subjectivity. Accordingly, changes in estimates can have a material impact on reported results or financial condition.

Table of Contents

Valuation of deferred income tax assets

The Company regularly evaluates its ability to recover the reported amount of its net deferred tax assets. The evaluation considers several factors, including our estimate of the likelihood that we will generate sufficient taxable income in future years in which temporary differences reverse. This evaluation is based primarily on our historical earnings, projected operating results, applicable net operating loss carryforward expiration dates and identified actions under the control of the Company in realizing the associated carryforward benefits.

The Company had $32 million of net deferred tax assets as of January 1, 2005, resulting from net operating loss carryforwards, and other deductible temporary differences, which may reduce taxable income in future periods to the extent the Company generates profits. Because the value of the net deferred tax assets are fully reserved, changes in estimates of future operating performance could result in a reduction of the valuation allowances and a corresponding decrease in income tax expense. The changes in the valuation allowances in any future interim period or fiscal year could be material.

The completion of the Shareholder Transaction on December 13, 2004 constituted an ownership change under Section 382 of the Internal Revenue Code of 1986, as amended, and the use of any of the Company s net operating loss carryforwards generated prior to the ownership change is subject to certain limitations. The utilization of such remaining net operating losses is subject to an annual limitation of approximately $0.7 million. As a result, a certain portion of the net operating losses will expire before they can be utilized.

Valuation of Long-Lived and Intangible Assets

The Company assesses the recoverability of long-lived assets whenever it determines that events or changes in circumstances indicate that their carrying amount may not be recoverable. In accordance with GAAP, indefinite lived intangible assets are subject to annual impairment tests. The Company s assessments and impairment testing are primarily based upon management estimates of future cash flows associated with these assets. Should the Company s operating results, or estimated future results, deteriorate, the Company may determine that some portion of our long-lived tangible or intangible assets are impaired. Such determination could result in non-cash charges that could materially affect the Company s consolidated financial position or results of operations for that period. At April 2, 2005, intangible assets were $72.9 million and long-lived assets (property, plant and equipment) were $30.0 million. No impairment charges were incurred in the first thirteen weeks of 2005.

Thirteen weeks ended April 2, 2005 compared to the thirteen weeks ended March 27, 2004

In the discussion and analysis that follows, all references to 2005 are for the thirteen week period ended April 2, 2005 and all references to 2004 are for the thirteen week period ended March 27, 2004.

The following discussion and analysis compares the actual results for the first quarter of 2005 to the actual results for the first quarter of 2004 with reference to the following (dollars in thousands, except net loss per share; unaudited):

	Thirteen weeks ended			
	April 2, 2005		**March 27, 2004**	
Net sales	$ 51,391	100.0%	$ 53,190	100.0%
Cost of goods sold	45,107	87.8%	43,289	81.4%
Gross profit	6,284	12.2%	9,901	18.6%
Selling, general and administrative expenses	7,681	15.0%	6,440	12.1%

Shareholder transaction costs	118	0.2%	273	0.5%

17

	Thirteen weeks ended			
	April 2, 2005		March 27, 2004	
Amortization of intangible assets	25	0.0%	124	0.2%
Operating profit (loss)	(1,540)	(3.0%)	3,064	5.8%
Interest expense	(3,486)	(6.8%)	(3,255)	(6.1%)
Other expense, net	(13)	(0.0%)	(5)	(0.0%)
Loss before income taxes	(5,039)	(9.8%)	(196)	(0.3%)
Income tax expense	(11)	(0.0%)	(7)	(0.0%)
Net loss	$ (5,050)	(9.8%)	$ (203)	(0.3%)
Net loss per share basic	$ (0.62)		$ (0.03)	
Net loss per share diluted	$ (0.62)		$ (0.03)	
Weighted average common shares outstanding:				
Basic	8,155		7,987	
Diluted	8,155		7,987	

Net sales. 2005 first quarter net sales of $51.4 million were down 3.4% as compared to net sales in the first quarter of 2004 of $53.2 million. Sales were down due to decreased unit sales across all product lines to our largest customers. Sales to the top three customers were 68% of net sales as compared to 74% in the prior period. Selling prices were up $4.1 million as compared to the prior year period.

Gross profit. The Company s gross profit in the first quarter of 2004 was $6.3 million as compared to $9.9 million in the first quarter of 2004 and gross profit margins decreased to 12.2% of net sales from 18.6% a year ago. Margins were influenced by a number of factors, including:

The cost of raw materials increased resulting in a $5.9 million cost increase as compared to the first quarter of 2004;

Selling price increases of $4.1 million partially recovered the additional raw material costs;

Gross sales decrease (net of selling price increases) of $6.0 million resulted in lost gross profit of $1.1 million;

Factories produced less units resulting in a reduction of overhead absorption. The lower running rates resulted in additional costs of $1.7 million; and

Costs related to the January 2004 closing of the Eagan Minnesota facility were $0.6 million in the first quarter of 2004.

Selling, general and administrative expenses. SG&A expenses of $7.7 million in the first quarter of 2005 were up $1.2 million compared to a year ago. SG&A expenses in 2005 included $1.2 million of severance related to

management changes since the Shareholder Transaction. Expenses in 2004 were favorably impacted by a $0.5 million bad debt recovery.

Shareholder transaction costs. In the first quarter of 2005, the Company incurred $0.1 million of legal costs. In the first quarter of 2004, the Company incurred legal costs related to the process that culminated with the Shareholder Transaction.

Interest expense. Interest expense of $3.5 million in 2005 was up $0.2 million from the prior year period. Borrowings in late 2004 to pay expenses related to the Shareholder Transaction resulted in higher debt levels as compared to a year ago.

Income tax expense. Income tax expense was not material in either period. The Company was unable to benefit from current period losses due to the uncertainty regarding future profitability for tax purposes. The recorded tax provision relates to state and foreign taxes.

Net loss. The net loss in the first quarter of 2005 was $5.1 million, up significantly from the 2004 first quarter loss of $0.2 million. Lower sales, increased raw material costs, reduced factory running rates and the severance and retention costs related to changes in management were the primary reasons for the increased loss. The loss per diluted share was $(0.62) as compared to $(0.03) in the first quarter of 2004.

The diluted weighted average number of shares outstanding increased to 8,154,587 in 2005 from 7,986,556 a year ago. Options and warrants were not included in the computation of diluted weighted average shares outstanding because the assumed exercise of such equivalents would have reduced the loss per share.

Capital Resources and Liquidity

The Company s primary sources of liquidity and capital resources include cash provided from operations and borrowings under the Company s asset-based $60 million Amended and Restated Loan and Security Agreement (the Amended Loan Agreement). On December 14, 2004, the Company and Fleet Capital Corporation entered into the Amended Loan Agreement to accommodate operations subsequent to the Shareholder Transaction. The changes within the Amended Loan Agreement included an increase in the line of credit from $50 million to $60 million, an extension of the term of the agreement by 9 months to December 13, 2008, a reduction of applicable interest rates by 25 basis points and a reduction of the minimum excess availability requirement from $9.2 million to $5.0 million. The covenants restricting changes of ownership and changes of control of the Company have been revised to reflect the new ownership structure of the Company following the Shareholder Transaction.

The Company generates cash by the profitable sale of its products. Disbursements of cash for materials and services generally occur during the manufacturing and purchasing process, which is usually 30-90 days prior to sale. Collection of receivables generally occurs approximately 45-60 days after shipment. For certain large promotional items that typically ship in the fourth quarter, the Company begins building inventory in the second and third quarters. The inventory for these promotional items typically is not turned to cash until the first quarter of the following year. The timing of cash flows is further impacted by the semi-annual interest payments on the high-yield bonds. Interest payments of about $5.6 million occur in May and November. As a result of the operational seasonality and the timing of the interest payments, the Company normally has positive cash flow in the first quarter and negative cash flow for the balance of the year. During the first quarter of 2005, the Company had positive cash flow (which the Company defines as the net change in cash and debt) of $13.5 million as compared to positive cash flow in the first quarter of 2004 of $12.6 million.

During 2004, the Company s cash and cash equivalents increased to $1.4 million at April 2, 2005 from $1.1 million at January 1, 2005. Borrowings under the Amended Loan Agreement decreased $13.2 million during the first quarter due primarily to reductions in working capital.

Working capital (excluding cash and short term debt) at April 2, 2005 was $28.2 million, down $16.2 million from January 1, 2005. Receivables decreased $21 million due to seasonally lower sales in the first quarter of 2005 as compared to the fourth quarter of 2004. Inventories increased $3.7 million due to higher raw material costs and seasonal builds for later shipment. Accounts payable and accrued liabilities decreased $2.1 million due primarily to the timing of certain payments to vendors.

Capital spending in the first quarter of 2005 was $0.3 million as compared to $0.9 million in 2004. Capital spending was primarily related to new product tooling and normal replacement of equipment. In addition, the

settlement of an environmental escrow account related to a 1997 acquisition generated $0.4 million of cash in the first quarter of 2005.

Table of Contents

The Amended Loan Agreement covenants require the Company to maintain excess availability at all times of at least $5.0 million. At April 2, 2005, the eligible asset base was $50.1 million. Thus, the Company could borrow up to $45.1 million under the Amended Loan Agreement. At April 2, 2005, there were $11.8 million of borrowings under the Amended Loan Agreement and outstanding letters of credit totaled $1.9 million. Accordingly, the Company still had availability under the Amended Loan Agreement of $31.4 million. Despite the first quarter operating loss the Company expects there to be sufficient financing capability to fund operations for at least the next twelve months.

The Company s Amended Loan Agreement contains one financial covenant pertaining to a minimum cash interest coverage ratio. The cash interest coverage ratio was required to be no lower than 1.0 at the end of 2004 at which point the ratio begins a quarterly increase until it reaches 1.25 in June 2005. At April 2, 2005, the Company s cash interest coverage ratio was 1.78. The earnings component of the covenant is the trailing twelve-month earnings before interest, taxes, depreciation and amortization. Certain costs related to factory realignments and the Shareholder Transaction are excluded. For the twelve months ended April 2, 2005, the earnings component of the covenant was $23.4 million. For a definition of cash interest coverage ratio as it is used in the Amended Loan Agreement, refer to the Amended Loan Agreement that was filed as an exhibit to the Company s 2004 Annual Report on Form 10-K.

The Company was in compliance with all Amended Loan Agreement covenants as of April 2, 2005.

The following is a table providing the aggregate annual contractual obligations of the Company including debt, capital lease obligations, future minimum rental commitments under operating leases and purchase obligations at April 2, 2005 and the effect such obligations are expected to have on the Company s liquidity and cash flows in future periods.

	Payments Due by Period (in thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	$ 116,050	$	$	$ 116,050	$
Capital lease obligations	4,667	71	182	254	4,160
Minimum rental commitments under operating leases	17,948	4,915	7,646	5,387	
Purchase obligations (estimated) (1)	131,500	73,000	58,500		
Total contractual cash obligations	$ 270,165	$ 77,986	$ 66,328	$ 121,691	$ 4,141

(1) The Company has entered into commitments to purchase certain core commodities at formula-based prices. The agreements expire in 2005 and 2006. Future related minimum commitments to purchase commodities, assuming April 2005 price levels, are $73 million in 2005. The purchase commitment pricing is not tied to fixed rates; therefore, the Company s results of operations or financial position could be affected by significant changes in the market cost of the commodities. See Item 7A, Quantitative and Qualitative Disclosures About Market Risk Commodity Risk in the Company s Form 10-K for fiscal 2004, which is incorporated herein by reference, for further details.

	Financing commitments expiring by period (in thousands)				
	Total	1 year	2-3 years	4-5 years	After 5 years
Standby letters of credit	$ 1,850	$ 1,850	$	$	$

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Business Risks and Management Outlook

One of the Company s largest customers is Kmart. The Company s net sales to Kmart were $73 million in 2004 and $77 million in 2003. After emerging from bankruptcy in May 2003, Kmart has improved its financial performance and has operated within its financial covenants. However, Kmart continues to experience declines in same store sales and has further reduced its store count during 2004. Kmart has paid all of its current obligations to the Company on time and we do not believe that Kmart s current situation will negatively impact the Company in the near term. Given the size of the Company s sales to Kmart, future results may be either favorably or unfavorably impacted by any number of factors related to the retailer. In 2004, Kmart announced two transactions involving the sale of up to 74 stores, or approximately 5% of Kmart s store base. In addition Kmart has recently completed its merger with Sears. It is not yet possible to determine the potential impact of these transactions on Kmart s purchases with the Company.

Historically, plastic resin has represented approximately 20% to 25% of the Company s cost of goods sold. In 2004, the percentage increased to 35% due to higher plastic resin costs and usage. Plastic resin costs are impacted by several factors outside the control of the Company including supply and demand characteristics, oil and natural gas prices and the overall health of the economy. Any of these factors could potentially have a positive or negative impact on plastic resin prices and the Company s profitability. Resin costs have continued to increase in 2005 and the Company expects that costs in the remainder of 2005 will exceed costs incurred during 2004. While the Company will make every effort to recover the higher cost of plastic resin, there is no assurance that future resin cost increases can be passed on to customers.

The Company currently manufactures a significant portion of its laundry products in the U.S. Management believes that the Company s current manufacturing structure provides increased flexibility to meet customer needs. All of the Company s major laundry competitors rely heavily on foreign sourced products. Such products are produced in several countries, including a significant portion from China. Over the past few years, these foreign sourced competitive products were introduced at selling prices below ours. This has caused our profit margins and market share to decline. The Company has initiated many cost cutting and other steps to protect our market share and profit margins. The Company is also aggressively pursuing the increased importation of certain laundry products. We the Company continue to analyze the competitiveness of our North American based laundry manufacturing operations. In addition, the Company filed an action with the U.S. International Trade Commission (ITC) and the U.S. Department of Commerce (Department of Commerce) on June 30, 2003 seeking relief from a surge in the importation of unfairly priced Chinese ironing boards. On July 15, 2004, the ITC unanimously determined that the U.S. ironing board industry was facing material injury as a result of the importation of unfairly priced ironing boards from China. The ITC s action resulted in the issuance of an antidumping duty order by the Secretary of Commerce in August 2004. As a result, the Department of Commerce assigned revised dumping margins ranging from 9.47 percent to 157.68 percent. As necessary, the Company will

vigorously defend or otherwise support the antidumping order, which may require it to devote financial and other resources, including management time and legal expenses.

The Company s three largest customers all have unique aspects that require additional packaging, handling and technical support. Distribution systems are constantly evolving as retailers search for additional costs to remove from the distribution system. A coming technology is radio frequency identification (RFID) which attaches a computer chip to each product. This chip gives off a radio signal that can be tracked by the retailer for inventory and sale purposes. RFID has the potential to replace current bar code technology. Wal-Mart has indicated that vendors should prepare for a conversion to RFID technology over the next one to two years. The cost to transition to RFID is unknown but is expected to be significant.

The Company s Amended Loan Agreement takes into account seasonal fluctuations and changes to the Company s collateral base. Because the financing is asset-based, availability of funds to borrow is dependent on the quality of the Company s asset base, primarily its receivables and inventory. Should the lender determine that such assets do not meet the bank s credit tests, availability can be restricted. Given the Company s retail customer base, it is possible that certain customers could be excluded from the asset base thus reducing credit availability.

In an environment where customers largely control selling prices and vendors largely control raw material costs, sustained profitability and cash flow is a challenging goal. The Company will continue to focus on controlling our costs of production and holding operating expenses to below industry levels. The Company also intends to continue to develop new products and categories, as management believes that such items have a better opportunity for reasonable profit margins. Given the declining profitability of certain products and the increasing cost of raw materials, The Company has announced selective price increases. The success of these price increases is predicated on the competitive market place. If such price increases are not successfully implemented, certain products will be discontinued.

Given the Company s line of credit availability, The Company may from time-to-time look at opportunities to buy its high-yield bonds. A buyback might be done if such transactions are accretive to shareholders through either a reduction of interest expense or a buyback of bonds at a discount.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The Company s primary market risk is impacted by changes in interest rates and price volatility of certain commodity based raw materials.

Interest Rate Risk. The Company s revolving credit agreement is LIBOR-based and is subject to interest rate movements. During the thirteen weeks ended April 2, 2005, the Company did not experience any material changes in interest rate risk that would affect the disclosures presented in the Company s Annual Report on Form 10-K for the fifty-three week period ended January 1, 2005.

Commodity Risk. The Company is subject to price fluctuations in commodity based raw materials such as plastic resin, steel and griege fabric. Changes in the cost of these materials may have a significant impact on the Company s operating results. The cost of these items is affected by many factors outside of the Company s control and changes to the current trends are possible. See Business Risks and Management Outlook above.

The Company has entered into commitments to purchase certain core commodities at formula-based prices. The agreements expire in 2005 and 2006. Future related minimum commitments to purchase commodities, assuming April 2005 price levels, are $73 million in 2005. The purchase commitment pricing is not tied to fixed rates; therefore, the Company s results of operations or financial position could be affected by significant changes in the market cost of the commodities.

Table of Contents

Item 4. Controls and Procedures

The Company s management, with the participation of its Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of the Company s disclosure controls and procedures, as required by Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon the results of that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in reports it files or submits under the Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms.

The Company s disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by the Company in reports it files or submits under the Exchange Act of 1934 is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. The Company s management, with the participation of its Chief Executive Officer and Chief Financial Officer, believes that its disclosure controls and procedures are effective to provide such reasonable assurance.

