UNIVERSAL INSURANCE HOLDINGS INC
Form 10QSB
November 14, 2003

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

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2003

OR

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

For the transition period from ______________ to ______________

COMMISSION FILE NUMBER 0-20848

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

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

2875 N.E. 191ST STREET
SUITE 300
MIAMI, FLORIDA 33180
(Address of principal executive offices)

(305) 792-4200
(Issuer's telephone number)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: 29,285,246 shares of common stock as of November 1, 2003.

Transitional Small Business Disclosure Format Yes __ No X

UNIVERSAL INSURANCE HOLDINGS, INC.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The following unaudited consolidated financial statements of Universal Insurance Holdings, Inc. have been prepared in accordance with the instructions to Form 10-QSB and, therefore, omit or condense certain footnotes and other information normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial information for the interim periods reported have been made. Results of operations for the nine months ended September 30, 2003 are not necessarily indicative of the results for the year ending December 31, 2003.

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UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2003
(Unaudited)

ASSETS

Cash and cash equivalents	$ 1,938,069
Debt securities held-to-maturity (fair-value of $104,683)	100,338
Equity securities available for sale (cost of $175,453)	135,342
Prepaid reinsurance premiums and reinsurance recoverables	28,461,708
Premiums and other receivables	894,152
Investments in real estate	217,715
Property, plant and equipment, net	740,115
Total assets	$32,487,439

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES:	
Unpaid losses and loss adjustment expenses	$ 7,280,964
Unearned premiums	15,715,204
Accounts payable	1,537,095
Reinsurance payable	2,907,381
Other accrued expenses	899,207
Loans payable	383,414
Total liabilities	28,723,265
COMMITMENTS AND CONTINGENCIES (Note 5)	
STOCKHOLDERS' EQUITY:	
Cumulative convertible preferred stock, $.01 par value, 1,000,000 shares authorized, 138,640 shares issued and outstanding, minimum liquidation preference of $1,419,700	$ 1,387
Common stock, $.01 par value, 40,000,000 shares authorized, 29,285,246 shares issued and 26,176,601 shares outstanding	203,841
Common stock in treasury, at cost - 208,645 shares	(101,820)
Additional paid-in capital	15,003,976
Accumulated deficit	(11,303,099)
Accumulated other comprehensive loss	(40,111)
Total stockholders' equity	3,764,174

Total liabilities and stockholders' equity	$ 32,487,439

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

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

	Nine Months Ended		Three Months Ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 2002
PREMIUMS EARNED AND OTHER REVENUES:				
Premium income, net	$ 1,996,494	$ 4,500,436	$ 779,078	$ 998,9
Net investment income	55,279	327,233	13,827	147,9
Commission revenue	1,129,392	1,041,509	446,335	437,1
Other revenue	1,718,466	1,878,157	546,359	831,0
Total revenues	4,899,631	7,747,335	1,785,599	2,415,1
OPERATING COSTS AND EXPENSES				
Losses and loss adjustment expenses	766,459	3,898,206	96,130	697,7
General and administrative expenses	4,090,493	3,870,052	1,770,831	1,074,8
Total operating costs and expenses	4,856,952	7,768,258	1,866,961	1,772,6
NET INCOME (LOSS)	$ 42,679	$ (20,923)	$ (81,362)	$ 642,5
INCOME (LOSS) PER COMMON SHARE:				
Basic	$ 0.00	$ (0.00)	$ (0.00)	$ 0.
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	23,771,000	15,558,000	24,966,000	15,558,0
INCOME (LOSS) PER COMMON SHARE Diluted	$ 0.00	$ (0.00)	$ (0.00)	$ 0.
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	24,361,000	16,126,000	25,534,000	16,126,0

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS
(Unaudited)

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002	Three Months Ended September 30, 2003	Three Months Ended September 2002
NET INCOME (LOSS)	$ 42,679	$(20,923)	$ (81,362)	$ 642,
OTHER COMPREHENSIVE INCOME:				
Change in net unrealized gain (loss) on available-for-sale securities	34,560	(40,802)	23,721	(63,
COMPREHENSIVE INCOME (LOSS)	$ 77,239	$(61,725)	$ (57,641)	$ 578,

