

NUVEEN ARIZONA PREMIUM INCOME MUNICIPAL FUND INC  
Form DEF 14A  
October 10, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement.

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2)).

Definitive Proxy Statement.

Definitive Additional Materials.

Soliciting Material Pursuant to Section 240.14A-11(c) or Section 240.14a-12

**NUVEEN ARIZONA PREMIUM INCOME MUNICIPAL FUND, INC. (NAZ)**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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## Important Notice to Fund Shareholders

OCTOBER 14, 2008

Although we recommend that you read the complete Proxy Statement, for your convenience, we have provided a brief overview of the issues to be voted on.

### Q. Why am I receiving this Proxy Statement?

- A. You are receiving this Proxy Statement as a Fund shareholder in connection with the annual shareholders meeting for the Nuveen closed-end funds listed at the top of the Notice of Annual Meeting of Shareholders.

You are being asked to vote on one or more important matters affecting your investment in the Fund:

- (i) Updated Investment Policies (all Municipal Funds, excluding Insured Funds). Nuveen's municipal closed-end funds are seeking to adopt a uniform, up to date set of investment policies (the New Investment Policies). In general, these funds currently have a somewhat diverse set of policies, reflecting when the funds were launched over the past 20 years as well as developments over time in the municipal market, including new types of securities as well as investment strategies.
- (ii) Elimination of certain Fundamental Investment Policies and Approval of New Fundamental Investment Policy (Insured Funds only). Insured Fund shareholders are being asked to approve the elimination of certain fundamental investment policies and to approve a new fundamental policy. These changes are designed to give the Insured Funds important flexibility to respond to on-going developments in the bond insurance market while maintaining their current focus on insured bonds backed by insurers with solid credit ratings. In addition, the Insured Funds are seeking to adopt a uniform, up to date set of investment policies.
- (iii) Approval of Fund Board Nominees (all Funds). Each year, you and other Fund shareholders must approve the election of Board members to serve on your Fund's Board. This is a requirement for all funds that list their common shares on a stock exchange. The Funds described in this proxy statement are holding their annual shareholders meetings at which Board members will be elected. The list of specific nominees is contained in the enclosed Proxy Statement.

Your Fund's Board of Trustees/Directors, including your Board's independent members, unanimously recommends that you vote **FOR** each proposal.

**Your vote is very important. We encourage you as a shareholder to participate in your Fund's governance by returning your vote as soon as possible. If enough shareholders don't cast their votes, your Fund may not be able to hold its meeting or the vote on each issue, and will be required to incur additional solicitation costs in order to obtain sufficient shareholder participation.**

### Q. What are the potential benefits of the New Investment Policies for common shareholders of the Municipal Funds?

- A. The potential benefits to common shareholders are:

Enhanced ability of the Municipal Funds to generate attractive tax-free income while retaining their focus on investment grade quality municipal securities;

Increased flexibility in diversifying portfolio risks and managing duration (the sensitivity of bond prices to interest rate changes) to pursue the preservation and possible

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growth of capital, which, if successful, will help to sustain and build net asset value; and

Improved secondary market competitiveness that may lead to a higher relative market price and/or stronger premium/discount performance.

**Q. What are the potential benefits of the New Investment Policies for preferred shareholders of the Municipal Funds?**

A. The potential benefits to preferred shareholders are increased flexibility in diversifying portfolio risks and managing duration (the sensitivity of bond prices to interest rate changes) to pursue the preservation and possible growth of capital, which, if successful, will help to sustain and build net asset value and therefore asset coverage levels for preferred shares.

**Q. What actions are required in order to implement the New Investment Policies?**

A. In order to implement the New Investment Policies and obtain the potential benefits described above, each Municipal Fund must make certain changes to its existing policies, including certain fundamental policies that require approval of shareholders. In some cases, this may require shareholder approval of the elimination of an existing fundamental policy as well as the implementation of a new replacement fundamental policy. Because each Municipal Fund tends to be situated somewhat differently, the specific changes required to implement the New Investment Policies often vary from fund to fund.

**Q. Why are shareholders of the Insured Funds being asked to approve the elimination of certain fundamental investment policies and to approve a new fundamental investment policy?**

A. As a result of conditions facing the bond insurance market, shareholders are being asked to approve the elimination of certain fundamental investment policies that are restricting, or may be expected in the future to restrict, each Insured Fund's ability to effectively maintain its existing focus on insured bonds backed by insurers with solid credit ratings. In connection with eliminating the respective fundamental investment policies, shareholders are being asked to approve a new fundamental investment policy that will provide the Insured Funds with flexibility to respond to on-going developments in the bond insurance market, while ensuring that the Insured Funds continue to invest substantially all (at least 80%) of their investments in insured bonds backed by insurers with solid credit ratings.

**Q. What happens if shareholders don't approve the elimination of the fundamental investment policies and/or don't approve the new fundamental investment policies?**

A. A Municipal Fund or an Insured Fund will not be able to implement the new investment policies discussed above. The Municipal Fund or Insured Fund would likely incur further expenses to solicit additional shareholder participation, and may experience potential disruptions to its investment operations. The Municipal Funds and Insured Funds Boards urge you to vote without delay in order to avoid the potential for higher costs and/or disruptions to portfolio operations.