The Company s management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

There has been no change in the Company s internal control over financial reporting during the Company s quarter ended April 2, 2005 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Forward Looking Statements

This quarterly report on Form 10-Q, including the Management s Discussion and Analysis of Financial Condition and Results of Operations , Business Risks and Management Outlook and Quantitative and Qualitative Disclosures about Market Risk sections, contain forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally may be identified by the use of terminology such as may, will, could, should, potential, continue, expect, intend, estimate, anticipate, believe, or similar phrases or the negatives of such terms. Such statements are based on management s current expectations and are subject to risks, uncertainties and assumptions, including those identified below and in the foregoing Business Risks and Management Outlook , as well as other matters not yet known to the Company or not currently considered material by the Company, which could cause actual results to differ materially from those described in the forward-looking statements. Such factors and uncertainties include, but are not limited to:

general economic conditions and conditions in the retail environment;

the Company s dependence on a few large customers;

Table of Contents

price fluctuations in the raw materials used by the Company;

competitive conditions in the Company s markets;

the impact of the level of the Company s indebtedness;

restrictive covenants contained in the Company s various debt documents;

the seasonal nature of the Company s business;

the extent to which the Company is able to retain and attract key personnel;

relationships with retailers;

the impact of federal, state and local environmental requirements (including the impact of future environmental claims against the Company);

the Company s ability to develop and introduce new products and product modifications necessary to remain competitive; and

other factors discussed in Business Risks and Management Outlook above.

Given these risks and uncertainties, investors are cautioned not to place undue reliance on such forward-looking statements. Forward-looking statements do not guarantee future performance. The Company s operating results may fluctuate, especially when measured on a quarterly basis. Except as required by law, the Company undertakes no obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company in this report and in the Company s reports on Forms 10-K, 10-Q and 8-K and other filings with the Securities and Exchange Commission. Such reports attempt to advise interested parties of the factors that affect the Company s business.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is party to various claims, legal actions and complaints including product liability litigation, arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or will not have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

On June 4, 2004, a complaint was filed in the Chancery Division of the Circuit Court of Cook County, Illinois against the Company and our directors. The complaint purported to be filed by a stockholder and alleged that in entering into the Agreement and Plan of Merger, by and between the Company and JRT Acquisition, Inc. (JRT), as amended by the certain First Amendment to the Agreement and Plan of Merger, dated October 11, 2004 (the JRT Agreement), the Company s board of directors breached their fiduciary duties of loyalty, due care, independence, good faith and fair dealing. The complaint included a request for a declaration that the action be maintained as a class action. On May 5, 2005 the Chancery Division of the Circuit Court of Cook County, Illinois dismissed the action without prejudice.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds None.

Item 3. Defaults Upon Senior Securities None.

Item 4. Submission of Matters to a Vote of Security Holders None.

Items 5. Other Information Not applicable.

Table of Contents

Item 6. Exhibits

31.1 Certification by Douglas R. Ramsdale, Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

31.2 Certification of James E. Winslow, Executive Vice President and Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Home Products International, Inc.

By: /s/ James E. Winslow

James E. Winslow
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Mark J. Suchinski

Mark J. Suchinski
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Dated: May 17, 2005

-SIZE: 10pt; FONT-FAMILY: times new roman">

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2010	2009	2010	2009
Comprehensive Income:				
Net income	$30,788,187	$31,590,908	$13,077,210	$11,514,520
Change in net unrealized (losses) gains on investments, net of tax	(558,217)	4,590,905	408,684	(3,638,071)
Comprehensive Income	$30,229,970	$36,181,813	$13,485,894	$7,876,449

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

6

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(Unaudited)

For the Nine Months Ended September 30, 2010 (Restated - see Note 1)

	Common Shares	Preferred Stock Shares	Common Stock Amount	Preferred Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Stoc Held Tru
Balance, Dec. 31, 2009	40,214,884	108,640	$402,146	$1,087	$36,666,914	$84,100,372	$563,654	$(511
Common shares issued	1,900,207		19,002		1,858,078			
Preferred stock conversion	1,187	(950)	12	(10)	(2)			
Release of shares from SGT					939,900			511,
Retirement of treasury shares	(1,239,190)		(12,389)		(7,591,863)			
Stock compensation plans					1,766,346			
Net income (Restated - see Note 1)						30,788,187		
Excess tax benefits from stock-based compensation					3,660,201			
Reclassification of excess tax benefits from stock-based compensation					(421,894)	421,894		
Amortization of deferred compensation					690,372			
Declaration of dividends						(8,631,614)		
Reclassification of investments to trading portfolio, net of tax effect of $253,170							403,137	

Change in net unrealized loss on invest., net of tax effect of $(603,732)							(961,354)	
Balance Sept. 30, 2010	40,877,088	107,690	$408,771	$1,077	$37,568,052	$106,678,839	$5,437	$-
For the Nine Months Ended September 30, 2009								
Balance Dec. 31, 2008	40,158,019	138,640	$401,578	$1,387	$33,587,414	$75,654,070	$24,834	$(733
Common shares issued	20,000		200		21,800			
Preferred stock conversion	75,000	(30,000)	750	(300)	(450)			
Release of shares from SGT					136,550			36,4
Stock compensation plans					1,421,332			
Net income						31,590,908		
Excess tax benefits from stock-based compensation					49,549			
Amortization of deferred compensation					490,407			
Declaration of dividends						(12,807,201)		
Change in net unrealized gain on invest., net of tax effect of $2,883,096							4,590,905	
Balance Sept. 30, 2009	40,253,019	108,640	$402,528	$1,087	$35,706,602	$94,437,777	$4,615,739	$(697

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

7

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

	(Restated see Note 1) Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net Income	$ 30,788,187	$ 31,590,908
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	1,665,919	1,056,636
Depreciation	731,817	336,075
Amortization of cost of stock options	1,766,349	1,421,332
Amortization of restricted stock grants	690,372	490,407
Realized gains on investments	(11,893,320)	(13,588,681)
Unrealized gains on investments	(6,281,192)	-
Foreign currency gains on investments	(834,529)	(6,108,112)
Amortization of premium / accretion of discount, net	404,822	203,653
Deferred income taxes	884,868	3,427,227
Other	(20,935)	130,121
Net change in assets and liabilities relating to operating activities:		
Prepaid reinsurance premiums	(28,069,159)	(34,804,467)
Reinsurance recoverables	24,480,200	(4,621,514)
Premiums receivable, net	(12,819,067)	(5,005,214)
Other receivables	2,035,488	(2,817,396)
Income taxes recoverable	3,211,874	1,624,875
Deferred policy acquisition costs, net	(3,388,225)	(8,708,186)
Purchases of fixed maturities, trading	(287,865,409)	-
Proceeds from sales of fixed maturities, trading	338,319,461	-
Purchases of equity securities, trading	(60,245,223)	-
Proceeds from sale of equity securities, trading	56,968,340	-
Other assets	(150,404)	(164,470)
Unpaid losses and loss adjustment expenses	9,660,097	10,315,726
Unearned premiums	67,933,901	35,004,845
Accounts payable	323,469	58,414
Reinsurance payable	(5,172,264)	55,964,083
Income taxes payable	3,129,928	235,571
Other accrued expenses	1,731,574	8,279,954
Advance premium	3,878,959	3,156,081
Net cash provided by operating activities	131,865,898	77,477,868
Cash flows from investing activities:		
Proceeds from sale of property	32,608	-
Purchase of real estate	(1,016,921)	-
Purchases of fixed maturities, available-for-sale	(129,140,469)	(206,473,797)
Proceeds from sales of fixed maturities, available-for-sale	116,237,712	203,451,919
Purchases of equity securities, available-for-sale	(80,730,225)	(131,231,211)

Proceeds from sales of equity securities, available-for-sale		70,680,944		79,069,631
Capital expenditures and building improvements		(572,155)		(509,517)
Net cash used in investing activities		(24,508,506)		(55,692,975)
Cash flows from financing activities:				
Bank overdraft		4,481,669		4,559,007
Preferred stock dividend		(14,962)		(22,462)
Common stock dividend		(8,616,650)		(8,268,279)
Issuance of common stock		7,000		22,000
Treasury shares on option exercise		(3,723,972)		(16,537)
Excess tax benefits from stock-based compensation		3,660,200		19,625
Repayments of loans payable		(1,102,941)		-
Net cash used in financing activities		(5,309,656)		(3,706,646)
Net increase in cash and cash equivalents		102,047,736		18,078,247
Cash and cash equivalents at beginning of period		192,924,291		256,964,637
Cash and cash equivalents at end of period	$	294,972,027	$	275,042,884
Non cash items:				
Dividends accrued	$	-	$	4,516,460

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

8

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010
(Unaudited)

1. Nature of Operations and Basis of Presentation

Restatement of Condensed Consolidated Financial Statements

Subsequent to filing its Quarterly Report on Form 10-Q, for the quarter ended September 30, 2010, the Company determined that a third-party clerical error in the coding of a single investment security resulted in an overstatement of unrealized gains on investments of $2,316,041 and realized gains on investments of $100,039 included in earnings for the three- and nine-month periods ended September 30, 2010. Through its internal review, management discovered that its external provider of investment accounting services incorrectly coded a series of purchases of a commodity security held by the Company. As a result, the provider reported to the Company that the security had gained value during the quarter ended September 30, 2010, when in fact it had lost value. The amount of actual unrealized loss on that single investment was $62,510. In addition, as a result of the overstatement, certain accruals for unpaid incentive bonus compensation payments have been reduced by $189,828.

The effect of the restatement on the condensed consolidated financial statements is as follows:

Consolidated Balance Sheet as of September 30,2010

	As Reported	Adjustment	Restated
Trading securites	$ 104,356,012	$ (2,416,080)	$ 101,939,932
Deferred income taxes	$ 10,466,570	$ 893,413	$ 11,359,983
Total assets	$ 789,012,137	$ (1,522,667)	$ 787,489,470
Income taxes payable	$ 3,464,260	$ 34,636	$ 3,498,896
Other accrued expenses	$ 22,671,787	$ (189,828)	$ 22,481,959
Total liabilities	$ 650,371,900	$ (155,192)	$ 650,216,708
Retained earnings	$ 108,046,314	$ (1,367,475)	$ 106,678,839
Total stockholders equity	$ 138,640,237	$ (1,367,475)	$ 137,272,762

Consolidated Statement of Operations — For the nine months ended September 30, 2010

	As Reported	Adjustment	Restated
Net realized gains on investments	$ 11,993,359	$ (100,039)	$ 11,893,320
Net urealized gains on investments	$ 8,597,233	$ (2,316,041)	$ 6,281,192
Total premiums earned and other revenues	$ 174,231,727	$ (2,416,080)	$ 171,815,647
General and administrative expenses	$ 43,820,836	$ (189,828)	$ 43,631,008
Total operating costs and expenses	$ 121,677,566	$ (189,828)	$ 121,487,738
INCOME BEFORE INCOME TAXES	$ 52,554,161	$ (2,226,252)	$ 50,327,909
Income taxes, current	$ 18,980,805	$ 34,636	$ 19,015,441
Income taxes, deferred	$ 1,417,694	$ (893,413)	$ 524,281
Income taxes, net	$ 20,398,499	$ (858,777)	$ 19,539,722
Net income	$ 32,155,662	$ (1,367,475)	$ 30,788,187
Basic net income per common share	$ 0.82	$ (0.04)	$ 0.78
Fully diluted net income per share	$ 0.80	$ (0.04)	$ 0.76

Comprehensive Income	For the nine months ended September 30, 2010		
	As Reported	Adjustment	Restated
Net income	$ 32,155,662	$ (1,367,475)	$ 30,788,187
Comprehensive income	$ 31,597,445	$ (1,367,475)	$ 30,229,970

Consolidated Statement of Operations	For the three months ended September 30, 2010		
	As Reported	Adjustment	Restated
Net realized gains on investments	$ 6,249,015	$ (100,039)	$ 6,148,976
Net urealized gains on investments	$ 8,597,233	$ (2,316,041)	$ 6,281,192
Total premiums earned and other revenues	$ 73,151,781	$ (2,416,080)	$ 70,735,701
General and administrative expenses	$ 20,242,856	$ (189,828)	$ 20,053,028
Total operating costs and expenses	$ 49,612,981	$ (189,828)	$ 49,423,153
INCOME BEFORE INCOME TAXES	$ 23,538,800	$ (2,226,252)	$ 21,312,548
Income taxes, current	$ 7,324,661	$ 34,636	$ 7,359,297
Income taxes, deferred	$ 1,769,454	$ (893,413)	$ 876,041
Income taxes, net	$ 9,094,115	$ (858,777)	$ 8,235,338
Net income	$ 14,444,685	$ (1,367,475)	$ 13,077,210
Basic net income per common share	$ 0.37	$ (0.04)	$ 0.33
Fully diluted net income per share	$ 0.36	$ (0.04)	$ 0.32

Comprehensive Income	For the three months ended September 30, 2010		
	As Reported	Adjustment	Restated
Net income	$ 14,444,685	$ (1,367,475)	$ 13,077,210
Comprehensive income	$ 14,853,369	$ (1,367,475)	$ 13,485,894

Consolidated Statement of Cash Flows	For the nine months ended September 30, 2010		
	As Reported	Adjustment	Restated
Net income	$ 32,155,662	$ (1,367,475)	$ 30,788,187
Realized gains on investments	$ (11,993,359)	$ 100,039	$ (11,893,320)
Unealized gains on investments	$ (8,597,233)	$ 2,316,041	$ (6,281,192)
Deferred income taxes	$ 1,778,281	$ (893,413)	$ 884,868
Income taxes payable	$ 3,095,292	$ 34,636	$ 3,129,928
Other accrued expenses	$ 1,921,402	$ (189,828)	$ 1,731,574

Additional disclosures are provided in the accompanying notes to condensed consolidated financial statements primarily in Note 2 – “Significant Accounting Policies Trading Securities”, Note 5 – “Investments”, Note 9 – “Income Ta Provision”, Note 13 – “Earning Per Share” and Note 15 – “Subsequent Events”. Disclosures have also been modified in Item 2 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, Item 4 – “Controls and Procedures” and Exhibit 99.1 “Schedule of Investments.”

Nature of Operations

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

10

Universal Property & Casualty Insurance Company (“UPCIC”) in 1997. The Company has since evolved into a vertically integrated insurance holding company, which through its various subsidiaries, covers substantially all aspects of insurance underwriting, distribution and claims processing. The Company’s primary product is homeowners’ insurance.

Basis of Presentation

The Company’s 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 for the year ended December 31, 2009. The condensed consolidated balance sheet at December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by GAAP. Certain financial information that is included in annual financial statements prepared in accordance with GAAP is not required for interim reporting and has been condensed or omitted.

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 may differ from those estimates.

To conform to the 2010 presentation, certain amounts in the prior periods’ consolidated financial statements and notes have been reclassified. Such reclassifications had no effect on net income or stockholders’ equity.

2. Significant Accounting Policies

The Company reported Significant Accounting Policies in its Annual Report on Form 10-K for the year ended December 31, 2009. The following are new or revised disclosures or disclosures required on a quarterly basis.

Trading Securities. The Company’s trading securities include marketable fixed maturity and equity securities with readily determinable fair values that the Company intends to trade. The securities are carried at fair value and all applicable interest and dividends, realized gains and losses, and unrealized gains and losses on changes in fair value are included in income.

During the three-month period ended September 30, 2010, the Company evaluated the trading activity in its investment portfolio, its investing strategy, and its overall investment program, and concluded that its investment activities throughout the quarter were more consistent with the trading classification. As a result of this evaluation, the Company reclassified its available-for-sale portfolio as a trading portfolio effective July 1, 2010. As a result of the reclassification, pre-tax net unrealized losses in the amount of $656,307 on the available-for-sale portfolio, as of July 1, 2010, were recognized in current period revenues as a reduction of unrealized gains on investments. During the three-month period ended September 30, 2010, the market value of the Company’s trading portfolio increased by $6,937,499 before income taxes. The increase in market value was recorded in current period revenues as unrealized gains on investments.

The Company’s reclassification of its available-for-sale investments to a trading portfolio had the following effect on items reporting in the Condensed Consolidated Financial Statements:

11

Increase (decrease) in:	For the nine months ended September 30, 2010	For the three months ended September 30, 2010
Unrealized gains on investments	$6,281,192	$6,281,192
Net income	$3,858,222	$3,858,222
Basic net income per common share	$0.10	$0.10
Fully diluted net income per common share	$0.10	$0.10
Cash flows from operating activities	$47,177,169	not presented
Cash flows from investing activities	$(47,177,169)	not presented

The Company will continue to record future changes in the market value of its trading portfolio directly to revenues as unrealized gains or losses on investments.

Fair Market of Financial Instruments. The Company's long-term debt was held at a carrying value of $23,529,412 and $24,632,353 as of September 30, 2010 and December 31, 2009, respectively. The fair value of long-term debt as of September 30, 2010 was estimated based on discounted cash flows utilizing interest rates currently offered for similar products and was determined to be $18,175,475 and $18,299,889 as of September 30, 2010 and December 31, 2009, respectively.

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

In order to reduce credit risk for amounts due from reinsurers, the Company's primary insurance subsidiary, UPCIC, 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 September 30, 2010 and December 31, 2009, UPCIC's reinsurance portfolio contained the following authorized reinsurers that had unsecured recoverables for paid and unpaid losses, including incurred but not reported ("IBNR") reserves, loss adjustment expenses and unearned premiums whose aggregate balance exceeded 3% of UPCIC's statutory surplus:

Reinsurer	As of September 30, 2010	As of December 31, 2009
Everest Reinsurance Company	$233,742,057	$ 208,129,753
Florida Hurricane Catastrophe Fund	n/a	24,888,534

Total	$233,742,057	$ 233,018,287

12

As of September 30, 2010 and December 31, 2009, UPCIC did not have any unsecured recoverables from unauthorized reinsurers exceeding 3% of UPCIC's statutory surplus.