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

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

	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 42,679	$ (20,923)
Adjustments to reconcile net income (loss)to cash (used in) provided by operations:		
Amortization and depreciation	205,144	168,773
Issuance of common stock as compensation	36,666	44,908
Net accretion of bond premiums and discounts	14,112	(23,768)
Net change in assets and liabilities relating to operating activities:		
Prepaid reinsurance premiums and reinsurance recoverables	(2,627,389)	(7,625,360)
Premiums and other receivables	307,422	308,826
Reinsurance payables	1,860,568	(2,297,308)
Deferred policy acquisition costs	-	529,942
Accounts payable	201,876	10,574
Other accrued expenses	(74,241)	106,574
Accrued taxes, licenses and fees	-	(189,728)
Unpaid losses and loss adjustment expenses	56,209	(687,007)
Unearned premiums	(2,709,825)	1,661,136
Net cash used in operating activities	(2,686,779)	(8,013,361)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(64,369)	(100,875)

Purchase of real estate	-	(310,827)
Proceeds from maturities of debt securities held to maturity	235,133	2,494,811
Purchase of equity securities available for sale	-	(18,160)
Proceeds from sale of equity securities available for sale	113,414	-
Sale of real estate	106,228	84,763
Net cash provided by investing activities	390,406	2,149,712
CASH FLOWS FROM FINANCING ACTIVITIES:		
Preferred stock dividend	(37,460)	-
Repayments of loans payable	(566,018)	-
Proceeds from loans payable	250,000	445,076
Net cash (used in) provided by financing activities	(353,478)	445,076
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,649,851)	(5,418,573)
CASH AND CASH EQUIVALENTS, Beginning of period	4,587,920	10,481,699
CASH AND CASH EQUIVALENTS, End of period	$ 1,938,069	$ 5,063,126

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

UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2003
(Unaudited)

NOTE 1 - NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements include the accounts of Universal Insurance Holdings, Inc. ("Company"), its wholly owned subsidiary, Universal Property & Casualty Insurance Company ("UPCIC"), and other wholly owned entities. All intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet of the Company as of September 30, 2003, the related condensed consolidated statements of operations and comprehensive operations and cash flows for the nine months ended September 30, 2003 and 2002 are unaudited. The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002. The interim financial statements reflect all adjustments (consisting of only normal and recurring accruals and adjustments) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The Company's operating results for any particular interim period may not be indicative of results for the full year and thus should be read in conjunction with the Company's annual statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

OFF-BALANCE SHEET ARRANGEMENTS. There were no off-balance sheet arrangements during the first nine months of 2003.

NEW ACCOUNTING PRONOUNCEMENTS. In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, BUSINESS COMBINATIONS, and SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, which establish accounting and reporting standards for business combinations. SFAS No. 141 requires all business combinations entered into subsequent to June 30, 2001 to be accounted for using the purchase method of accounting. SFAS No. 142 provides that goodwill and other intangible assets with indefinite lives be tested for impairment on an annual basis rather than amortized. The Company adopted the provisions of these statements in the first quarter of 2002, which did not have a material effect on the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which is effective for fiscal years beginning after December 15, 2001. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR

LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS - REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS, for the disposal of a segment of a business (as previously defined in that opinion). This Statement also amends Accounting Research Bulletin No. 51, CONSOLIDATED FINANCIAL STATEMENTS, to eliminate the exception to consolidation for subsidiaries for which control is likely to be temporary. The Company adopted SFAS No. 144 in the first quarter of 2002, which did not have a material effect on the Company's consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE. This Statement, which is effective for years ending after December 15, 2002, amends Statement No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, and provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, Statement No. 148 amends the disclosure requirements of Statement No. 123 regardless of the accounting method used to account for stock-based compensation. The Company has chosen to continue to account for stock-based compensation of employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations. However, the enhanced disclosure provisions as defined by SFAS No. 148 became effective in the first quarter of 2003. There has been no stock based compensation in 2003.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES. Management has reassessed the critical accounting policies as disclosed in our 2002 Annual Report to Stockholders on Form 10-KSB and determined that no changes, additions, or deletions are needed to the policies as disclosed. Also there were no significant changes in our estimates associated with those policies.

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

Management attributes recent operating losses and unfavorable loss ratios of UPCIC primarily to higher than expected costs of catastrophic reinsurance and adverse loss experience in the homeowners line of business. Management has taken the following actions to improve and strengthen UPCIC's financial condition. Premium rate increases of approximately 7% and 9% were implemented in July, 2001 and April, 2002, respectively. UPCIC changed the geographic and coverage mix of the property insurance it writes, which is a key determinant in the amount and pricing of reinsurance procured by UPCIC. The Company has achieved more favorable ceding commission terms on its quota share reinsurance program. UPCIC was also able to obtain a less expensive catastrophic reinsurance program for 2003 - 2004.

In addition to the actions described above, the Company terminated its outside management agreement in January, 2002. The Company believes that this has enhanced UPCIC's operating results through its ability to improve and better control underwriting and loss adjusting activities, as well as reducing overall management expenses.

Management believes the implementation of, and results attributable to, the actions described above, along with the capital contribution to UPCIC of $146,000 in 2003 and $1,768,000 in 2002, removes the substantial doubt associated with UPCIC's ability to continue as a going concern for a reasonable period of time, and UPCIC has met the minimum statutory requirements for surplus as regards policyholders as of September 30, 2003. However, there can be no assurance of the ultimate success of these plans, or that the Company will be able to achieve profitability.

NOTE 2 - INSURANCE OPERATIONS

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

Unearned premiums represent amounts that UPCIC would refund policyholders if their policies were canceled. UPCIC determines unearned premiums by calculating the pro-rata amount that would be due to the policyholder at a given point in time based upon the premiums owed over the life of each policy. At September 30, 2003, the Company had unearned premiums totaling $15,715,204.

Effective January 15, 2002, UPCIC and Universal Property and Casualty Management, Inc. ("Universal Management"), an unaffiliated managing agency, terminated their prior management agreement so that services previously provided by Universal Management are now provided by UPCIC, Universal Risk Advisors, Inc. and unaffiliated third parties. Universal Risk Advisors, Inc. is an affiliated managing general agency that provides the Company with management and personnel for UPCIC's underwriting, together with support offices, equipment and services.

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

Policy acquisition costs, consisting of commissions and other costs that vary with and are directly related to the production of business, net of ceding commissions, are deferred and amortized over the terms of the policies, but only to the extent that unearned premiums are sufficient to cover all related costs and expenses. At September 30, 2003, deferred policy acquisition costs amounted to $0 due to the effect of deferred reinsurance commissions.

An allowance for uncollectible premiums receivable is established when it becomes evident collection is doubtful. No allowance is deemed necessary at September 30, 2003.

Claims and claims adjustment expenses, less related reinsurance, are provided for as claims are incurred. The provision for unpaid claims and claim adjustment expenses includes: (1) the accumulation of individual case estimates for claims and claims adjustment expenses reported prior to the close of the accounting period; (2) estimates for unreported claims based on past experience modified for current trends; and (3) estimates of expenses for investigating and adjusting claims based on past experience.

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

Inherent in the estimates of ultimate claims are expected trends in claims severity, frequency and other factors that may vary as claims are settled. The amount of uncertainty in the estimates for casualty coverage is significantly affected by such factors as the amount of historical claims experience relative to the development period, knowledge of the actual facts and circumstances, and the amount of insurance risk retained.

NOTE 3 - REINSURANCE

UPCIC's in-force policyholder coverage for windstorm exposures as of September 30, 2003 was approximately $4.8 billion. In the normal course of business, UPCIC seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

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

UPCIC limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers or reinsurers, either on an automatic basis under general reinsurance contracts known as "treaties" or by negotiation on substantial individual risks. The reinsurance arrangements are intended to provide UPCIC with the ability to maintain its exposure to loss within its capital resources. Such reinsurance includes quota share, excess of loss and catastrophe forms of reinsurance.