Stock Compensation. The Company periodically issues restricted common stock and grants options to purchase common stock to its directors, officers and employees. These restricted stock awards and stock option grants are recorded as compensation expense ratably over their respective vesting periods.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB ") issued new accounting guidance which expands disclosure requirements relating to fair value measurements. The guidance adds requirements for disclosing amounts of and reasons for significant transfers into and out of Levels 1 and 2 and requires gross rather than net disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The guidance also provides clarification that fair value measurement disclosures are required for each class of assets and liabilities. Disclosures about the valuation techniques and inputs used to measure fair value for measurements that fall in either Level 2 or Level 3 are also required. The Company adopted the provisions of the new guidance as of March 31, 2010 except for disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are required for fiscal years beginning after December 15, 2010. Disclosures are not required for earlier periods presented for comparative purposes. The new guidance affects disclosures only; and therefore, the adoption had no impact on the Company's results of operations or financial position.

In February 2010, the FASB amended the subsequent events guidance issued in May 2009 to remove the requirement for SEC filers to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The amendment was effective upon issuance. The adoption of this guidance did not have an impact on the Company's consolidated financial condition or results of operations.

3. Insurance Operations

The Company's primary business consists of transacting homeowners' insurance through UPCIC. UPCIC collects premiums from policyholders for coverage provided under its insurance policies. 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 September 30, 2010, UPCIC serviced approximately 576,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $346,304,445 and in-force premiums of approximately $651,200,000. At December 31, 2009, UPCIC serviced 541,000 homeowners' and dwelling fire insurance policies with direct unearned premiums totaling $278,370,544 and in-force premiums of approximately $567,100,000.

The insurance premiums charged by UPCIC are subject to various statutory and regulatory requirements. Among these, UPCIC must offer wind mitigation discounts in accordance with a program mandated by the Florida legislature and implemented by the Florida Office of Insurance Regulation ("OIR"). The level of 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:

Date	Percentage of UPCIC policyholders receiving credits		Reduction of in-force premium (only policies including wind coverage) Total credits	In-force premium	Percentage reduction of in-force premium	
6/1/2007	1.9	%	$ 6,284,697	$ 487,866,319	1.3	%
12/31/2007	11.8	%	$ 31,951,623	$ 500,136,287	6.0	%
3/31/2008	16.9	%	$ 52,398,215	$ 501,523,343	9.5	%
6/30/2008	21.3	%	$ 74,185,924	$ 508,411,721	12.7	%
9/30/2008	27.3	%	$ 97,802,322	$ 515,560,249	16.0	%
l2/31/2008	31.1	%	$ 123,524,911	$ 514,011,138	19.4	%
3/31/2009	36.3	%	$ 158,229,542	$ 530,029,572	23.0	%
6/30/2009	40.4	%	$ 188,053,342	$ 544,646,437	25.7	%
9/30/2009	43.0	%	$ 210,291,783	$ 554,378,761	27.5	%
12/31/2009	45.2	%	$ 219,974,130	$ 556,577,449	28.3	%
3/31/2010	47.8	%	$ 235,717,892	$ 569,870,173	29.3	%
6/30/2010	50.9	%	$ 281,386,124	$ 620,276,858	31.2	%
9/30/2010	52.4	%	$ 291,306,407	$ 634,285,246	31.5	%

4. Reinsurance

UPCIC seeks to protect against the risk of catastrophic loss by obtaining reinsurance coverage as of the beginning of the hurricane season on June 1 of each year. UPCIC's reinsurance program consists of excess of loss, quota share and catastrophe reinsurance, subject to the terms and conditions of the applicable agreements.

On May 31, 2010, UPCIC and Segregated Account T25 – Universal Insurance Holdings of White Rock Insurance (SAC) Ltd. ("T25") mutually agreed to a Commutation and Settlement Agreement related to the Underlying Property Catastrophe Excess of Loss Reinsurance Contract effective March 23, 2010. A replacement contract was entered into between the parties on June 1, 2010 as part of UPCIC's reinsurance program in effect for the period June 1, 2010, through May 31, 2011. In conjunction with the commutation and entering into a new contract, the Company contributed additional capital to T25 due to the increased reinsurance coverage and collateral requirements of the replacement contract, effective June 1, 2010. The Company is the account owner of T25 under Bermuda law, and the reinsurance transactions between T25 and UPCIC are eliminated in consolidation.

UPCIC's in-force policyholder coverage for windstorm exposures as of September 30, 2010 was approximately $124.2 billion. In the normal course of business, UPCIC also seeks to reduce the risk of loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

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

2010 Reinsurance Program

Quota Share

14

Effective June 1, 2010, UPCIC entered into a quota share reinsurance contract with Everest Re. Everest Re 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. Under the quota share contract, through May 31, 2011, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk with a ceding commission equal to 25% of ceded gross written premiums. In addition, the quota share contract has a limitation for any one occurrence of 56% of Gross Premiums Earned, not to exceed $160,000,000 (of which UPCIC's net liability on the first $160,000,000 of losses in a first event scenario is $22,500,000, in a second event scenario is $13,150,000 and in a third event scenario is $15,000,000) and a limitation from losses arising out of events that are assigned a catastrophe serial number by the Property Claims Services ("PCS") office of 140% of Gross Premiums Earned, not to exceed $400,000,000.

Excess Per Risk

Effective June 1, 2010 through May 31, 2011, UPCIC entered into a multiple line excess per risk contract with various reinsurers. Under the multiple line excess per risk contract, UPCIC obtained coverage of $1,400,000 in excess of $600,000 ultimate net loss for each risk and each property loss, and $1,000,000 in excess of $300,000 for each casualty loss. A $7,000,000 aggregate limit applies to the term of the contract.

Effective June 1, 2010 through May 31, 2011, UPCIC entered into a property per risk excess contract covering ex-wind only policies. Under the property per risk excess contract, UPCIC obtained coverage of $400,000 in excess of $200,000 for each property loss. A $2,000,000 aggregate limit applies to the term of the contract.

The total cost of the Company's multiple line excess reinsurance program effective June 1, 2010 through May 31, 2011 is $3,500,000 of which the Company's cost is 50%, or $1,750,000, and the quota share reinsurers' cost is the remaining 50%. The total cost of the Company's property per risk reinsurance program effective June 1, 2010 through May 31, 2011 is $475,000.

Excess Catastrophe

Effective June 1, 2010 through May 31, 2011, under excess catastrophe contracts, UPCIC obtained catastrophe coverage of $660,500,000 in excess of $160,000,000 covering certain loss occurrences including hurricanes. The coverage of $660,500,000 in excess of $160,000,000 has a second full limit available to UPCIC; additional premium is calculated pro rata as to amount and 100% as to time, as applicable.

Effective June 1, 2010 through May 31, 2011, UPCIC purchased reinstatement premium protection which reimburses UPCIC for its cost to reinstate the catastrophe coverage of the first $310,500,000 (part of $660,500,000) in excess of $160,000,000.

Effective June 1, 2010 through May 31, 2011, under an underlying excess catastrophe contract, UPCIC obtained catastrophe coverage of 50% of $105,000,000 in excess of $55,000,000 covering certain loss occurrences including hurricanes. UPCIC entered into this contract with a segregated account that was established by a third-party reinsurer in accordance with Bermuda law. The Company has secured the obligations of the segregated account by contributing the amount of the segregated account's liability for losses, net of UPCIC's required premium payments, to a trust account.

Effective June 1, 2010 through May 31, 2011, under an excess catastrophe contract specifically covering risks located in North Carolina and South Carolina, UPCIC obtained catastrophe coverage of 50% of $40,000,000 in excess of $10,000,000 covering certain loss occurrences including hurricanes. The coverage of 50% of $40,000,000 in excess of $10,000,000 has a second full limit available to UPCIC; additional premium is calculated pro rata as to amount and 100% as to time, as applicable. The cost of UPCIC's excess catastrophe contract specifically covering risks located in North Carolina and South Carolina is $2,025,000.

Effective June 1, 2010 through May 31, 2011, UPCIC also obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of UPCIC's net retention through three catastrophe events including hurricanes, as follows:

	2ndEvent	3rdEvent
Coverage	$123,700,000 in excess of $36,300,000 each loss occurrence subject to an otherwise recoverable amount of $123,700,000 (placed 50%)	$130,000,000 in excess of $30,000,000 each loss occurrence subject to an otherwise recoverable amount of $260,000,000 (placed 100%)
Deposit premium (100%)	$22,266,000	$9,100,000
Minimum premium (100%)	$17,812,800	$7,280,000
Premium rate -% of total insured value	0.020088%	0.00821%

UPCIC also obtained coverage from the Florida Hurricane Catastrophe Fund ("FHCF"), which is administered by the Florida State Board of Administration ("SBA"). Under the reimbursement agreement, the FHCF would reimburse UPCIC, for each loss occurrence during the contract year, for 90% of the ultimate loss paid by UPCIC in excess of its retention plus 5% of the reimbursed losses to cover loss

16

---

adjustment expenses, subject to an aggregate contract limit. A covered event means any one storm declared to be a hurricane by the National Hurricane Center for losses incurred in Florida, both while it is a hurricane and through subsequent downgrades. For the contract year June 1, 2010 to May 31, 2011, UPCIC purchased the traditional FHCF coverage and did not purchase the Temporary Increase in Coverage Limit Option offered to insurers by the FHCF. UPCIC's estimate of its traditional FHCF coverage is based upon UPCIC's exposure in-force as of June 30, 2010, as reported by UPCIC to the FHCF on September 1, 2010 and is 90% of $1,118,744,624 in excess of $422,612,828. The estimated premium for this coverage is $68,296,648.

Also at June 1, 2010, the FHCF made available, and UPCIC obtained, $10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies or companies that participated in the Insurance Capital Build-Up Incentive ("ICBUI") Program offered by the FHCF, such as UPCIC. This particular layer of coverage at June 1, 2010 is $10,000,000 in excess of $26,300,000. The premium for this coverage is $5,000,000.

On October 29, 2010, the SBA published its most recent estimate of the FHCF's loss reimbursement capacity in the Florida Administrative Weekly. The SBA estimated that the FHCF's total claims-paying capacity under current market conditions for the 2010 - 2011 contract year is projected to be $18.776 billion over the 12-month period following the estimate. The SBA also referred to its report entitled, "October 2010 Estimated Claims Paying Capacity Report" ("Report") as providing greater detail regarding the FHCF's claims-paying capacity. The Report estimated that the FHCF's minimum 12-month claims-paying capacity is $19.414 billion and its maximum 12-month claims-paying capacity is $35.414 billion with an average claims-paying capacity of $25.414 billion. This projected claims-paying capacity exceeds the FHCF's maximum statutory obligation for 2010 of $18.776 billion. Claims-paying capacity exceeding the FHCF's maximum statutory obligation for a single contract year may be available for insurer reimbursements in future contract years. UPCIC purchased the FHCF Mandatory Layer of Coverage for the 2010 - 2011 contract year, which corresponds to FHCF loss reimbursement capacity of $17 billion. In the event the aggregate amount of reimbursement coverage requested by insurers for a particular contract year exceeds the FHCF's actual claims-paying capacity, the FHCF's obligation to reimburse insurers is limited by law to its actual claims-paying capacity. The aggregate cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's loss reimbursement capacity.

The total cost of UPCIC's multiple line excess and property per risk reinsurance program effective June 1, 2010 through May 31, 2011 is $3,975,000 of which UPCIC's cost is $2,225,000, and the quota share reinsurers cost is the remaining $1,750,000. The cost of UPCIC's underlying excess catastrophe contract is $42,000,000, subject to a potential return premium of up to $31,458,000. The total cost of UPCIC's private catastrophe reinsurance program effective June 1, 2010 through May 31, 2011 is $134,538,000 of which UPCIC's cost is 50%, or $67,269,000, and the quota share reinsurers cost is the remaining 50%. In addition, UPCIC purchases reinstatement premium protection as described above, the cost of which is $16,210,064. UPCIC's cost of the subsequent catastrophe event excess of loss reinsurance is $15,683,000. The estimated premium that UPCIC plans to cede to the FHCF for the 2010 hurricane season is $68,296,648 of which UPCIC's cost is 50%, or $34,148,324 and the quota share reinsurers' cost is the remaining 50%. UPCIC is also participating in the additional coverage option for Limited Apportionment Companies or companies that participated in the ICBUI Program offered by the FHCF, the premium for which is $5,000,000 of which UPCIC's cost is 50%, or $2,500,000, and the quota share reinsurers' cost is the remaining 50%. The Company is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program which could have a material adverse effect on the Company's business, financial condition and results of operations. UPCIC's private market reinsurance costs are subject to increases or decreases if changes in its earned premiums or the

total insured value under its in-force policies as of August 31, 2010, are outside of ranges specified in certain of its reinsurance contracts.

Effective June 1, 2010 through December 31, 2010, the Company obtained $60,000,000 of coverage via a catastrophe risk-linked transaction contract in the event UPCIC's catastrophe coverage is exhausted. The total cost of the Company's risk-linked transaction contract is $8,250,000.

UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on UPCIC's and the Company's business, financial condition and results of operations. UPCIC estimates based upon its in-force exposures as of September 30, 2010, that it had coverage to approximately the 125-year Probable Maximum Loss (PML), modeled using AIR CLASIC/2 v.11.0, long term, without demand surge and without loss amplification. PML is a general concept applied in the insurance industry for defining high loss scenarios that should be considered when underwriting insurance risk. Catastrophe models produce loss estimates that are qualified in terms of dollars and probabilities. Probability of exceedance or the probability that the actual loss level will exceed a particular threshold is a standard catastrophe model output. For example, the 100-year PML represents a 1.00% Annual Probability of Exceedance (the 125-year PML represents a 0.800% Annual Probability of Exceedance). It is estimated that the 100-year PML is likely to be equaled or exceeded in one year out of 100 on average, or 1 percent of the time. It is the 99th percentile of the annual loss distribution.

UPCIC limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers on an automatic basis under reinsurance contracts. The reinsurance arrangements are intended to provide UPCIC with the ability to limit its exposure to losses within its capital resources. Such reinsurance includes quota share, excess of loss and catastrophe forms of reinsurance. UPCIC submits the reinsurance program for regulatory review to the OIR.

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

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 520,781,570	$ 452,847,668	$ 156,537,023	$ 436,610,689	$ 401,605,845	$ 139,259,179
Ceded	(357,411,323)	(329,342,164)	(78,680,293)	(328,518,186)	(293,713,719)	(70,563,627)
Net	$ 163,370,247	$ 123,505,504	$ 77,856,730	$ 108,092,503	$ 107,892,126	$ 68,695,552

18

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$ 152,662,238	$ 162,093,491	$ 59,511,679	$ 134,626,400	$ 139,207,538	$ 48,330,038
Ceded	(108,539,124)	(113,262,337)	(30,141,553)	(104,152,022)	(106,449,802)	(24,561,309)
Net	$ 44,123,114	$ 48,831,154	$ 29,370,126	$ 30,474,378	$ 32,757,736	$ 23,768,729

Other Amounts:

Prepaid reinsurance premiums and reinsurance recoverables as of September 30, 2010 and December 31, 2009 were as follows:

	As of Sept. 30, 2010	As of December 31, 2009
Prepaid reinsurance premiums	$ 228,363,400	$ 200,294,241
Reinsurance recoverable on unpaid losses and LAE	$ 67,151,722	$ 62,900,913
Reinsurance recoverable on paid losses	184,511	28,915,520
Reinsurance recoverables	$ 67,336,233	$ 91,816,433

The Company has determined that a right of offset exists between UPCIC and its reinsurers. Reinsurance payable to reinsurers has been offset by ceding commissions and inuring premiums receivable from reinsurers as follows:

	As of Sept. 30, 2010	As of December 31, 2009
Reinsurance payable, net of ceding commissions due from reinsurers	$ 109,972,621	$ 105,536,847
Inuring premiums receivable	(42,040,290)	(32,432,252)
Reinsurance payable, net	$ 67,932,331	$ 73,104,595

5. Investments

During the three-month period ended September 30, 2010, the Company evaluated the trading activity in its investment portfolio, its investing strategy, and its overall investment program. As a result of this evaluation, the Company reclassified its available-for-sale portfolio as a trading portfolio effective July 1, 2010. As a result of the reclassification, pre-tax net unrealized losses in the amount of $656,307 on the available-for-sale portfolio, as of July 1, 2010, were recognized in current period revenues as a reduction of unrealized gains on investments. During the three-month period ended September 30, 2010, the market value of the Company's trading portfolio increased by $6,937,499 before income taxes. The increase in market value was recorded in current period revenues as unrealized gains on investments. The Company will continue to record future changes in the market value of its trading portfolio directly to revenues as unrealized gains or losses on investments. The net unrealized gain on investments relating to the trading portfolio of $6,281,192 is recorded in the Condensed Consolidated Statement of Operations caption

"Unrealized Gains on Investments."

19

Major sources of net investment income, are summarized as follows:

	For the Nine Months Ended September 30,	
	2010	2009
Cash and cash equivalents	$ 109,150	$ 253,073
Fixed maturities	710,325	1,136,568
Equity securities	36,530	634,362
Total investment income	856,005	2,024,003
Less investment expenses	(479,430)	(638,996)
Net investment income	$ 376,575	$ 1,385,007

As of September 30, 2010 and December 31, 2009, the Company's investments consisted of cash and cash equivalents, and investments with carrying values of $396,911,959 and $307,721,301, respectively.

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

Cash and cash equivalents consisted of checking, repurchase, and money market accounts with carrying values of $294,972,027 and $192,924,291 as of September 30, 2010 and December 31, 2009, respectively, held at the following financial institutions:

Financial Institution	As of September 30, 2010 Cash	Money Market Funds	Total	%
U. S. Bank IT&C (1)	$ 0	$ 71,454,904	$ 71,454,904	24.2 %
Evergreen Investment Management Company, L.L.C.	0	2,909	2,909	0.0 %
SunTrust Bank	1,203,993	0	1,203,993	0.4 %
SunTrust Bank Institutional Asset Services	0	197,938,069	197,938,069	67.2 %
Wachovia Bank, N.A.	660,389		660,389	0.2 %
Bank of New York Trust Fund	0	23,276,955	23,276,955	7.9 %
All Other Banking Institutions	434,808	0	434,808	0.1 %
	$ 2,299,190	$ 292,672,837	$ 294,972,027	100.0 %

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

Financial Institution	As of December 31, 2009 Cash	Money Market Funds	Total	%
U. S. Bank IT&C (1)	$ 0	$ 71,977,371	$ 71,977,371	37.3 %
Evergreen Investment Management Company, L.L.C.	0	26,909	26,909	0.0 %
SunTrust Bank	1,063,785	0	1,063,785	0.5 %
SunTrust Bank Institutional Asset Services	0	102,257,833	102,257,833	53.0 %
Wachovia Bank, N.A.	489,051	0	489,051	0.3 %
Bank of New York Trust Fund	0	16,515,181	16,515,181	8.6 %
All Other Banking Institutions	594,161	0	594,161	0.3 %
	$ 2,146,997	$ 190,777,294	$ 192,924,291	100.0 %

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

Effective July 1, 2010, the Company’s investments are classified as trading securities. These securities are reported at fair value, with unrealized gains and losses included in earnings.

The following table shows the realized gains and losses for fixed maturities and equity securities, for the nine-month and three-month periods ended September 30, 2010.

	For the Nine Months Ended September 30, 2010	For the Three Months Ended September 30, 2010
Fixed maturities	$ 4,498,755	$ 2,602,654
Equity securities	11,087,241	3,893,281
Total realized gains	$ 15,585,996	$ 6,495,935
Fixed maturities	$ (365,171)	$ (81,269)
Equity securities	(3,177,480)	(167,665)
Other Investments	(150,025)	(98,025)
Total realized losses	$ (3,692,676)	$ (346,959)
Net realized gains on investments	$ 11,893,320	$ 6,148,976

The Company's investment portfolio as of September 30, 2010 consisted of trading securities carried at fair value. A summary of the available-for-sale amortized cost (fixed maturities), cost (equity securities), estimated fair value, gross unrealized gains, and gross unrealized losses of fixed maturities and equity securities at December 31, 2009 follows.

	December 31, 2009			
	Amortized Cost / Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities:				
US government and agency obligations	$ 42,296,727	$ 37,623	$ (945,342)	$ 41,389,008
Total fixed maturities	$ 42,296,727	$ 37,623	$ (945,342)	$ 41,389,008
Equity securities:				
Commodities	$ 53,098,484	$ 4,079,387	$ (216,691)	$ 56,961,180
Common stock	18,437,549	199,045	(2,189,772)	16,446,822
Total equity securities	$ 71,536,033	$ 4,278,432	$ (2,406,463)	$ 73,408,002

The following tables summarize, by type, the Company's investments as of September 30, 2010 and December 31, 2009:

	September 30, 2010 Carrying Amount	Percent of Total	December 31, 2009 Carrying Amount	Percent of Total
Available for sale				
Fixed maturities, at fair value:				
US government and agency obligations	-	0.0 %	41,389,008	36.1 %
Equity securities, at fair value:				
Commodities	-	0.0 %	56,961,180	49.6 %
Common stock	-	0.0 %	16,446,822	14.3 %

Total investments	$	-	0.00 %	$	114,797,010	100.00 %

22

	September 30, 2010 Carrying Amount	Percent of Total	December 31, 2009 Carrying Amount	Percent of Total
Trading				
Fixed maturities, at fair value:				
US government and agency obligations	$ 3,465,332	3.4 %	$ -	0.0 %
Foreign obligations	6,173,911	6.1 %	-	0.0 %
Equity securities, at fair value:				
Commodities	81,972,320	80.4 %	-	0.0 %
Common stock	10,328,369	10.1 %	-	0.0 %
Total investments	$ 101,939,932	100.00 %	$ -	0.00 %

Below is a summary of fixed maturities at September 30, 2010 and December 31, 2009 by contractual or expected periods.

Available for Sale	September 30, 2010		December 31, 2009	
Contractual or Expected Period:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	176,350	180,901
Due after five years through ten years	-	-	2,909,446	2,942,497
Due after ten years	-	-	39,210,931	38,265,610
Total	$ -	$ -	$ 42,296,727	$ 41,389,008

Trading	September 30, 2010		December 31, 2009	
Contractual or Expected Period:	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 3,356,843	$ 3,393,067	$ -	$ -
Due after one year through five years	2,889,897	2,961,866	-	-
Due after five years through ten years	3,019,144	3,284,310	-	-
Due after ten years	-	-	-	-
Total	$ 9,265,884	$ 9,639,243	$ -	$ -

The Company has made an assessment of its invested assets for fair value measurement as further described in Note 16 – Fair Value Disclosure.

6. Loans Payable and Long-Term Debt

Surplus Note

In 2006, UPCIC entered into a $25.0 million surplus note with the SBA under the ICBUI Program which was implemented by the Florida legislature to encourage insurance companies to write additional

23

residential insurance coverage in Florida. The SBA matched UPCIC's funds of $25.0 million that were earmarked for participation in the program. The $25.0 million is invested in a U.S. treasury money market account.

The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, UPCIC was required to pay interest only. All payments of principal or interest by UPCIC on the surplus note must be approved by the Commissioner of the OIR. Equal quarterly principal installment payments of $367,647 commenced on January 1, 2010.

As of September 30, 2010 and December 31, 2009, the balances due under the surplus note are shown in the Company's condensed consolidated Balance Sheets as Long-Term Debt with carrying values of $23,529,412 and $24,632,353, respectively.

Future repayments of principal are due as follows:

2010	-
2011	$1,470,588
2012	1,470,588
2013	1,470,588
2014	1,470,588
Thereafter	17,647,060
Total	$23,529,412

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

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

The original surplus note provided for increases in interest rates for failure to meet the Minimum Writing Ratio. Under the terms of the surplus note, as amended, the net written premium to surplus requirement

and gross written premium to surplus requirement have been modified. As of September 30, 2010, UPCIC's net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC was not subject to increases in interest rates.

Finance Facility

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

In September 2009, Atlas received notification that, effective September 27, 2010, Flatiron will not be renewing the funding and servicing agreement with Atlas. Flatiron stated in the notice to Atlas that its business environment and goals had changed and it had made a strategic decision to exit this particular business activity. Accordingly, on September 17, 2010, Atlas paid off its loan with Flatiron in full and the parties terminated the Sale and Assignment Agreement and other related agreements. The Company recorded a corresponding loan to Atlas which was eliminated in consolidation.

Interest Expense

Interest expense, comprised primarily of interest on the surplus note, was $710,517 and $573,323, respectively, for the nine month periods ended September 30, 2010 and 2009 and $206,768 and $235,786 respectively, for the three-month periods ended September 30, 2010 and 2009.

7. Regulatory Requirements and Restrictions

UPCIC is subject to comprehensive regulation by the OIR. The Florida Insurance Code (the "Code") requires UPCIC to maintain minimum statutory surplus of the greater of 10% of its total liabilities or $4,000,000. UPCIC is also required to adhere to prescribed premium-to-surplus ratios required by the Code and to maintain approved securities on deposit with the state of Florida. UPCIC's statutory surplus as of September 30, 2010 is $106,000,341, which satisfies the minimum statutory surplus required by the Code.

The maximum amount of dividends which can be paid by Florida insurance companies without prior approval of the Florida Commissioner is subject to certain statutory restrictions. The maximum dividend that may be paid by UPCIC to the Company without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or 10.0% of statutory unassigned capital surplus as of the preceding year end. During the nine-month periods ended September 30, 2010 and 2009, UPCIC did not pay dividends to the Company.

UPCIC is required annually to comply with the National Association of Insurance Commissioners ("NAIC") Risk-Based Capital ("RBC") requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in relation to its size and risk profile. NAIC's RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers that show signs of a weak or deteriorating condition. As of December 31, 2009, based on the calculations using the appropriate NAIC RBC formula, UPCIC's reported total adjusted capital was in excess of the requirements.

8. Related Party Transactions

Downes and Associates, a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates is owned by Dennis Downes, who is the father of Sean P. Downes, Chief Operating Officer and Senior Vice President of UPCIC. During the nine-month periods ended September 30, 2010 and 2009, the Company expensed claims adjusting fees of $360,000 and $345,000, respectively, to Downes and Associates.

During the fourth quarter of 2009, the Company overpaid non-equity incentive plan compensation to the Chief Executive Officer and Chief Operating Officer in the amounts of $217,169 and $162,876, respectively. These amounts were repaid to the Company during February 2010.

9. Income Tax Provision

Deferred income taxes represent the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. The tax effects of temporary differences are as follows:

	As of September 30, 2010		As of December 31, 2009	
Deferred income tax assets:				
Unearned premiums	$	9,099,152	$	6,023,587
Advanced premiums		1,557,207		1,266,152
Unpaid losses		1,987,558		1,836,061
Regulatory assessments		535,240		1,605,884
Executive compensation		-		181,992
Shareholder compensation		446,550		327,553
Stock option expense		3,334,872		3,037,961
Accrued wages		338,543		423,190
Allowance for uncollectible receivables		644,143		1,042,228
Additional tax basis of securities		180,184		140,878
Restricted stock grant		276,193		9,882
Recognition of OTTI		306,897		-
Other		-		3,876
Total deferred income tax assets		18,706,539		15,899,244
Deferred income tax liabilities:				
Deferred policy acquisition costs, net		(4,957,986)		(3,650,979)
Net unrealized gains on investments		(3,414)		(353,976)
Market value gains on trading securities		(2,385,156)		-
Total deferred income tax liabilities		(7,346,556)		(4,004,955)
Net deferred income tax asset	$	11,359,983	$	11,894,289

A valuation allowance was deemed unnecessary as of September 30, 2010 and December 31, 2009, respectively, as management believes it is probable that the Company will generate substantial taxable income sufficient to realize the tax benefits associated with the net deferred income tax asset shown above in the near future.

26

The State of Florida income tax is included in the Company's income taxes at a statutory rate of 5.5%.

The 2006 consolidated federal income tax return for Universal Insurance Holdings, Inc & Subsidiaries was examined by the Internal Revenue Service in 2009. The audit was completed and settled in October 2009 with no major issues. The combination of positive and negative adjustments resulted in an agreed upon assessment of $3,144, which was paid by the Company in January 2010.

The Company's earliest open tax year for purposes of examination of its income tax liability due to taxing authorities is the year ended December 31, 2007.

10. Stockholders' Equity

Cumulative Preferred Stock

During the nine month period ended September 30, 2010, preferred stockholders converted 950 shares of Series M Preferred Stock into 1,187 shares of Common Stock. During the nine month period ended September 30, 2009, preferred stockholders converted 30,000 shares of Series A Preferred Stock into 75,000 shares of Common Stock. As of September 30, 2010 the Company had 19,950 and 87,740 shares of issued and outstanding Series A and Series M Preferred Stock, respectively.

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

Equity Compensation Plan

On October 13, 2009, the Company's Board of Directors approved, and recommended that the Company's stockholders approve, the 2009 Omnibus Incentive Plan ("Incentive Plan"). On November 16, 2009, the Company's stockholders approved the Incentive Plan by written consent.

An aggregate of 1,800,000 shares of the common stock, $0.01 par value per share ("Common Stock") is reserved for issuance and available for awards under the Incentive Plan. Awards under the Incentive Plan may include incentive stock options, nonqualified stock options, stock appreciation rights, restricted shares of Common Stock, restricted stock units, performance share or unit awards, other stock-based awards and cash-based incentive awards. Awards under the Incentive Plan may be granted to employees, directors, consultants or other persons providing services to the Company or its affiliates. The Incentive Plan also provides for awards that are intended to qualify as "performance-based compensation" in order to preserve the deductibility of such compensation by the Company under Section 162(m) of the Internal Revenue Code. The Incentive Plan shall have a term of ten years expiring on November 16, 2019.

Stock Options

Summaries of the option activity for the nine-month periods ended September 30, 2010 and 2009 are presented below:

	Number of Shares	Option Price per Share Low		Option Price per Share High		Weighted Avg.		Aggregate Intrinsic Value
Outstanding January 1, 2010	6,345,000	$ 0.50	$	6.50	$	3.21	$	17,888,900
Granted	1,665,000	$ 4.87	$	5.84	$	5.07		
Exercised	(2,230,000)	$ 0.70	$	3.90	$	1.49		
Expired	-							
Outstanding September 30, 2010	5,780,000	$ 0.50	$	6.50	$	4.41	$	4,613,100
Outstanding January 1, 2009	6,650,000	$ 0.50	$	6.50	$	3.15	$	3,795,250
Granted	-							
Exercised	(65,000)	$ 1.10	$	3.90	$	3.00		
Expired	-							
Outstanding September 30, 2009	6,585,000	$ 0.50	$	6.50	$	3.15	$	14,685,300

On February 2, 2010, the Company granted non-qualified stock options for an aggregate 350,000 shares of Common Stock to Sean P. Downes, the Company's Chief Operating Officer and Senior Vice President in consideration for services rendered pursuant to terms of an employment agreement and to provide Mr. Downes with a continued incentive to share in the success of the Company. The options have an exercise price of $5.84 and expire on February 2, 2015.

On May 19, 2010, the Company granted options to purchase an aggregate of 1,315,000 shares of common stock to the Company's directors (225,000 shares), executive officers (775,000 shares) and management (315,000 shares) of which 50% of the options vested immediately and 50% are expected to vest on May 19, 2011. The options have an exercise price of $4.87 per share and expire on May 19, 2015. The options granted to Bradley I. Meier, the Company's President and Chief Executive Officer and to Sean P. Downes, the Company's Chief Operating Officer and Senior Vice President, are only exercisable on such date or dates as the fair market value, as defined in 2009 Omnibus Incentive Plan, of the Company's common stock is and has been at least one-hundred fifty percent (150%) of the exercise price for the previous twenty (20) consecutive trading days.

The Company estimated the fair value of all stock options awards as of the grant date by applying the Black-Scholes-Merton option pricing model. The use of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense and include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price, and forfeiture rate.

Of the 2,230,000 aggregate number of options exercised during the nine-month period ended September 30, 2010, options to purchase 10,000 shares of Common Stock were settled in cash and 2,220,000 were cashless exercises in which the Company retained treasury shares as settlement of the optionees' cost of exercise and required payroll taxes.

As of September 30, 2010, there were 5,780,000 options outstanding with an aggregate intrinsic value of $4,613,100 and a weighted average remaining contractual life of 2.82 years. Of the total number of options outstanding, 4,782,500 options are fully vested and exercisable.

28

As of September 30, 2009, there were 6,585,000 options outstanding with an aggregate intrinsic value of $14,685,300 and a weighted average remaining contractual life of 2.34 years. Of the total number of options outstanding, 4,265,000 options were fully vested and exercisable.

Common Stock

As of September 30, 2010, the Company had 40,877,087 shares of issued Common Stock consisting of 1,711,054 treasury shares, and 39,166,033 shares outstanding.

The following table summarizes the activity relating to shares of the Company's Common Stock during the nine-month period ended September 30, 2010:

	Issued Shares	Treasury Shares	Shares Held in Trust	Outstanding Shares
Balance, January 1, 2010	40,214,884	(1,809,119)	(631,000)	37,774,765
Issued Shares	2,394	-	-	2,394
Options exercised	1,599,000	-	631,000	2,230,000
Shares applied to exercise price and payroll taxes:				
Shares held in trust	-	(1,141,126)	-	(1,141,126)
Shares cancelled	(1,239,190)	1,239,190	-	-
Restricted stock grant	300,000	-	-	300,000
Balance, September 30, 2010	40,877,088	(1,711,055)	-	39,166,033

Restricted Stock Grants

Effective February 2, 2010, the Company issued 300,000 shares of restricted common stock at a price of $5.84 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 vests over a three-year period as follows: 100,000 shares each on the first, second and third anniversaries of the grant date. The Company recorded deferred compensation of $1,752,000 at the time the stock was issued and is amortizing that amount ratably over the vesting period.

Unless otherwise specified, such as in the case of the exercise of stock options or warrants, the per share prices were determined using the closing price of the Company's Common Stock as quoted on the NYSE Amex Equities, and the shares were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Income Tax Benefit

The Company realized actual income tax benefits from the tax deductible expense relating to the exercise of stock options and the vesting of restricted stock totaling $4,020,789, and $49,549 during the nine-month periods ended September 30, 2010 and 2009, respectively.

29

Dividends Declared

During the nine-month periods ended September 30, 2010 and 2009, the Company declared dividends on its outstanding shares of Common Stock to its shareholders of record as follows:

	For the nine-month period ended September 30, 2010		For the nine-month period ended September 30, 2009	
	Per Share Amount	Aggregate Amount	Per Share Amount	Aggregate Amount
First Quarter	$ 0.12	$ 4,699,926	$ 0.22	$ 8,268,278
Second Quarter	$ 0.10	$ 3,916,724	$ 0.12	$ 4,516,461
Third Quarter	-	-	-	-

Stock Grantor Trust

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

The agreement governing the operation of the SGT provides that the SGT shall terminate upon the upon the later of the date that (i) all shares of Common Stock available for issuance under the SGT have been distributed or (ii) the promissory note is paid in full. The promissory note was paid in full on March 15, 2010, and promptly thereafter all shares of Common Stock remaining in the SGT were distributed to holders of Company options in satisfaction of the Company's obligations under certain of its stock option agreements. The SGT was terminated upon this final distribution of shares of Common Stock from the SGT, and as of March 31, 2010, the SGT did not hold any shares of Common Stock.