Effective June 1, 2003, UPCIC entered into a quota share reinsurance treaty and excess per risk agreements with various reinsurers. Under the quota share treaty, UPCIC cedes 90% of its gross written premiums, losses and loss adjustment expenses for policies with coverage for wind risk with a ceding commission equal to 28% of ceded gross written premium. In addition, the quota share treaty has a limitation for any one occurrence of $2,000,000. Effective June 1, 2003, UPCIC entered into an excess per risk agreement. Under the excess per risk agreement, UPCIC obtained coverage of $1,300,000 in excess of $500,000 ultimate net loss for each risk and each property loss, and $1,000,000 in excess of $300,000 for each casualty loss, excluding losses arising from the peril of wind to the extent such wind related losses are the result of a hurricane. A $5,200,000 limit applies to the term of the contract.

Effective June 1, 2003, under an excess catastrophe contract, UPCIC obtained catastrophe coverage of $26,000,000 in excess of $2,000,000 covering certain loss occurrences including hurricanes. UPCIC also obtained coverage from the

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Florida Hurricane Catastrophe Fund. The coverage is for approximately $56,600,000.

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

	Nine Months Ended September 30, 2003			Nine Months Ended September 30, 2002		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$22,400,227	$25,110,052	$7,555,355	$23,241,044	$21,579,908	$12,609,868
Ceded	(20,087,119)	(23,113,558)	(6,788,896)	(21,943,312)	(17,079,472)	(8,711,662)
Net	$2,313,108	$1,996,494	$766,459	$1,297,732	$4,500,436	$3,898,206

	Three Months Ended September 30, 2003			Three Months Ended September 30, 2002		
	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses	Premiums Written	Premiums Earned	Loss and Loss Adjustment Expenses
Direct	$7,019,765	$8,572,409	$1,415,771	$8,697,857	$7,591,620	$4,717,663
Ceded	(6,060,133)	(7,793,331)	(1,319,641)	(8,661,130)	(6,592,646)	(4,019,918)

Net	$959,632	$779,078	$96,130	$36,727	$998,974	$697,745

Other Amounts:

	September 30, 2003
Reinsurance recoverable on paid and unpaid losses and loss adjustment expenses	$ 10,460,482
Unearned premiums ceded	13,908,723
Other reinsurance receivable	4,092,503
Prepaid reinsurance premiums and reinsurance recoverable	$ 28,461,708

UPCIC's reinsurance contracts do not relieve UPCIC from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to UPCIC; consequently, allowances are established for amounts deemed uncollectible. No allowance is deemed necessary at September 30, 2003. UPCIC evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. UPCIC currently has reinsurance contracts with

various reinsurers located throughout the United States and internationally. UPCIC believes only ceding risks to reinsurers whom it considers to be financially sound combined with distribution of reinsurance contracts adequately minimizes UPCIC's risk from any potential operating difficulties of its reinsurers.

NOTE 4 - LOAN PAYABLE

On May 29, 2002, Universal Insurance Holdings, Inc. entered into a Senior Promissory Note with Renaissance Reinsurance LTD. for the principal sum of $750,000 payable in 12 monthly installments of $62,500. Interest accrued on the unpaid balance of the principal amount at a fixed annual rate of 9%. Universal Risk Advisors, Inc. signed as guarantor of the note. The loan amount was contributed to UPCIC as additional paid in capital. The remaining balance of the loan was paid off during the second quarter of 2003. Loans payable at September 30, 2003 consists of various bank loans secured by the assets to which they are subject and amounts loaned by vendors.

NOTE 5 - LEGAL PROCEEDINGS

Universal Management performed various services with respect to UPCIC insurance policies and received fees for performing these services based upon policies written pursuant to an agreement originally executed in 1997. The parties agreed to terminate the agreement effective January 15, 2002. Universal Management communicated to UPCIC that all management services would cease on the date of termination rather than continuing through the life of the policies for which fees were paid on a premiums written basis. As a result, UPCIC ceased remittance of the management fees to Universal Management as of September 1, 2001. On November 6, 2001, UPCIC filed a complaint against Universal Management in the United States District Court for the Southern District of Florida, Miami Division, alleging breach of contract and demanding specific performance and unspecified damages. On December 28, 2001, Universal Management filed a counterclaim for breach of contract, alleging that it is entitled to fees for policies written from September 2001 through the date of termination. During the second quarter of 2003, the parties settled the matter out of court and the settlement was finalized. Accordingly, the Company has no further liability with respect to the management fees claimed by Universal Management. The terms of the settlement included a cash payment of $250,000 by the Company to Universal Management. This amount was recorded as an expense and paid during the second quarter.