Stock Issuances - other than compensatory

On March 29, 2010, preferred stockholders converted 950 shares of Series M Preferred Stock into 1,187 shares of Common Stock

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

11. Commitments and Contingencies

Employment Agreements and Potential Payments Upon Termination Of Employment

The Company has employment agreements with its three executive officers that provide for certain payments to the executives upon termination of employment or a change in control. The Company reported the terms of these provisions in its proxy statement.

Operating Leases

The Company has leases for certain computer equipment, software and office space. The Company reported in its Annual Report on Form 10-K for the year ended December 31, 2009 a schedule of future minimum rental payments required under the non-cancelable operating leases.

12. Litigation

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

13. Earnings Per Share

Basic earnings per share ("EPS") is based on the weighted average number of shares outstanding for the period, excluding any dilutive common share equivalents. Diluted EPS reflects the potential dilution that could occur if securities to issue common stock were exercised.

The following table reconciles the numerator (i.e., income) and denominator (i.e., shares) of the basic and diluted earnings per share computations for net income for the nine-month and three-month periods ended September 30, 2010 and 2009.

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Income Available to Common Stockholders	Shares	Per-Share Amount	Income Available to Common Stockholders	Shares	Per-Share Amount
Net income	$30,788,187			$31,590,908		
Less: preferred stocks dividends	(14,963)			(22,463)		
Income available to common stockholders	$30,773,224	39,075,571	$0.78	$31,568,445	37,601,409	$0.84
Effect of dilutive securities:						
Stock options and warrants	-	1,150,946	(0.02)	-	2,593,855	(0.05)
Preferred stock	14,963	159,928	-	22,463	179,145	(0.01)
Income available to common stockholders and assumed conversion	$30,788,187	40,386,445	0.76	$31,590,908	40,374,409	$0.78

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Income Available to Common Stockholders	Shares	Per-Share Amount	Income Available to Common Stockholders	Shares	Per-Share Amount
Net income	$13,077,210			$11,514,520		
Less: preferred stocks dividends	(4,988)			(4,988)		
Income available to common stockholders	$13,072,222	39,167,241	$0.33	$11,509,532	37,625,013	$0.31
Effect of dilutive securities:						
Stock options and warrants	-	949,485	(0.01)	-	2,885,758	(0.03)
Preferred stock	4,988	159,550	-	4,988	160,738	0.00
Income available to common stockholders and assumed conversion	$13,077,210	40,276,276	$0.32	$11,514,520	40,671,509	$0.28

14. Other Comprehensive Income

The components of other comprehensive income on a pre-tax and after-tax basis for the nine-month and three-month periods ended September 30, 2010 and 2009 are as follows:

	For the Nine Months Ended September 30, 2010			For the Nine Months Ended September 30, 2009		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
Net unrealized gains on available-for-sale investments arising during the periods	$4,979,278	$(1,920,757)	$3,058,521	$27,219,627	$(10,499,972)	$16,719,655
Less: realized gains on investments	5,744,344	(2,215,881)	3,528,463	13,588,681	(5,241,834)	8,346,847
Less: reclassification of unrealized losses relating to the reclassification of investment portfolio to trading from available-for-sale	(656,307)	253,170	(403,137)	-	-	-

Less: realized foreign currency gains on investments	809,050	(312,091)	496,959	6,156,945	(2,375,042)	3,781,903
Less: other	(9,031)	3,484	(5,547)	-	-	-
Change in net unrealized gains on available-for-sale investments	(908,778)	350,561	(558,217)	7,474,001	(2,883,096)	4,590,905
Other comprehensive (loss) income	$(908,778)	$350,561	$(558,217)	$7,474,001	$(2,883,096)	$4,590,905

	For the Three Months Ended September 30, 2010			For the Three Months Ended September 30, 2009		
	Pretax	Tax	After-tax	Pretax	Tax	After-tax
Net unrealized gains on available-for-sale investments arising during the periods	$-	$-	$-	$12,243,930	$(4,689,936)	$7,553,994
Less: realized gains on investments	-	-	-	12,136,072	(4,681,490)	7,454,582
Less: reclassification of unrealized losses relating to the reclassification of investment portfolio to trading from available-for-sale	(656,307)	253,170	(403,137)	-	-	-
Less: realized foreign currency gains on investments		-	-	6,084,629	(2,347,146)	3,737,483
Less: other	(9,031)	3,484	(5,547)	-	-	-
Change in net unrealized gains on available-for-sale investments	665,338	(256,654)	408,684	(5,976,771)	2,338,700	(3,638,071)
Other comprehensive income (loss)	$665,338	$(256,654)	$408,684	$(5,976,771)	$2,338,700	$(3,638,071)

15. Subsequent Events

The Company performed an evaluation of subsequent events through the date the financial statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the condensed consolidated financial statements as of September 30, 2010 except for the following.

Subsequent to filing its Quarterly Report on Form 10-Q on November 9, 2010, for the quarter ended September 30, 2010, the Company determined that a third-party clerical error in the coding of a single investment security resulted in an overstatement of unrealized gains on investments of $2,316,041 and realized gains on investments of $100,039 included in earnings for the three- and nine-month periods ended September 30, 2010. Through its internal review, management discovered that its external provider of investment accounting services incorrectly coded a series of purchases of a commodity security held by the Company. As a result, the provider reported to the Company that the security had gained value during the quarter ended September 30, 2010, when in fact it had lost value. The amount of actual unrealized loss on that single investment was $62,510. In addition to correcting the overstatement of gains, the calculations for certain incentive bonus compensation payments, which are based on the performance of the Company and have not yet been paid, have been reduced by $189,828. The Company is restating its financial statements to correct this error.

On October 6, 2010, the Company's Board of Directors declared a dividend of $0.10 per share on its outstanding common stock. The dividend is payable on November 5, 2010 to stockholders of record as of October 22, 2010 in the aggregate amount of $3,916,724.

On October 18, 2010, the Company announced that UPCIC received approval from the Massachusetts Division of Insurance to write property and casualty insurance in the Commonwealth of Massachusetts and withdrew its application to provide property and casualty insurance in the Commonwealth of Virginia.

16. Fair Value Disclosure

Financial assets and financial liabilities recorded on the condensed consolidated Balance Sheets at fair value as of September 30, 2010 are categorized in the fair value hierarchy based on the observability of inputs to the valuation techniques as follows:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2: Financial assets and financial liabilities whose values are based on inputs that utilize other than quoted prices included in Level I that are observable for similar assets, or unobservable inputs that are corroborated by market data.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The following table presents information about the Company's invested assets measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
	As of September 30, 2010			
US government obligations and agencies	$3,465,332	$-	$-	$3,465,332
Foreign obligations	6,173,911	-	-	6,173,911
Equity securities	92,300,689	-	-	92,300,689
Total invested assets	$101,939,932	$-	$-	$101,939,932
	As of December 31, 2009			
US government obligations and agencies	$41,389,008	$-	$-	$41,389,008
Equity securities	73,408,002	-	-	73,408,002
Total invested assets	$114,797,010	$-	$-	$114,797,010

The fair value of the securities determined to be Level I inputs are derived from readily available market prices.

34

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As discussed in the "Explanatory Note" to this Amended Report and in Notes 1 and 15 to the Condensed Consolidated Financial Statements, the Company is restating its Condensed Consolidated Financial Statements for the three and nine month periods ended September 30, 2010. The Company is issuing this restatement to correct a third-party clerical error in the coding of a single investment security that resulted in an overstatement of unrealized gains on investments of $2,316,041 and realized gains on investments of $100,039 included in earnings for the three- and nine-month periods ended September 30, 2010. Through its internal review, management discovered that its external provider of investment accounting services incorrectly coded a series of purchases of a commodity security held by the Company. As a result, the provider reported to the Company that the security had gained value during the quarter ended September 30, 2010, when in fact it had lost value. The amount of actual unrealized loss on that single investment was $62,510. In addition, as a result of the overstatement, certain accruals for unpaid incentive bonus compensation payments have been reduced by $189,828.

The net effect resulting from this clerical error on income before income taxes, net income and diluted earnings per share for the three- and nine-month periods ended September 30, 2010, and on stockholders' equity at September 30, 2010, is as follows:

Income before income taxes decreased by $2,226,252

Net income decreased by $1,367,475

Diluted earnings per share decreased by $0.04

Stockholders' equity decreased by $1,367,475

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

Forward-Looking Statements

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

Overview

The Company was originally organized as Universal Heights, Inc. in 1990. The Company changed its name to Universal Insurance Holdings, Inc. on January 12, 2001. In April 1997, the Company organized its subsidiary UPCIC as part of its strategy to take advantage of what management believed to be

profitable business and growth opportunities in the marketplace. UPCIC was formed to participate in the transfer of homeowners' insurance policies from the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"). UPCIC's application to become a Florida licensed property and casualty insurance company was filed with the OIR on May 14, 1997 and approved on October 29, 1997. UPCIC's proposal to begin operations through the acquisition of homeowners' insurance policies issued by the JUA was approved by the JUA on May 21, 1997, subject to certain minimum capitalization and other requirements.

The Company has since evolved into a vertically integrated insurance holding company, which through its various subsidiaries, covers substantially all aspects of insurance underwriting, distribution and claims processing. The Company's primary product is homeowners' insurance. The Company's criteria for selecting insurance policies includes, but is not limited to, the use of specific policy forms, coverage amounts on buildings and contents and required compliance with local building codes. Also, to improve underwriting and manage risk, the Company utilizes standard industry modeling techniques for hurricane and windstorm exposure. UPCIC's portfolio as of September 30, 2010 includes approximately 565,000 policies with coverage for wind risks and 11,000 policies without wind risks. The average premium for a policy with wind coverage is approximately $1,142 and the average premium for a policy without wind coverage is approximately $502. UPCIC had in-force premiums of approximately $651.2 million as of September 30, 2010.

The Code requires applicants to have a minimum capitalization of $5.0 million to become licensed as an insurance company in the State of Florida. Upon being issued an insurance license, companies must maintain capitalization of the greater of ten percent of the insurer's total liabilities or $4.0 million. If an insurance company's capitalization falls below the minimum requirements, then the company will be deemed out of compliance with the Code, which could result in revocation of the participant's license to operate as an insurance company in the State of Florida. UPCIC's statutory capital and surplus was $106,000,341 at September 30, 2010 and exceeded the minimum capital and surplus requirements. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios.

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

In an effort to further grow its insurance operations, in 1998 the Company began to solicit business actively in the open market. To improve underwriting and manage risk, the Company utilizes standard industry modeling techniques for hurricane and windstorm exposure. In February 2008, UPCIC filed a request with the National Flood Insurance Program ("NFIP") to become authorized to write and service flood insurance policies under the WYO Program. The Company did not immediately pursue opportunities to transact flood insurance as the NFIP considered changes to its policy administration and reporting systems. However, the Company recently has resumed its evaluation of these requirements. Management may consider underwriting other types of policies in the future. Any such program will require OIR approval. See Item 2 below, Competition under "Factors Affecting Operating Results and Market Price of Stock" for a discussion of the material conditions and uncertainties that may affect UPCIC's ability to obtain additional policies.

On July 16, 2008, August 18, 2008, September 30, 2008, and January 29, 2009, UPCIC was licensed to transact insurance business within the States of South Carolina, Hawaii, North Carolina, and Georgia, respectively. The State of North Carolina Department of Insurance has restricted UPCIC to writing no more than $12.0 million of direct premiums in each of the first two full calendar years after which such restriction may be lifted. UPCIC commenced writing homeowners policies in South Carolina in 2008 and North Carolina and Hawaii in 2009. During the three-month periods ended September 30, 2010 and

2009, direct written premiums in these states aggregated approximately $4.4 million and $2.5 million, respectively.

On March 5, 2010, the Company's Board of Directors approved the Company's plans for UPCIC to apply for expansion in five additional states including Maryland, Massachusetts, New Jersey, New York, and Virginia. On October 18, 2010, the Company announced that UPCIC received approval from the Massachusetts Division of Insurance to write property and casualty insurance in the Commonwealth of Massachusetts and withdrew its application to provide property and casualty insurance in the Commonwealth of Virginia. There is no assurance that the Company will be successful in obtaining licenses in the remaining states and no prediction of when, if licensed, the Company will commence operations in any of these states.

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

On October 19, 2009, UPCIC received approval for a premium rate increase for its homeowner’s program within the State of Florida. The premium rate increase averaged approximately 14.6 percent statewide. The effective dates for the premium rate increase were October 22, 2009 for new business and December 11, 2009 for renewal business. UPCIC expects the approved premium rate increases to have a favorable effect on premiums written and earned in future months as new and renewal policies are written at the higher rates.

On November 3, 2009, UPCIC received approval for a premium rate increase for its dwelling fire program within the State of Florida. The premium rate increase averaged approximately 14.8 percent statewide. The effective dates for the premium rate increase were November 5, 2009 for new business and December 29, 2009 for renewal business. UPCIC expects the approved premium rate increases to have a favorable effect on premiums written and earned in future months as new and renewal policies are written at the higher rates.

In December 2008, the Company obtained regulatory approval for another Florida-domiciled property and casualty insurance company, American Platinum Property & Casualty Insurance Company (“APPCIC”). APPCIC currently does not have any active insurance business. Management continues to evaluate business opportunities for APPCIC.

The Company joined the Russell 3000® Index on June 26, 2009. According to publicly available information provided on Russell’s Web site, annual reconstitution of Russell’s U.S. indices captures the 3,000 largest U.S. stocks as of the end of May, ranking them by total market capitalization. Membership in the Russell 3000, which remains in place for one year, means automatic inclusion in the large-cap Russell 1000® Index or small-cap Russell 2000® Index as well as the appropriate growth and value style indices. Russell determines membership for its equity indices primarily by objective, market-capitalization rankings and style attributes. Russell indices are widely used by investment managers and institutional investors for index funds and as benchmarks for both passive and active investment strategies. The Company believes that its inclusion in the Russell 3000® Index will lead to additional visibility in the investment community.

Critical Accounting Policies and Estimates

The Company’s financial statements are combined with those of its subsidiaries and are presented on a consolidated basis in accordance with GAAP. UPCIC makes estimates and assumptions that can have a significant effect on amounts and disclosures reported in the Company’s financial statements. The most significant estimate relates to the liabilities for property and casualty insurance unpaid losses and loss

adjustment expenses. While the Company believes the estimates are appropriate, the ultimate amounts may differ from the estimates provided. The Company reviews these estimates on, at least, a quarterly basis and reflects any adjustment considered necessary in its current results of operations.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements during the nine-month period ended September 30, 2010.

Related 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 the nine month periods ended September 30, 2010 and 2009, the Company expensed claims adjusting fees of $360,000 and $345,000, respectively, to Downes and Associates.

During the fourth quarter of 2009, the Company overpaid non-equity incentive plan compensation to the Chief Executive Officer and Chief Operating Officer in the amounts of $217,169 and $162,876, respectively. These amounts were repaid to the Company during February 2010.

Analysis of Financial Condition - As of September 30, 2010 Compared to December 31, 2009

The source of liquidity for possible claim payments consists of the collection of net premiums after deductions for expenses, reinsurance recoverables and short-term loans. The Company held cash and cash equivalents at September 30, 2010 and December 31, 2009 of $294,972,027 and $192,924,291, respectively.

The Company believes that premiums will be sufficient to meet the Company's working capital requirements for at least the next twelve months. The Company's policy is to invest amounts considered to be in excess of current working capital requirements.

The Company reduced its aggregate investments in fixed maturities and equity securities to $101,939,932 as of September 30, 2010 from $114,797,010 as of December 31, 2009 in response to market conditions.

The following table summarizes, by type, the carrying values of the Company's investments:

Type of Investment	As of September 30, 2010		As of December 31, 2009	
Cash and cash equivalents	$	294,972,027	$	192,924,291
Fixed maturities, available-for-sale		-		41,389,008
Equity securities, available-for-sale		-		73,408,002
Fixed maturities, trading		9,639,243		-
Equity securities, trading		92,300,689		-
Real estate, net		4,100,540		3,289,893
Total Investments	$	401,012,499	$	311,011,194

38

The Company's liability for Reinsurance Payable decreased $5,172,264 to $67,932,331 during the nine-month period ended September 30, 2010 from $73,104,595 as of year-end 2009, primarily due to the timing of settlements with reinsurers.

Results of Operations – Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

The Company's operating results for the nine-month period ended September 30, 2010 continued to be adversely affected by broader conditions in the Florida residential insurance market. The Florida legislature expanded the reimbursement coverage available from the Florida Hurricane Catastrophe Fund in 2007, and required residential insurers in Florida to reduce rates based upon presumptive costs savings as calculated by the Florida Office of Insurance Regulation (OIR) and later based upon a true-up filing using their own data. In 2007, the Florida Financial Services Commission increased then-existing discounts available for homes built with certain windstorm loss reduction devices. We believe these cumulative discounts result in premium reductions that are greater than the estimated reductions in losses.