NOTE 6 - EARNINGS PER SHARE

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

A reconciliation of shares used in calculating basic and diluted EPS for the nine months and three month periods ended September 30, 2003 and September 30, 2002, respectively, follows:

	Nine Months Ended	
	September 30, 2003	September 30, 2002
Basic EPS	23,771,000	15,558,000
Effect of assumed conversion of common stock equivalents	590,000	568,000
Diluted EPS	24,361,000	16,126,000

Options and warrants to purchase approximately 11,440,000 and 11,262,000 shares of common stock were outstanding during the nine months ended September 30, 2003 and September 30, 2002, respectively. Such options and warrants could potentially dilute basic EPS in the future but were excluded from the computation of diluted earnings per share due to being anti-dilutive.

	Three Months Ended	
	September 30, 2003	September 30, 2002
Basic EPS	24,966,000	15,558,000
Effect of assumed conversion of common stock equivalents	568,000	568,000
Diluted EPS	25,534,000	16,126,000

Options and warrants to purchase approximately 11,462,000 and 11,262,000 shares of common stock were outstanding during the three months ended September 30, 2003 and September 30, 2002, respectively. Such options and warrants could potentially dilute basic EPS in the future but were excluded from the computation of diluted earnings per share due to being anti-dilutive.

Pursuant to SFAS No. 123, the Company elected to account for stock-based compensation plans under Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. Accordingly, no compensation expense was included in the determination of net income for the nine months ended September 30, 2003 and September 30, 2002. Had compensation cost for stock options been recognized based on the fair value at the grant dates for the options, consistent with the provisions of SFAS No. 123, net income (loss) and earnings (loss) per share would have been as indicated in the table below.

	Nine Months Ended	
	September 30, 2003	September 30, 2002
Net income (loss)		
As reported	$ 42,679	$ (20,923)
Pro forma	$(407,510)	$(471,112)
Basic and diluted earnings (loss) per share		
As reported	$ 0.00	$(0.00)
Pro forma	$(0.02)	$(0.03)

	Three Months Ended	
	September 30, 2003	September 30, 2002
Net income (loss)		
As reported	$ (81,362)	$642,568
Pro forma	$(183,460)	$540,470
Basic and diluted earnings (loss) per share		
As reported	$(0.00)	$0.04
Pro forma	$(0.01)	$0.03

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

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

FORWARD-LOOKING STATEMENTS

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

OVERVIEW

The Company is a vertically integrated insurance holding company. The Company, through its subsidiaries, is currently engaged in insurance underwriting, distribution and claims. UPCIC generates revenue from the collection and investment of premiums. The Company's agency operations, which include Universal Florida Insurance Agency and Coastal Homeowners Insurance Specialists, Inc., generate income from commissions and the marketing of ancillary services. Universal Risk Advisors, Inc., the Company's managing general agent, generates revenue through policy fee income and other administrative fees from the marketing of UPCIC's and third-party insurance products through the Company's distribution network and UPCIC. Capital Resources Group Ltd. was formed to participate in contingent capital products. Universal Risk Life Advisors, Inc. was formed to be the Company's managing general agent for life insurance products. In addition, the Company has formed an independent claims adjusting company, Universal Adjusting Corporation, which adjusts UPCIC claims in certain geographic areas, and an inspection company, Universal Inspection Corporation, which performs property inspections for homeowners' policies underwritten by UPCIC.

The Company has formed subsidiaries that specialize, or will specialize, in selling insurance and generating insurance leads via the Internet. Tigerquote.com Insurance & Financial Services Group, Inc. is an Internet insurance lead generating network, and Tigerquote.com Insurance Solutions, Inc., is a network of Internet insurance agencies. At September 30, 2003, agencies

have been established in 22 states and are active in 5 states. Separate legal entities have been formed for each state and are governed by the respective states' departments of insurance.

The Company has also formed Tiger Home Services, Inc., which furnishes pest control, pool services and landscaping to homeowners. The services are currently offered to commercial and residential customers in certain areas in the state of Florida.

FINANCIAL CONDITION

Cash and cash equivalents at September 30, 2003 aggregated $1,938,069. The source of liquidity for possible claims payments consists of net premiums, after deductions for expenses.

UPCIC believes that premiums will be sufficient to meet UPCIC's working capital requirements for at least the next twelve months. Amounts considered to be in excess of current working capital requirements have been invested. At September 30, 2003, UPCIC's investments were comprised of $1,938,069 in cash and repurchase agreements, $100,338 in fixed maturity securities and $135,342 in equity securities.

Policies originally obtained from the Florida Residential Property and Casualty Joint Underwriting Association ("JUA") provided the opportunity for UPCIC to solicit future renewal premiums. Less than 50% of the policies obtained from the JUA are currently renewed with the Company. UPCIC does not expect to participate in takeouts of additional policies from the JUA. In 1998 the Company began to solicit business actively in the open market in an effort to further grow its insurance operations. Through renewal of JUA business combined with business solicited in the market through independent agents, UPCIC is currently servicing approximately 44,000 homeowners and dwelling fire insurance policies. In determining appropriate guidelines for such open market policy sales, UPCIC employs standards similar to those used in its selection of JUA policies. Also, to improve underwriting and manage risk, the Company uses analytical tools and data currently developed in conjunction with the Company's reinsurers and their utilization of catastrophe models. To diversify UPCIC's product lines, management may consider underwriting personal umbrella liability policies in the future. Any such program will require the approval of the Florida Department of Insurance.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2003 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2002

Gross premiums written decreased 3.6% to $22,400,227 for the nine-month period ended September 30, 2003 from $23,241,044 for the nine-month period ended September 30, 2002. The decrease in gross premiums written is primarily attributable to a decrease in new business mitigated by premium rate increases.

Net premiums earned decreased 55.6% to $1,996,494 for the nine-month period ended September 30, 2003 from $4,500,436 for the nine-month period ended September 30, 2002. The decrease is primarily due to the change in the reinsurance program effective June 1, 2002 that increased premium ceded under quota share reinsurance from 50% to 80%.

Investment income decreased 83.1% to $55,279 for the nine-month period ended September 30, 2003 from $327,233 for the nine-month period ended September 30, 2002. The decrease is primarily due to lower investment balances and the lower interest rate environment during the nine months ended September 30, 2003.

Other revenue decreased 8.5% to $1,718,466 for the nine-month period ended September 30, 2003 from $1,878,157 for the nine-month period ended September 30, 2002. The decrease is primarily attributable to a decrease in revenue generated by Tigerquote.com for leads sold over the Internet during the nine-months ended September 30, 2003.

Commission income increased 8.4% to $1,129,392 for the nine-month period ended September 30, 2003 from $1,041,509 for the nine-month period ended September 30, 2002. Commission income is comprised principally of the managing general agent's policy fee income on all new and renewal insurance policies and commissions generated from agency operations. The increase is primarily attributable to an increase in commissions generated from agency operations.

Losses and loss adjustment expenses ("LAE") incurred decreased 80.3% to $766,459 for the nine-month period ended September 30, 2003 from $3,898,206 for the nine-month period ended September 30, 2002. Losses and LAE incurred decreased due to changes related to the Company's reinsurance program effective June 1, 2002 that increased losses ceded under quota share reinsurance from 50% to 80%. The Company's direct loss ratio for the nine-month period ended September 30, 2003 was 30.1% compared to 58.4% for the nine-month period ended September 30, 2002. Losses and LAE are influenced by loss severity and frequency. They are also influenced by underwriting and adjusting philosophy. The Company's direct loss ratio decreased principally due to the lower frequency and severity of claims and also because of premium rate increases in the nine-months ended September 30, 2003. Losses and LAE, the Company's most significant expenses, represent actual payments made net of reinsurance and changes in estimated net future payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses.

Catastrophes are an inherent risk of the property-liability insurance business which may contribute to material year-to-year fluctuations in UPCIC's and the Company's results of operations and financial position. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. While management believes UPCIC's and the Company's catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses.