The Company's operating results for the nine-month period ended September 30, 2010 were also influenced by legislative enactments relating to claims payments. Following the 2004 and 2005 hurricane seasons, the Florida legislature required all insurers issuing replacement cost policies to pay the full replacement cost of damaged properties without deducting depreciation whether or not the insureds repaired or replaced the damaged property. Under prior law, insurers could pay the depreciated value of the property until insureds commenced repairs or replacement. The new law has led to an increase in disagreements regarding the scope of damage and has resulted in insureds receiving claims payments and not repairing the damage. Although UPCIC seeks to diligently review claims and promptly pay meritorious amounts, the Company's operating results may be affected by a claims environment in Florida that produces opportunities for fraudulent or overstated claims.

The nine-month period ended September 30, 2010 saw continued growth in policy count for UPCIC, the Company's wholly-owned regulated insurance subsidiary. The increase in the number of policies in-force continued to be the result of heightened relationships with existing agents, an increase in the number of new agents, and continued expansion within Florida and in South Carolina, North Carolina, and Hawaii.

In January 2007, the Florida Legislature passed a law designed to reduce residential catastrophe reinsurance costs and requiring insurance companies to offer corresponding rate reductions to policyholders. The new law expanded the amount of reinsurance available from the FHCF, which is a state-run entity providing hurricane reinsurance to residential insurers at premiums less than the private reinsurance market. The Legislature intended for the new law to reduce residential insurers' reinsurance costs by allowing them to directly replace some of their private market reinsurance with less costly FHCF reinsurance.

Florida's Legislature also has implemented strategies to improve the ability of residential structures to withstand hurricanes. New construction must meet stronger building codes. An increasing number of insureds have qualified for insurance premium discounts as new homes were built and existing homes retrofitted. These premium discounts result from homes' supposed reduced vulnerability to hurricane losses due to the mitigation efforts, which UPCIC takes into account in its underwriting and profitability models.

The Florida legislature considered several issues affecting the Florida property insurance market during the 2010 legislative session, including mitigation credits, public adjusters, sinkhole claims and replacement cost methodology. However, the Governor vetoed the bill that contained most of the

significant property insurance reforms. The legislature subsequently announced that its staff will conduct interim studies on sinkhole claims, alternatives to reinsurance, and public adjusters in anticipation of the 2011 legislative session.

During the three-month period ended September 30, 2010, the Company evaluated the trading activity in its investment portfolio, its investing strategy, and its overall investment program. As a result of this evaluation, the Company reclassified its available-for-sale portfolio as a trading portfolio effective July 1, 2010. As a result of the reclassification, pre-tax net unrealized losses in the amount of $656,307 on the available-for-sale portfolio, as of July 1, 2010, were recognized in current period revenues as a reduction of unrealized gains on investments. During the three-month period ended September 30, 2010, the market value of the Company's trading portfolio increased by $6,937,499 before income taxes. The increase in market value was recorded in current period revenues as unrealized gains on investments. The Company will continue to record future changes in the market value of its trading portfolio directly to revenues as unrealized gains or losses on investments.

Net income decreased 2.5% to $30,788,187 for the nine-month period ended September 30, 2010 from $31,590,908 for the nine-month period ended September 30, 2009. The Company's earnings per diluted share were $0.76 for the 2010 period versus $0.78 in the same period last year. The Company continues to experience an increase in the number of homeowners and dwelling fire insurance policies written by UPCIC and increases in direct premium written during the nine-month period ending September 30, 2010. The aforementioned reclassification of the Company's available-for-sale investment portfolio to a trading securities portfolio increased net income by $3,858,222, and basic net income per common share and fully diluted net income per common share by $0.10, during the nine-month period ended September 30, 2010.

Comprehensive income decreased 16.5% to $30,229,970 for the nine-month period ended September 30, 2010 from $36,181,813 for the nine-month period ended September 30, 2009 as a result of the $802,721 decrease in net income and a decrease in the change in net unrealized gains on investments of $5,149,122, net of taxes. The decrease in the change in net unrealized gains on investments is attributable to the reclassification of net unrealized losses of $403,705 to current period revenue, relating to the aforemention reclassification of the Company's available-for-sale investment portfolio to a trading securities portfolio, during the 2010 period. In addition, during the 2010 period, realized gains and foreign currency gains exceeded unrealized gains on available-for-sale investments arising during the period by $966,901 as compared to realized gains and foreign currency gains being less than net unrealized gains and foreign currency gains arising during the period by $4,590,905 in the 2009 period.

Direct premiums written increased 19.3% to $520,781,570 during the nine-month period ending September 30, 2010 from $436,610,689 in the same period of 2009.

Net premiums earned increased 14.5% to $123,505,504 for the nine-month period ended September 30, 2010 from $107,892,126 for the nine-month period ended September 30, 2009. The increase is due to an increase in net premiums written.

Total direct premiums earned increased 12.8% in the nine-month 2010 period compared to the same period in 2009. As of September 30, 2010, UPCIC was servicing approximately 576,000 homeowners' and dwelling fire insurance policies with in-force premiums of approximately $651,200,000 and average in-force premiums of $947 per dwelling fire policy, $2,022 per homeowners' policy and $583 per condominium/renters policy. As of September 30, 2009, UPCIC was servicing approximately 536,000 homeowners' and dwelling fire insurance policies with in-force premiums of approximately $563,000,000

and comparable average in-force premiums by policy type of $856, $1,853, and $521 for dwelling fire, homeowners', and condominium/renters, respectively.

Net investment income decreased 72.8% to $376,575 for the nine-month period ended September 30, 2010 from $1,385,007 for the nine-month period ended September 30, 2009. Net investment income is comprised primarily of interest and dividends. The decrease is primarily due to a change in the composition of the Company's investment portfolio during the nine-month period ended September 30, 2010.

Realized gains on investments decreased to $11,893,320 for the nine-month period ended September 30, 2010 from $13,588,681 for the nine-month period ended September 30, 2009. The decrease is due to an other-than-temporary impairment on investments recognized during the first quarter of 2010 and the economic results of sales of securities during the respective periods.

Unrealized gains on investments of $6,281,192 were recognized as income during the three-month period ended September 30, 2010 relating to the previously described reclassification of the Company's investments to a trading portfolio from an available-for-sale portfolio. In previous periods, the changes in unrealized gains and losses on the Company's available-for-sale portfolio were appropriately included in Other Comprehensive Income rather than current period income.

Foreign currency gains on investments decreased to $800,990 for the nine-month period ended September 30, 2010 from $6,156,945 for the nine-month period ended September 30, 2009. The decrease is due to changes in the Company's investment portfolio in foreign-denominated fixed maturities and equity securities.

Commission revenue increased 8.8% to $25,469,318 for the nine-month period ended September 30, 2010 from $23,413,086 for the nine-month period ended September 30, 2009. Commission revenue is comprised principally of the managing general agent's policy fee income and service fee income on all new and renewal insurance policies, reinsurance commission sharing agreements, and commissions generated from agency operations. The increase is primarily attributable to an increase in managing general agent's policy fee income of approximately $767,000 and an increase in reinsurance commission sharing of $1,289,000.

Other revenue decreased 17.2% to $3,488,748 for the nine-month period ended September 30, 2010 from $4,214,347 for the nine-month period ended September 30, 2009. The decrease is primarily due to a decrease in payment plan fee revenue.

Net losses and LAE increased 13.3% to $77,856,730 for the nine-month period ended September 30, 2010 from $68,695,552 for the nine-month period ended September 30, 2009. The Company incurred an increase in net losses and LAE in connection with the servicing of additional policies.

The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 63.0% and 63.7% during the nine-month periods ended September 30, 2010 and 2009, respectively, and were comprised of the following components:

	Nine months ended September 30, 2010		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$156,537,023	$78,680,292	$77,856,730
Premiums earned	$452,847,668	$329,342,164	$123,505,504
Loss & LAE ratios	34.6 %	23.9 %	63.0 %

41

	Nine months ended September 30, 2009		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$139,259,179	$70,563,627	$68,695,552
Premiums earned	$401,605,845	$293,713,719	$107,892,126
Loss & LAE ratios	34.7 %	24.0 %	63.7 %

Catastrophes are an inherent risk of the property-liability insurance business which may contribute to material year-to-year fluctuations in UPCIC's and the Company's results of operations and financial position. During the nine-month periods ended September 30, 2010 and 2009, neither UPCIC nor the Company experienced any catastrophic events. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position of UPCIC and the Company. While management believes UPCIC's and the Company's catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses, including catastrophic losses that may exceed the limits of UPCIC's reinsurance program.

General and administrative expenses increased 18.6% to $43,631,008 for the nine-month period ended September 30, 2010 from $36,789,168 for the nine-month period ended September 30, 2009. The increase in general and administrative expenses was primarily attributable to increases in commissions on direct premiums and insurance premium taxes, which are attributable to an increase in direct written premiums from growth in the number of policies in-force and increases in the average in-force premium per policy. These increased expenses were partially offset by an increase in ceding commissions.

Federal and state income taxes decreased 0.2% to $19,539,722 for the nine-month period ended September 30, 2010 from $19,574,564 for the nine-month period ended September 30, 2009. Federal and state income taxes were 38.8% of pretax income for the nine-month period ended September 30, 2010, and 38.3% for the nine-month period ended September 30, 2009. The decrease in income tax expense is primarily due to lower income before income taxes.

Results of Operations - Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

During the three-month period ended September 30, 2010, the Company evaluated the trading activity in its investment portfolio, its investing strategy, and its overall investment program. As a result of this evaluation, the Company reclassified its available-for-sale portfolio as a trading portfolio effective July 1, 2010. As a result of the reclassification, pre-tax net unrealized losses in the amount of $656,307 on the available-for-sale portfolio, as of July 1, 2010, were recognized in current period revenues as a reduction of unrealized gains on investments. During the three-month period ended September 30, 2010, the market value of the Company's trading portfolio increased by $6,937,499 before income taxes. The increase in market value was recorded in current period revenues as unrealized gains on investments. The Company will continue to record future changes in the market value of its trading portfolio directly to revenues as unrealized gains or losses on investments.

Net income increased 13.6% to $13,077,210 for the three-month period ended September 30, 2010 from $11,514,520 for the three-month period ended September 30, 2009. The Company's earnings per diluted share were $0.32 for the 2010 period versus $0.28 in the same period last year. There was an increase in the number of homeowners' and dwelling fire insurance policies serviced by the Company and increases in direct premiums written during the three-month period ending September 30, 2010. The aforementioned reclassification of the Company's available-for-sale investment portfolio to a trading

securities portfolio increased net income by $3,858,222, and basic net income per common share and fully diluted net income per common share by $0.10 and $0.10, respectively, during the three-month period ended September 30, 2010.

Comprehensive income increased 71.2% to $13,485,894 for the three-month period ended September 30, 2010 from $7,876,449 for the three-month period ended September 30, 2009 as a result of the $1,562,690 increase in net income and an increase in the change in net unrealized gains on investments of $4,046,755, net of taxes. The increase in the change in net unrealized gains on investments is attributable to the reclassification of net unrealized losses of $403,705 to current period revenue, relating to the aforemention reclassification of the Company's available-for-sale investment portfolio to a trading securities portfolio, during the 2010 period as compared to realized gains and foreign currency gains exceeding net unrealized gains and foreign currency gains by $3,638,071 during the 2009 period.

Direct premiums written increased 13.4% to $152,662,238 during the three-month period ending September 30, 2010 from $134,626,400 in the same period of 2009.

Net premiums earned increased 49.1% to $48,831,154 for the three-month period ended September 30, 2010 from $32,757,736 for the three-month period ended September 30, 2009. The increase is due to an increase in net premiums written.

Total direct premiums earned increased 16.4% in the three-month 2010 period compared to the same period in 2009. As of September 30, 2010, UPCIC was servicing approximately 576,000 homeowners' and dwelling fire insurance policies with in-force premiums of approximately $651,200,000 and average in-force premiums of $947 per dwelling fire policy, $2,022 per homeowners' policy and $583 per condominium/renters policy. As of September 30, 2009, UPCIC was servicing approximately 536,000 homeowners' and dwelling fire insurance policies with in-force premiums of approximately $563,000,000 and comparable average in-force premiums by policy type of $856, $1,853, and $521 for dwelling fire, homeowners', and condominium/renters, respectively.

Net investment income decreased 88.7% to $66,004 for the three-month period ended September 30, 2010 from $586,525 for the three-month period ended September 30, 2009. Net investment income is comprised primarily of interest and dividends. The decrease is primarily due to a change in the composition of the Company's investment portfolio during the three-month period ended September 30, 2010.

Realized gains on investments decreased to $6,148,976 for the three-month period ended September 30, 2010 from $12,136,072 for the three-month period ended September 30, 2009. The decrease is due to the economic results of sales of securities during the respective periods.

Unrealized gains on investments of $6,281,192 were recognized as income during the three-month period ended September 30, 2010 relating to the previously described reclassification of the Company's investments to a trading portfolio from an available-for-sale portfolio. In previous periods, the changes in unrealized gains and losses on the Company's available-for-sale portfolio were appropriately included in Other Comprehensive Income rather than current period income.

Commission revenue decreased 1.9% to $7,948,019 for the three-month period ended September 30, 2010 from $8,105,468 for the three-month period ended September 30, 2009. Commission revenue is comprised principally of the managing general agent's policy fee income and service fee income on all new and renewal insurance policies, reinsurance commission sharing agreements, and commissions

43

generated from agency operations. The decrease is primarily attributable to a decrease in reinsurance commission sharing of approximately $377,000 net of an increase in managing general agent's policy fee income of approximately $221,000.

Other revenue increased 11.9% to $1,468,416 for the three-month period ended September 30, 2010 from $1,312,617 for the three-month period ended September 30, 2009. The increase is primarily due to a higher volume of fees earned on payment plans offered to policyholders by UPCIC.

Net losses and LAE increased 23.6% to $29,370,125 for the three-month period ended September 30, 2010 from $23,768,729 for the three-month period ended September 30, 2009. The Company incurred an increase in net losses and LAE in connection with the servicing of additional policies.

The net loss and LAE ratios, or net losses and LAE as a percentage of net earned premiums, were 60.1% and 72.6% during the three-month periods ended September 30, 2010 and 2009, respectively, and were comprised of the following components:

	Three months ended September 30, 2010		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$59,511,679	$30,141,554	$29,370,126
Premiums earned	$162,093,491	$113,262,337	$48,831,154
Loss & LAE ratios	36.7 %	26.6 %	60.1 %

	Three months ended September 30, 2009		
	Direct	Ceded	Net
Loss and loss adjustment expenses	$48,330,038	$24,561,309	$23,768,729
Premiums earned	$139,207,538	$106,449,802	$32,757,736
Loss & LAE ratios	34.7 %	23.1 %	72.6 %

The ceded loss and LAE ratio for the three-month period ended September 30, 2010 was 26.6% compared to 23.1% for the three-month period ended September 30, 2009. The ceded loss and LAE ratio was influenced by higher total reinsurance costs in the 2010 period compared to the 2009 period.

General and administrative expenses increased 7.4% to $20,053,028 for the three-month period ended September 30, 2010 from $18,674,744 for the three-month period ended September 30, 2009. The increase in general and administrative expenses was primarily attributable to increases in commissions paid on direct premiums and insurance premium taxes, which are attributable to an increase in direct written premiums from growth in the number of policies in-force and increases in the average in-force premium per policy. These increased expenses were partially offset by an increase in ceding commissions.

Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business are deferred and amortized over the terms of the policies or reinsurance treaties to which they are related. As of September 30, 2010, deferred policy acquisition costs were $55,780,754 and deferred ceding commissions were $42,927,905. Deferred policy acquisition costs were reduced by deferred ceding commissions and shown net on the Condensed Consolidated Balance Sheet in the amount of $12,852,849. During the nine-month period ended September 30, 2010, the deferral of policy acquisitions costs in the amount of $11,809,468 exceeded the comparable amount during the 2009 period by approximately $6.5 million thereby decreasing general and administrative

---

expenses in the 2010 period by an equal amount. During the nine-month period ended September 30, 2010, the deferral of ceding commissions in the amount of $8,421,243 exceeded the comparable amount during the 2009 period by approximately $11.8 million thereby increasing general and administrative expenses in the 2010 period by an equal amount.

Federal and state income taxes increased 17.2% to $8,235,338 for the three-month period ended September 30, 2010 from $7,025,054 for the three-month period ended September 30, 2009. Federal and state income taxes were 38.6% of pretax income for the three-month period ended September 30, 2010, and 37.9% for the three-month period ended September 30, 2009. The increase in income tax expense is primarily due to higher income before income taxes.

Liquidity and Capital Resources

Overview

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

The Company expects that its current capital resources will be sufficient to meet anticipated working capital requirements for the next twelve months. There can be no assurances, however, that such will be the case.

Cash Flows From Operating Activities

For the nine-month periods ended September 30, 2010 and 2009 cash flows provided by operating activities were $131,865,898 and $77,477,868 respectively. The increase in cash flows provided by operating activities relate primarily to the following reasons.

The increase in cash provided by operating activities of $47,177,169 from net proceeds of trading securities purchased and sold during the 2010 third quarter period. As part of the previously described reclassification of the Company's available-for-sale investment portfolio to a trading portfolio, effective July 1, 2010, the net proceeds from the sales and purchases of securities in the trading portfolio are recorded as cash flows from operating activities. The comparable amounts for purchases and sales of available-for-sale securities are recorded as cash flows form investing activities.

The increase in cash provided by operating activities from net changes in unearned premiums were $67,933,901 and $35,004,845 for the nine-month periods ended September 30, 2010 and 2009, respectively. The increase of $32,929,056 relates primarily to an increase in direct written premiums.