General and administrative expenses increased 5.7% to $4,090,493 for the nine-month period ended September 30, 2003 from $3,870,052 for the nine-month period ended September 30, 2002. General and administrative expenses have increased mainly due to lower ceding commissions on premiums ceded to reinsurers.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2003 VERSUS THREE MONTHS ENDED SEPTEMBER 30, 2002

Gross premiums written decreased 19.3% to $7,019,765 for the three-month period ended September 30, 2003 from $8,697,857 for the three-month period ended September 30, 2002. The decrease in gross premiums written is primarily

attributable to a decrease in new business mitigated by premium rate increases of 7% and 9% implemented in July 2001 and April 2002. The decrease in new business was the result of non-renewal of certain policies for underwriting reasons as well as a conscious effort to limit new business in order to control reinsurance costs.

Net premiums earned decreased 22.0% to $779,078 for the three-month period ended September 30, 2003 from $998,974 for the three-month period ended September 30, 2002. The decrease is primarily due to the change in the reinsurance program effective June 1, 2002 that increased premium ceded under quota share reinsurance from 50% to 80%.

Investment income decreased 90.7% to $13,827 for the three-month period ended September 30, 2003 from $147,961 for the three-month period ended September 30, 2002. The decrease is primarily due to the lower investment balances and lower interest rate environment during the three months ended September 30, 2003.

Other revenue decreased 34.3% to $546,359 for the three-month period ended September 30, 2003 from $831,065 for the three-month period ended September 30, 2002. The decrease is primarily attributable to a decrease in revenue generated by Tigerquote.com for leads sold over the Internet during the three months ended September 30, 2003.

Commission income increased 2.1% to $446,335 for the three-month period ended September 30, 2003 from $437,187 for the three-month period ended September 30, 2002. Commission income is comprised principally of the managing general agent's policy fee income on all new and renewal insurance policies and to commissions generated from agency operations. The increase is primarily attributable to an increase in commissions generated from agency operations.

Losses and loss adjustment expenses incurred decreased 86.2% to $96,130 for the three-month period ended September 30, 2003 from $697,745 for the three-month period ended September 30, 2002. Losses and LAE incurred decreased due to changes related to the Company's reinsurance program. The Company's direct loss ratio for the three-month period ended September 30, 2003 was 16.5% compared to 62.1% for the three-month period ended September 30, 2002. Losses and LAE are influenced by loss severity and frequency. They are also influenced by underwriting and adjusting philosophy. The Company's direct loss ratio decreased principally due to the lower frequency and severity of claims and also because of premium rate increases in the three months ended September 30, 2003. Losses and LAE, the Company's most significant expenses, represent actual payments made net of reinsurance and changes in estimated future net payments to be made to or on behalf of its policyholders, including expenses required to settle claims and losses.

Catastrophes are an inherent risk of the property-liability insurance business which may contribute to material year-to-year fluctuations in UPCIC's and the Company's results of operations and financial position. The level of catastrophe loss experienced in any year cannot be predicted and could be material to the results of operations and financial position. While management believes UPCIC's and the Company's catastrophe management strategies will reduce the severity of future losses, UPCIC and the Company continue to be exposed to catastrophic losses.

General and administrative expenses increased 64.7% to $1,770,831 for the three-month period ended September 30, 2003 from $1,074,874 for the three-month period ended September 30, 2002. General and administrative expenses have increased mainly due to lower ceding commissions on premiums ceded to reinsurers.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of cash flow are premium revenues, commissions, policy fees and investment income.

For the nine-month period ended September 30, 2003, cash flows used by operating activities were $2,686,779. Cash flows from operating activities are negative primarily due to payments made to reinsurers, increased recoverables on paid losses and a decrease in the unearned premium reserve. The Company's investment portfolio is highly liquid as it consists almost entirely of readily marketable securities. Cash flows from investing activities are primarily comprised of proceeds from maturities of debt securities held to maturity and sale of real estate. Cash flows from financing activities primarily relate to Company borrowings. The Company was party to a senior Promissory Note with a reinsurer for $750,000 payable in 12 monthly installments, and the Company paid the balance of the loan in the second quarter of 2003. The funds were used to make an additional capital contribution to UPCIC. In January 2003, loans in the aggregate amount of $250,000 were made to the Company by two vendors. The loans have a term of one year and pay interest at a rate of 10%. The proceeds from the loans are being used for working capital.