Cash used in operating activities from net changes in reinsurance payable was $5,172,264 for the nine-month period ended September 30, 2010 compared to cash provided by operating activities from net changes in reinsurance payable of $55,964,083 for the nine-month period ended September 30, 2009. The decrease in cash provided of $61,136,347 relates primarily to the timing of the settlement of balances with UPCIC's reinsurers.

The increase in cash provided by operating activities from reinsurance recoverables was $24,480,200 for the nine months ended September 30, 2010 compared to a decrease of $4,621,514 for the nine-month period ended September 30, 2009. The increase of $29,101,714 relates primarily to the timing of the settlement of balances with UPCIC's reinsurers.

45

Cash flows provided by operating activities are expected to be positive in both the short-term and reasonably foreseeable future. In addition, the Company's investment portfolio is highly liquid as it consists of cash, cash equivalents, and readily-marketable securities.

Cash Flows From Investing Activities

For the nine-month period ended September 30, 2010, cash flows used in investing activities were $24,508,506 as compared to cash flows used in investing activities during the nine-month period ended September 30, 2009 of $55,692,975. The decrease in cash used in investing activities relates to the timing of purchases and sales of fixed maturities and equity securities in the Company's available-for-sale portfolio. The comparable amounts for the purchases and sales of securities in the trading portfolio are recorded as cash flows from operating activities.

The following table summarizes the activity in investments during the nine-month periods ended September 30, 2010 and 2009 for both trading and available-for-sale securities:

	Nine Month Ended	
	September 30, 2010	September 30, 2009
Balance - January 1	$114,797,010	$5,648,775
Purchases of fixed maturities	417,122,128	206,473,797
Purchases of equity securities	141,238,671	138,139,475
Net amort of prem / accretion of discount	(404,822)	(203,653)
Sales of fixed maturities	(454,557,173)	(203,451,919)
Sales of equity securities	(134,450,698)	(84,456,340)
Realized gains on investments (1)	12,043,346	13,588,679
Foreign currency gains on investments	834,529	6,108,112
Unrealized (losses) gains (1)	5,316,941	7,514,045
Balance - September 30	$101,939,932	$89,360,971

(1) These amounts for the nine months ended September 30, 2010 have been restated for the reasons described in the Explanatory Note to this Form 10-Q/A. They have also been adjusted to correct a misclassification between realized and unrealized gains. This misclassification is isolated only to this table and had no impact to the financial statements of the Company. Other than updating these amounts for the restatement and the misclassification, no attempt has been made to amend or update this table.

The amounts presented in the Statement of Cash Flows differ from the amounts shown in the table summarizing investment activities above due to the timing of cash settlements and to the transfer of the Company's available-for-sale portfolio to trading.

Cash Flows From Financing Activities

Cash flows used in financing activities were $5,309,656 and $3,706,646 for the nine-month periods ended September 30, 2010 and 2009, respectively. The change in cash flows used in financing activities relates primarily to an increase of $3,707,435 used for treasury shares on option exercises, and an increase of $3,640,575 provided by tax benefit on exercise of stock options.

46

In 2006, UPCIC entered into a $25.0 million surplus note with the Florida State Board of Administration ("SBA") under Florida's ICBUI Program, which was implemented by the Florida Legislature to encourage insurance companies to write additional residential insurance coverage in Florida. The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond Rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate.

In 2008, the Florida Legislature passed a law providing participants in the ICBUI Program an opportunity to amend the terms of their surplus notes based on law changes. The original surplus note provided for increases in interest rates for failure to meet the Minimum Writing Ratio. Under the terms of the surplus note, as amended, the net written premium to surplus requirement and gross written premium to surplus requirement have been modified. As of September 30, 2010, UPCIC's net written premium to surplus ratio and gross written premium to surplus ratio were in excess of the required minimums and, therefore, UPCIC was not subject to increases in interest rates.

The balance of cash and cash equivalents as of September 30, 2010 was $294,972,027. Most of this amount is available to pay claims in the event of a catastrophic event pending reimbursement for any aggregate amount in excess of specific limits set forth in UPCIC's reinsurance agreements. For the 2010 hurricane season, UPCIC's reinsurance agreements transfer the risk of loss in excess of $22,500,000 ($75,000,000 net of $52,500,000 retained by the Company under the excess catastrophe contract) up to approximately the 125-year PML for the first event, (modeled using AIR CLASIC/2 v.11.0, long term, without demand surge and without loss amplification) $13,150,000 for the second event and $15,000,000 for the third event up to an amount that will vary depending on the coverage exhausted in the prior event(s). Catastrophic reinsurance is recoverable upon presentation to the reinsurer of evidence of claim payment.

UPCIC uses a catastrophe model to estimate its losses associated with potential hurricane events of various magnitudes. There is no assurance that the assumptions or scenarios incorporated into the model by its developers, or the assumptions or scenarios used by UPCIC or its representatives in applying the models to UPCIC's in-force portfolio, will reflect the characteristics of future hurricane events that may affect Florida or the resulting economic conditions. Further, although UPCIC uses a widely recognized, commercially available model to estimate its hurricane losses, other models exist that might produce higher or lower loss estimates. UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on UPCIC's and the Company's business, financial condition, results of operations and liquidity.

On October 29, 2010, the SBA published its most recent estimate of the FHCF's loss reimbursement capacity in the Florida Administrative Weekly. The SBA estimated that the FHCF's total claims-paying capacity under current market conditions for the 2010 - 2011 contract year is projected to be $18.776 billion over the 12-month period following the estimate. The SBA also referred to its report entitled, "October 2010 Estimated Claims Paying Capacity Report" ("Report") as providing greater detail regarding the FHCF's claims-paying capacity. The Report estimated that the FHCF's minimum 12-month claims-paying capacity is $19.414 billion and its maximum 12-month claims-paying capacity is $35.414 billion with an average claims-paying capacity of $25.414 billion. This projected claims-paying capacity exceeds the FHCF's maximum statutory obligation for 2010 of $18.776 billion. Claims-paying capacity exceeding the FHCF's maximum statutory obligation for a single contract year may be available for insurer reimbursements in future contract years. UPCIC purchased the FHCF Mandatory Layer of Coverage for the 2010 - 2011 contract year, which corresponds to FHCF loss reimbursement capacity of $17 billion. In the event the aggregate amount of reimbursement coverage requested by insurers for a particular contract year exceeds the FHCF's actual claims-paying capacity, the FHCF's obligation to reimburse insurers is limited by law to its actual claims-paying capacity. The aggregate cost of UPCIC's

47

reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's loss reimbursement capacity.

Effective June 1, 2010 through December 31, 2010, the Company obtained $60,000,000 of coverage via a catastrophe risk-linked transaction contract in the event UPCIC's catastrophe coverage is exhausted. The total cost of the Company's risk-linked transaction contract is $8,250,000.

GAAP differs in some respects from reporting practices prescribed or permitted by the OIR. To retain its certificate of authority, the Florida insurance laws and regulations require that UPCIC maintain capital and surplus equal to the statutory minimum capital and surplus requirement defined in the Florida Insurance Code as the greater of 10% of the insurer's total liabilities or $4,000,000. UPCIC's statutory capital and surplus was $106,000,341 as of September 30, 2010 and exceeded the minimum capital and surplus requirements. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios.

The maximum amount of dividends, which can be paid by Florida insurance companies without prior approval of the Commissioner of the OIR, is subject to certain statutory restrictions. The maximum dividend that may be paid by UPCIC to the Company without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or statutory unassigned surplus as of the preceding year end.

UPCIC is required annually to comply with the NAIC RBC requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations relative to its size and risk profile. NAIC's RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2009, based on calculations using the appropriate NAIC RBC formula, UPCIC's reported total adjusted capital was in excess of the requirements.

Available Cash

The Company held cash and cash equivalents at September 30, 2010 of $294,972,027. Of that amount, $254,957,239 was held by UPCIC, most of which is available to pay claims or relates to policyholder surplus. Accordingly, cash and cash equivalents in UPCIC are not available to buy back Company stock or pay Company dividends. A portion of those claims paid by the Company would be recoverable through the Company's quota share and catastrophic reinsurance upon presentation to the reinsurer of evidence of claim payment. As of December 31, 2009, the Company held cash and cash equivalents of $192,924,291.

Cash Dividends

On January 19, 2010, the Company's Board of Directors declared a dividend of $0.12 per share on its outstanding common stock. The dividend was paid on April 6, 2010 to stockholders of record as of March 19, 2010 in the aggregate amount of $4,699,926.

On May 24, 2010, the Company's Board of Directors declared a dividend of $0.10 per share on its outstanding common stock. The dividend was paid on July 15, 2010 to stockholders of record as of June 17, 2010 in the aggregate amount of $3,916,724.

Contractual Obligations

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 contractual obligations specified in the table of contractual obligations included in the

section “Management’s Discussion and Analysis of Financial Condition and

48

Results of Operations" included in the Company's Annual Report on Form 10-K, for the year ended December 31, 2009.

Factors Affecting Operation Results and Market Price of Stock

The Company and its subsidiaries operate in a rapidly changing environment that involves a number of uncertainties, some of which are beyond the Company's control. This report contains, in addition to historical information, forward looking statements that involve risks and uncertainties. The words "expect," "estimate," "anticipate," "believe," "intend," "
and similar expressions and variations thereof are intended to identify forward-looking statements. The Company's actual results could differ materially from those set forth in or implied by any forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those uncertainties discussed below as well as those discussed elsewhere in this report.

Nature of the Company's Business

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

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

The Company believes that a substantial portion of its future growth will depend on its ability, among other things, to successfully implement its business strategy, including expanding the Company's product offering by underwriting and marketing additional insurance products and programs through its distribution network, further penetrating the Florida market by establishing relationships with additional independent agents in order to expand its distribution network and to further disperse its geographic risk and expanding into other geographical areas outside the State of Florida. Any future growth is contingent on various factors, including the availability of adequate capital, the Company's ability to hire and train additional personnel, regulatory requirements, the competitive environment, and rating agency considerations. There is no assurance that the Company will be successful in expanding its business, that the existing infrastructure will be able to support additional expansion or that any new business will be profitable. Moreover, as the Company expands its insurance products and programs and the Company's mix of business changes, there can be no assurance that the Company will be able to maintain or improve its profit margins or other operating results. There can also be no assurance that the Company will be able to obtain the required regulatory approvals to offer additional insurance products. UPCIC also is required to maintain minimum surplus to support its underwriting program. The surplus requirement affects UPCIC's potential growth.

Management of Exposure to Catastrophic Losses

UPCIC is exposed to potentially numerous insured losses arising out of single or multiple occurrences, such as natural catastrophes. As with all property and casualty insurers, UPCIC expects to and will incur some losses related to catastrophes and attempts to price its policies accordingly. UPCIC's exposure to catastrophic losses arises principally out of hurricanes and windstorms. However, there is no assurance UPCIC will be able to charge prices commensurate with the potential losses that may result from catastrophic events. Through the use of standard industry modeling techniques that are susceptible to change, UPCIC manages its exposure to such losses on an ongoing basis from an underwriting perspective. UPCIC also protects itself against the risk of catastrophic loss by obtaining reinsurance coverage as of the beginning of hurricane season on June 1 of each year. UPCIC's reinsurance program consists of excess of loss, quota share and catastrophe reinsurance for multiple hurricanes. UPCIC's catastrophe reinsurance program currently covers three events, subject to the terms and limitations of the reinsurance contracts. However, UPCIC may not buy enough reinsurance to cover multiple storms going forward or be able to timely obtain reinsurance. In addition, UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, and such losses could have a material adverse effect on the business, financial condition and results of operations of UPCIC and the Company.

Although UPCIC uses a widely recognized, commercially available model to estimate its hurricane losses, other models exist that might produce higher or lower loss estimates. The loss estimates developed by the catastrophe model are dependent upon assumptions or scenarios incorporated into the model by its developer, which is a third party independent of UPCIC, and on assumptions or scenarios made by UPCIC or its representatives when using the model. There is no assurance these assumptions or scenarios will reflect the characteristics of future hurricane events that may affect Florida or the resulting economic conditions. This may result in exposure to UPCIC for losses that are not covered by the reinsurance program, which could have a material adverse effect on UPCIC's and the Company's business, financial condition, results of operations and liquidity.

Reliance on Third Parties and Reinsurers

UPCIC is dependent upon third parties to perform certain functions including, but not limited to the purchase of reinsurance and risk management analysis. UPCIC also relies on reinsurers to limit the amount of risk retained under its policies and to increase its ability to write additional risks. UPCIC's intention is to limit its exposure and therefore protect its capital, even in the event of catastrophic occurrences, through reinsurance agreements. As of September 30, 2009, UPCIC had coverage to approximately the 114-year PML (modeled using AIR CLASIC/2 v.10.0, long term, without demand surge and without loss amplification). As of September 30, 2010, UPCIC had coverage to approximately the 125-year PML (modeled using AIR CLASIC/2 v.11.0, long term, without demand surge and without loss amplification). UPCIC is responsible for losses related to catastrophic events with incurred losses in excess of coverage provided by UPCIC's reinsurance program and for losses that otherwise are not covered by the reinsurance program, which could have a material adverse effect on the Company's business, financial condition and results of operations should catastrophe losses exceed these amounts.

Reinsurance

The property and casualty reinsurance industry is subject to the same market conditions as the direct property and casualty insurance market, and there can be no assurance that reinsurance will be available to UPCIC to the same extent and at the same cost as currently in place for UPCIC. Future increases in catastrophe reinsurance costs are possible and could adversely affect UPCIC's results. Reinsurance does not legally discharge an insurer from its primary liability for the full amount of the risks it insures, although it does make the reinsurer liable to the primary insurer. Therefore, UPCIC is subject to credit

risk with respect to its reinsurers. In addition, UPCIC obtains a significant portion of its reinsurance coverage from the FHCF. There is no guaranty the FHCF will be able to provide reimbursements at levels requested and relied upon by UPCIC or as timely as required by UPCIC's claims payments to policyholders. Likewise, there is no guaranty that laws, contracts or requirements relating to the FHCF will be interpreted in a manner consistent with UPCIC's understandings or will remain unchanged in the future. In addition, the cost of UPCIC's reinsurance program may increase should UPCIC deem it necessary to purchase additional private market reinsurance due to reduced estimates of the FHCF's claims-paying capacity.

Management evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. A reinsurer's insolvency or inability to make payments under a reinsurance treaty could have a material adverse effect on the financial condition and profitability of UPCIC and the Company. While ceding premiums to reinsurers reduces UPCIC's risk of exposure in the event of catastrophic losses, it also reduces UPCIC's potential for greater profits should such catastrophic events fail to occur. The Company believes that the extent of UPCIC's reinsurance is typical of a company of its size in the homeowners' insurance industry.

Adequacy of Liabilities for Losses

The liabilities for losses and loss adjustment expenses periodically established by UPCIC are estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses. The estimates necessarily will be based on certain assumptions related to the ultimate cost to settle such claims. There is an inherent degree of uncertainty involved in the establishment of liabilities for losses and loss adjustment expenses and there may be substantial differences between actual losses and UPCIC's liabilities estimates. UPCIC relies on industry data, as well as the expertise and experience of independent actuaries in an effort to establish accurate estimates and adequate liabilities. Furthermore, factors such as storms and weather conditions, climate change and patterns, inflation, claim settlement patterns, legislative activity and litigation trends may have an impact on UPCIC's future loss experience. Accordingly, there can be no assurance that UPCIC's liabilities will be adequate to cover ultimate loss developments. The profitability and financial condition of UPCIC and the Company could be adversely affected to the extent that its estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses are inadequate.

UPCIC is directly liable for loss and LAE payments under the terms of the insurance policies that it writes. In many cases, several years may elapse between the occurrence of an insured loss and UPCIC's payment of that loss. As required by insurance regulations and accounting rules, UPCIC reflects its liability for the ultimate payment of all incurred losses and LAE by establishing a liability for those unpaid losses and LAE for both reported and unreported claims, which represent estimates of future amounts needed to pay claims and related expenses.

When a claim involving a probable loss is reported, UPCIC establishes a liability for the estimated amount of UPCIC's ultimate loss and LAE payments. The estimate of the amount of the ultimate loss is based upon such factors as the type of loss, jurisdiction of the occurrence, knowledge of the circumstances surrounding the claim, severity of injury or damage, potential for ultimate exposure, estimate of liability on the part of the insured, past experience with similar claims and the applicable policy provisions.

All newly reported claims received are set up with an initial average liability. That claim is then evaluated and the liability is adjusted upward or downward according to the facts and damages of that particular claim.

In addition, management provides for a liability on an aggregate basis to provide for losses incurred but not reported. UPCIC utilizes independent actuaries to help establish its liability for unpaid losses and LAE. UPCIC does not discount the liability for unpaid losses and LAE for financial statement purposes.

The estimates of the liability for unpaid losses and LAE are subject to the effect of trends in claims severity and frequency and are continually reviewed. As part of this process, UPCIC reviews historical data and considers various factors, including known and anticipated legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data becomes available, these estimates are revised, as required, resulting in increases or decreases to the existing liability for unpaid losses and LAE. Adjustments are reflected in results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

Among the classes of insurance underwritten by UPCIC, the homeowners' liability claims historically tend to have longer time lapses between the occurrence of the event, the reporting of the claim to UPCIC and the final settlement than do homeowners' property claims. Liability claims often involve third parties filing suit and the ensuing litigation. By comparison, property damage claims tend to be reported in a relatively shorter period of time with the vast majority of these claims resulting in an adjustment without litigation.

There can be no assurance that UPCIC's liability for unpaid losses and LAE will be adequate to cover actual losses. If UPCIC's liability for unpaid losses and LAE proves to be inadequate, UPCIC will be required to increase the liability with a corresponding reduction in UPCIC's net income in the period in which the deficiency is identified. Future loss experience substantially in excess of established liability for unpaid losses and LAE could have a material adverse effect on UPCIC's and the Company's business, results of operations and financial condition.

Government Regulation

Florida insurance companies, such as UPCIC, are subject to regulation and supervision by the OIR. The OIR has broad regulatory, supervisory and administrative powers. Such powers relate, among other things, to the granting and revocation of licenses to transact business; the licensing of agents (through the Florida Department of Financial Services); the standards of solvency to be met and maintained; the nature of, and limitations on, investments; approval of policy forms and rates; review of reinsurance contracts; periodic examination of the affairs of insurance companies; and the form and content of required financial statements. Such regulation and supervision are primarily for the benefit and protection of policyholders and not for the benefit of investors.

In addition, the Florida Legislature and the NAIC from time to time consider proposals that may affect, among other things, regulatory assessments and reserve requirements. The Company cannot predict the effect that any proposed or future legislation or regulatory or administrative initiatives may have on the financial condition or operations of UPCIC or the Company.

UPCIC has become and will become subject to other states' laws and regulations as it has obtained and continues to seek authority to transact business in states other than Florida. In addition, UPCIC may be affected by proposals for increased regulatory involvement by the federal government.

Legislative Initiatives

The State of Florida created Citizens Property Insurance Corporation (“Citizens”) to provide insurance to Florida homeowners in high-risk areas and to others without private insurance options. As of September 30, 2010, there were 1,237,289 Citizens’ policies in force. In May 2007, the State of Florida passed legislation that froze property insurance rates for Citizens customers at December 2006 levels through December 31, 2008 and permitted insurance customers to opt into Citizens when the price of a private policy is 15% more than the Citizens rate, compared to the previous opt-in threshold of 25%. In May 2008, the Florida Legislature extended a freeze on Citizens rates through January 2010. In 2009, the legislature authorized Citizens to make incremental annual changes, beginning January 1, 2010, to achieve actuarially sound rate levels, provided that the rate increase in any year did not exceed ten percent for any policyholder, excluding coverage changes and surcharges. This limitation on policyholders’ rate changes has resulted in Citizens’ implementing rates levels for 2010 that in the aggregate are lower than its indicated rate need. These initiatives, together with any future initiatives that seek to further relax eligibility requirements or reduce premium rates for Citizens customers, could adversely affect the ability of UPCIC and the Company to do business profitably. In addition, the Florida Legislature in 2007 expanded the capacity of the FHCF, with the intent of reducing the cost of reinsurance otherwise purchased by residential property insurers. In 2009, the Florida Legislature adopted a plan to phase-out the expanded FHCF coverage over a period extending through the 2013 hurricane season, and to increase the premiums associated with the expanded coverage. If the expanded FHCF coverage expires or if the law providing for the expanded coverage is otherwise modified, or UPCIC otherwise purchases additional private market reinsurance due to reduced estimates of the FHCF’s claims-paying capacity, the cost of UPCIC’s reinsurance program may increase, which could affect UPCIC’s profitability until such time as UPCIC can obtain approval of appropriate rate changes. State and federal legislation relating to insurance is affected by a number of political and economic factors that are beyond the control of UPCIC and the Company, and the Florida Legislature and the NAIC from time to time consider proposals that may affect, among other things, regulatory assessments and reserve requirements. The Company cannot predict the effect that any proposed or future legislation or regulatory or administrative initiatives may have on the financial condition or operations of UPCIC or the Company.

Product Pricing

The rates charged by UPCIC generally are subject to regulatory review and approval before they may be implemented. UPCIC periodically submits its rate revisions to regulators as required by law or deemed by the Company and UPCIC to be necessary or appropriate for UPCIC’s business. UPCIC prepares these filings based on objective data relating to its business and on judgment exercised by its management or employees and by retained professionals. There is no assurance that the objective data incorporated in UPCIC’s filings based on its past experience will be reflective of UPCIC’s future business. In addition, there is no assurance that UPCIC’s business will develop consistently with the judgments reflected in its filings. The Company and UPCIC likewise cannot be assured that regulatory authorities will evaluate UPCIC’s data and judgments in the same manner as UPCIC. UPCIC’s filings also might be affected by political or regulatory factors outside of UPCIC’s control, which might result in disapproval of UPCIC’s filings or in negotiated compromises resulting in approved rates that differ from rates initially filed by UPCIC or that the Company and UPCIC otherwise would consider more appropriate for its business.

The premiums charged by UPCIC to policyholders are affected by legislative enactments and administrative rules, including a state-mandated program requiring residential property insurance companies like UPCIC to provide premium discounts when policyholders verify that insured properties have certain construction techniques or other windstorm loss reduction fixtures. The level of required premium discounts may exceed the expected reduction in losses associated with the construction techniques or fixtures for which the discounts are provided. Although UPCIC may submit rate filings to address any premium deficiencies, those rate filings are subject to the considerations identified in the preceding paragraph. Any inability of UPCIC to implement sufficient and timely rate adjustments to

53

provide aggregate premiums commensurate with UPCIC's expected losses will have a material adverse effect on UPCIC's and the Company's business, financial condition, results of operations and liquidity.

Dependence on Key Individuals

UPCIC's operations depend in large part on the efforts of Bradley I. Meier, who serves as President of UPCIC. Mr. Meier has also served as President, Chief Executive Officer and Director of the Company since its inception in November 1990. In addition, UPCIC's operations have become materially dependent on the efforts of Sean P. Downes, who serves as Chief Operating Officer of UPCIC. Mr. Downes has also served as Chief Operating Officer, Senior Vice President and Director of the Company since January 2005 and as a Director of UPCIC since May 2003. The loss of the services provided by Mr. Meier or Mr. Downes could have a material adverse effect on UPCIC's and the Company's financial condition and results of operations.

Competition

The insurance industry is highly competitive and many companies currently write homeowners' property and casualty insurance. Additionally, the Company and its subsidiaries must compete with companies that have greater capital resources and longer operating histories as well as start-up companies. Increased competition from other private insurance companies as well as Citizens could adversely affect the Company's ability to do business profitably. Although the Company's pricing is inevitably influenced to some degree by that of its competitors, management of the Company believes that it is generally not in the Company's best interest to compete solely on price, choosing instead to compete on the basis of underwriting criteria, its distribution network and high quality service to its agents and insureds.

Financial Stability Rating

Financial stability ratings are an important factor in establishing the competitive position of insurance companies and may impact an insurance company's sales. Demotech, Inc. maintains a letter scale financial stability rating system ranging from A (A double prime) to L (licensed by state regulatory authorities). On August 31, 2010, Demotech, Inc. reaffirmed UPCIC's financial stability rating of A, which is the fourth highest of six rating levels. According to Demotech, Inc., A ratings are assigned to insurers that have "… exceptional ability to maintain liquidity of invested assets, quality reinsurance, acceptable financial leverage and realistic pricing while simultaneously establishing loss and loss adjustment expense reserves at reasonable levels." With a financial stability rating of A, the Company expects that UPCIC's property insurance policies will be acceptable to the secondary mortgage marketplace and mortgage lenders. The rating of UPCIC is subject to at least annual review by, and may be revised downward or revoked at the sole discretion of, Demotech, Inc.

In November 2008, Demotech sent UPCIC a letter entitled Recent Events Affecting Financial Stability Ratings for Florida Property and Casualty Insurance Companies Require Supplemental Information. The letter provided Demotech's perspective and expectations relative to the reported short term liquidity issues facing the FHCF. Specifically, the letter stated that an extension of Financial Stability Ratings beyond May 15, 2009 would require definitive financial information regarding participation in the FHCF, documentation of bridge loans or alternative financing mechanisms that provide liquidity during a period in which the FHCF would be raising capital, and any other precaution or protection regarding reinsurance collectability or catastrophe reinsurance. UPCIC subsequently implemented plans addressing Demotech's concern with the FHCF liquidity issue and was successful in maintaining its A rating.

In March 2010, to help address questions and concerns relative to Demotech's rating and review process, Demotech published Guidance on Financial Stability Ratings and Catastrophe Reinsurance Program

54

Reporting for Florida Property Insurers. The document contains the criteria Demotech considers when reviewing a company. The standards are some of the objective evaluation criteria applied to each insurer writing property business in Florida. On March 22, 2010, UPCIC received notice from Demotech that it would require a capital infusion of $30 million by April 16, 2010 in order for UPCIC to maintain its A rating. In order to comply with this requirement the Company contributed an aggregate amount of $30 million to UPCIC in March 2010. Demotech subsequently reaffirmed UPCIC's A rating.

UPCIC's failure to maintain a commercially acceptable financial stability rating could have a material adverse effect on the Company's ability to retain and attract policyholders and agents. A withdrawal of the rating could cause UPCIC's insurance policies to no longer be acceptable to the secondary marketplace and mortgage lenders, which could cause a material adverse effect of the Company's results of operations and financial position.

Demotech, Inc. bases its ratings on factors that concern policyholders and not upon factors concerning investor protection. Such ratings are subject to change and are not recommendations to buy, sell or hold securities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's investment objective is to maximize total rate of return after federal income taxes while maintaining liquidity and minimizing risk. The Company's current investment policy limits investment in non-investment grade fixed maturity securities (including high-yield bonds), and limits total investments in preferred stock and common stock. The Company complies with applicable laws and regulations, which further restrict the type, quality and concentration of investments. In general, these laws and regulations permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages.

The Company's investment policy is established by the Board of Directors Investment Committee and is reviewed on a regular basis. Pursuant to this investment policy, as of September 30, 2010, the Company's trading securities portfolio comprised approximately 9.5% in fixed income securities and 90.5% in equity securities. The Company does not use any swaps, options, futures or forward contracts to hedge or enhance the investment portfolio at this time.

The investment portfolio is managed by the Investment Committee consisting of all current directors and is in accordance with guidelines established by the Florida OIR.

The table below sets forth investment results for the nine-month periods ended September 30, 2010 and 2009:

	For the Nine Months Ended September 30,	
	2010	2009
Cash and cash equivalents	$ 109,150	$ 253,073
Fixed maturities	710,325	1,136,568
Equity securities	36,530	634,362
Total investment income	856,005	2,024,003
Less investment expenses	(479,430)	(638,996)
Net investment income	$ 376,575	$ 1,385,007

The following tables summarize, by type, the Company’s investments as of September 30, 2010 and December 31, 2009:

	September 30, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
Available for sale				
Fixed maturities, at fair value:				
US government and agency obligations	$ -	0.0%	$ 41,389,008	36.1%
Foreign obligations	-	0.0%	-	0.0%
Equity securities, at fair value:				
Commodities	-	0.0%	56,961,180	49.6%
Common stock	-	0.0%	16,446,822	14.3%
Total investments	$ -	0.00%	$114,797,010	100.00%

	September 30, 2010		December 31, 2009	
	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
Trading				
Fixed maturities, at fair value:				
US government and agency obligations	$ 3,465,332	3.3%	$ -	0.0%
Foreign obligations	6,173,911	5.9%	-	0.0%
Equity securities, at fair value:				
Commodities	81,972,320	80.9%	-	0.0%
Common stock	10,328,369	9.9%	-	0.0%
Total investments	$101,939,932	100.00%	$ -	0.00%

Fixed maturities, are carried on the balance sheet at fair value. At September 30, 2010, the fixed maturities had quality ratings of AAA by Moody’s Investors Service, Inc. and Standard and Poors’ Company.

Below is a summary of fixed maturities at September 30, 2010 and December 31, 2009 by contractual or expected periods.

Available-for-Sale	September 30, 2010 Amortized Cost	Estimated Fair Value	December 31, 2009 Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	176,350	180,901
Due after five years through ten years	-	-	2,909,446	2,942,497
Due after ten years	-	-	39,210,931	38,265,610
Total	$ -	$ -	$ 42,296,727	$ 41,389,008

Trading	September 30, 2010 Amortized Cost	Estimated Fair Value	December 31, 2009 Amortized Cost	Estimated Fair Value
Due in one year or less	$ 3,356,843	$ 3,393,067	$ -	$ -
Due after one year through five years	2,889,897	2,961,866	-	-
Due after five years through ten years	3,019,144	3,284,310	-	-
Due after ten years	-	-	-	-
Total	$ 9,265,884	$ 9,639,243	$ -	$ -

At September 30, 2010, the weighted average maturity of the fixed maturities portfolio was approximately 3.9 years.

The Company's market risk generally represents the risk of gain or loss that may result from the potential change in the fair value of the Company's investment portfolio as a result of fluctuations in prices, interest rates and, to a lesser extent, the Company's debt obligations. As previously described in Note 6 "Loan Payable and Long-Term Debt", of the notes to condensed consolidated financial statements, the Company's surplus note accrues interest at an adjustable rate based on the 10-year Constant Maturity Treasury rate.

ITEM 4. CONTROLS AND PROCEDURES

The following is amended to reflect the restatement of the Company's Condensed Consolidated Financial Statements as discussed further in the Explanatory Note, Notes 1 and 5 to the Condensed Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that there was a material weakness as of September 30, 2010 as described below.

The Company is restating its Condensed Consolidated Financial Statements for the three- and nine-month periods ended September 30, 2010. The Company is issuing this restatement to correct a third-party clerical error in the coding of a single investment security that resulted in an overstatement of unrealized gains on investments of $2,316,041 and realized gains on investments of $100,039 included in earnings for the three- and nine-month periods

ended September 30, 2010. Through its internal review, management discovered that its external provider of investment accounting services incorrectly coded a

57

---

series of purchases of a commodity security held by the Company. As a result, the provider reported to the Company that the security had gained value during the quarter ended September 30, 2010, when in fact it had lost value. The amount of actual unrealized loss on that single investment was $62,510. In addition to correcting the overstatement of gains, the calculations for certain incentive bonus compensation payments, which are based on the performance of the Company and have not yet been paid, have been reduced by $189,828.

The net effect resulting from this clerical error on income before income taxes, net income and diluted earnings per share for the three- and nine-month periods ended September 30, 2010, and on stockholders' equity at September 30, 2010, is as follows:

Income before income taxes decreased by $2,226,252

Net income decreased by $1,367,475

Diluted earnings per share decreased by $0.04

Stockholders' equity decreased by $1,367,475

Following a review of its controls and processes for monitoring the work performed by the provider of investment accounting services, the Company's management, in consultation with the Audit Committee, determined that the Company's failure to timely detect the coding error for the investment security in its investment portfolio was a material weakness. The material weakness resulted in the restatement of the Condensed Consolidated Financial Statements for the quarterly period ended September 30, 2010.

Enhancing Controls

The Company has reviewed its processes and controls for monitoring the work performed by its external provider of investment accounting services and determined that the error was limited to failing to timely detect a coding error made by the provider with respect to a single commodity security in the Company's investment portfolio. The Company reviewed the investment accounting reports provided by the provider and determined that there were no other coding errors in them. To further support the system of internal controls, the Company has enhanced its investment accounting reporting system to provide that:

the same analytical procedures applied by the Company at year-end, which detected the error made by the external service provider, are applied each quarter.

the external service provider will develop and implement a report which identifies significant fluctuations in month-end market prices compared to both purchase prices and sales prices followed by the provider's review and sign-off of the report.

the external service provider will have an Account Manager, not involved in any of the monthly transaction processing or reconciling, complete an independent, secondary reconciliation of the securities.

Management believes that, as of the filing of this Amended Report, the Condensed Consolidated Financial Statements included herein present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented. Management believes the material weakness has been fully addressed.

Changes in Internal Control Over Financial Reporting

None with the exception of the enhancement of controls as described above under Enhancing Controls.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in certain lawsuits. In the opinion of management, none of these lawsuits (1) involve claims for damages exceeding 10% of the Company's cash and invested assets, (2) involve matters that are not routine litigation incidental to the claims aspect of its business, (3) involve bankruptcy, receivership or similar proceedings, (4) involve material Federal, state, or local environmental laws, (5) potentially involve more than $100,000 in sanctions and a governmental authority is a party, or (6) are material proceedings to which any director, officer, affiliate of the Company, beneficial owner of more than 5% of any class of voting securities of the Company, or security holder is a party adverse to the Company or has a material interest adverse to the Company.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Item 1A, Risk Factors, in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit
3.1	Registrant's Restated Amended and Restated Certificate of Incorporation (1)
3.2	Certificate of Designation for Series A Convertible Preferred Stock dated October 11, 1994 (2)
3.3	Certificate of Designations, Preferences, and Rights of Series M Convertible Preferred Stock dated August 13, 1997 (3)

59

3.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated October 19, 1998 (2)
3.5	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 18, 2000 (2)
3.6	Certificate of Amendment of Certificate of Designations of the Series A Convertible Preferred Stock dated October 29, 2001 (2)
3.7	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated December 7, 2005 (4)
3.8	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated May 18, 2007 (4)
3.9	Amended and Restated Bylaws (5)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Schedule of Investments

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 33-51546) declared effective on December 14, 1992

(2) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2002

(3) Incorporated by reference to the Registrant's Annual Report on Form 10-KSB/A for the year ended April 30, 1997

(4) Incorporated by reference to the Registrant's Quarterly Report on Form 10-QSB for period ended June 30, 2007

(5) Incorporated by reference to the Registrant's Current Report on Form 8-K dated January 8, 2007

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		UNIVERSAL INSURANCE HOLDINGS, INC.
Date:	March 21, 2011	/s/ Bradley I. Meier
		Bradley I. Meier, President and Chief Executive Officer
		/s/ George R. De Heer
		George R. De Heer, Chief Financial Officer (Principal Accounting Officer)

61