The Company has incurred losses in prior years. In order to improve the Company's financial position and achieve profitable operations, management implemented rate increases in 2000 and 2001 for new and renewal business, has restructured the homeowners' coverage offered, has restructured its catastrophic reinsurance coverage to reduce the cost, and has worked to control general and administrative expenses. In addition, management is exploring sources of additional capital, including the sale of its insurance operations.

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

The Company believes that its current capital resources together with management's plan as described above will be sufficient to support current operations and expected growth for at least 12 months.

The balance of cash and cash equivalents at September 30, 2003 is $1,938,069. Most of this amount, along with readily marketable securities aggregating $235,680, would be available to pay claims in the event of a catastrophic event pending reimbursement for any aggregate amount in excess of $200,000 up to approximately the 100 year probable maximum loss which would be

covered by reinsurers. Catastrophic reinsurance is recoverable upon presentation to the reinsurer of evidence of claim payment.

Generally accepted accounting principles differ in some respects from reporting practices prescribed or permitted by the DOI. To retain its certificate of authority, the Florida insurance laws and regulations require that UPCIC maintain capital and surplus equal to the statutory minimum capital and surplus requirement defined in the Florida Insurance Code. UPCIC's statutory capital and surplus exceeded the minimum capital and surplus requirements of $4,000,000 as of September 30, 2003. UPCIC is also required to adhere to prescribed premium-to-capital surplus ratios. UPCIC is in compliance with these requirements and expects to remain in compliance, if management's plans are successful.

The maximum amount of dividends which can be paid by Florida insurance companies without prior approval of the Florida Commissioner is subject to restrictions relating to statutory surplus. The maximum dividend that may be paid by UPCIC without prior approval is limited to the lesser of statutory net income from operations of the preceding calendar year or 10.0% of statutory unassigned surplus as of the preceding year end. Statutory unassigned surplus (deficit) at December 31, 2002 was $(2,326,372).

The Company is required to comply with the National Association of Insurance Commissioner's ("NAIC") Risk-Based Capital ("RBC") requirements. RBC requirements prescribe a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations in light of its size and risk profile. NAIC's RBC requirements are used by regulators to determine appropriate regulatory actions relating to insurers who show signs of weak or deteriorating condition. As of December 31, 2002, based on calculations using the appropriate NAIC RBC formula, the Company's reported total adjusted capital was in excess of the requirements.

OFF-BALANCE SHEET ARRANGEMENTS

There were no off-balance sheet arrangements during the first nine months of 2003.

Item 3. Controls and Procedures.

Based on the evaluation by the Chief Executive Officer and Chief Financial Officer of the Company as of a date within 90 days of the filing date of this quarterly report, the Company's disclosure controls and procedures are adequately designed to ensure that the information required to be included in this report has been recorded, processed, summarized and reported on a timely basis. There have not been any significant changes in the Company's internal controls or in any other factors that could significantly affect these controls and there have been no corrective actions taken with regard to significant deficiencies and material weaknesses subsequent to the date of such officers' evaluation.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company did not have any reportable legal proceedings during the nine-months ending September 30, 2003. Certain claims and complaints have been filed or are pending against the Company with respect to various matters. In the opinion of management none of these lawsuits, except for the lawsuit with Universal Property and Casualty Management Company which was settled during the second quarter as described in Note 5 to the condensed consolidated Financial Statements included herewith, are material, and they are adequately provided for or covered by insurance or, if not so covered, are without any or have little merit or involve such amounts that if disposed of unfavorably would not have a material adverse effect on the Company.

Item 2. Changes in Securities

Under an amendment to the employment agreement between the Company and Bradley I. Meier dated June 27, 2002, and approved by the Board of Directors, Mr. Meier elected to convert salary into shares of common stock. The shares were issued to Mr. Meier in a private transaction on August 27, 2003 for 1,041,666 shares. The transaction was performed in accordance with the terms of the amendment and pursuant to section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Exhibit
11.1	Statement Regarding Computation of Per Share Income

31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Title 18, United States Code, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

SIGNATURES

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

UNIVERSAL INSURANCE HOLDINGS, INC.

Date: November 14, 2003

/s/ Bradley I. Meier

Bradley I. Meier, Chief Executive Officer

/s/ James M. Lynch

James M. Lynch, Chief Financial Officer