**Q. Who do I call if I have questions?**

A. If you need any assistance, or have any questions regarding the proposals or how to vote your shares, please call Computershare Fund Services, your Fund's proxy solicitor, at (866) 864-0471. Please have your proxy material available when you call.

**Q. How do I vote my shares?**

- A.** You can vote your shares by completing and signing the enclosed proxy card, and mailing it in the enclosed postage-paid envelope. Alternatively, you may vote by telephone by calling the toll-free number on the proxy card or by computer by going to the Internet address provided on the proxy card and following the instructions, using your proxy card as a guide.

**Q. Will anyone contact me?**

- A.** You may receive a call from Computershare Fund Services, the proxy solicitor hired by your Fund, to verify that you received your proxy materials, to answer any questions you may have about the proposals and to encourage you to vote your proxy.

We recognize the inconvenience of the proxy solicitation process and would not impose on you if we did not believe that the matters being proposed were important and in the best interests of the Funds. Once your vote has been registered with the proxy solicitor, your name will be removed from the solicitor's follow-up contact list.

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333 West Wacker Drive  
Chicago, Illinois 60606  
(800) 257-8787  
**Notice of Annual Meeting  
of Shareholders  
November 18, 2008**

**October 14, 2008**

**Nuveen Floating Rate Income Fund (JFR)  
Nuveen Floating Rate Income Opportunity Fund (JRO)  
Nuveen Senior Income Fund (NSL)  
Nuveen Tax-Advantaged Floating Rate Fund (JFP)  
Nuveen Arizona Dividend Advantage Municipal Fund (NFZ)  
Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR)  
Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE)  
Nuveen Arizona Premium Income Municipal Fund, Inc. (NAZ)  
Nuveen California Dividend Advantage Municipal Fund (NAC)  
Nuveen California Dividend Advantage Municipal Fund 2 (NVX)  
Nuveen California Dividend Advantage Municipal Fund 3 (NZH)  
Nuveen California Investment Quality Municipal Fund, Inc. (NQC)  
Nuveen California Municipal Market Opportunity Fund, Inc. (NCO)  
Nuveen California Municipal Value Fund, Inc. (NCA)  
Nuveen California Performance Plus Municipal Fund, Inc. (NCP)  
Nuveen California Premium Income Municipal Fund (NCU)  
Nuveen California Quality Income Municipal Fund, Inc. (NUC)  
Nuveen California Select Quality Municipal Fund, Inc. (NVC)  
Nuveen Insured California Dividend Advantage Municipal Fund (NKL)  
Nuveen Insured California Premium Income Municipal Fund, Inc. (NPC)  
Nuveen Insured California Premium Income Municipal Fund 2, Inc. (NCL)  
Nuveen Insured California Tax-Free Advantage Municipal Fund (NKX)  
Nuveen Connecticut Dividend Advantage Municipal Fund (NFC)  
Nuveen Connecticut Dividend Advantage Municipal Fund 2 (NGK)  
Nuveen Connecticut Dividend Advantage Municipal Fund 3 (NGO)  
Nuveen Connecticut Premium Income Municipal Fund (NTC)  
Nuveen Florida Investment Quality Municipal Fund (NQF)  
Nuveen Florida Quality Income Municipal Fund (NUF)  
Nuveen Insured Florida Premium Income Municipal Fund (NFL)  
Nuveen Insured Florida Tax-Free Advantage Municipal Fund (NWF)  
Nuveen Georgia Dividend Advantage Municipal Fund (NZX)  
Nuveen Georgia Dividend Advantage Municipal Fund 2 (NKG)  
Nuveen Georgia Premium Income Municipal Fund (NPG)  
Nuveen Maryland Dividend Advantage Municipal Fund (NFM)  
Nuveen Maryland Dividend Advantage Municipal Fund 2 (NZR)  
Nuveen Maryland Dividend Advantage Municipal Fund 3 (NWI)  
Nuveen Maryland Premium Income Municipal Fund (NMY)  
Nuveen Massachusetts Dividend Advantage Municipal Fund (NMB)  
Nuveen Massachusetts Premium Income Municipal Fund (NMT)**

**Nuveen Insured Massachusetts Tax-Free Advantage Municipal Fund (NGX)**

**Nuveen Michigan Dividend Advantage Municipal Fund (NZW)**

**Nuveen Michigan Premium Income Municipal Fund, Inc. (NMP)**

**Nuveen Michigan Quality Income Municipal Fund, Inc. (NUM)**

**Nuveen Missouri Premium Income Municipal Fund (NOM)**

**Nuveen New Jersey Dividend Advantage Municipal Fund (NXJ)**

**Nuveen New Jersey Dividend Advantage Municipal Fund 2 (NUJ)**

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**Nuveen New Jersey Investment Quality Municipal Fund, Inc. (NQJ)**  
**Nuveen New Jersey Premium Income Municipal Fund, Inc. (NNJ)**  
**Nuveen North Carolina Dividend Advantage Municipal Fund (NRB)**  
**Nuveen North Carolina Dividend Advantage Municipal Fund 2 (NNO)**  
**Nuveen North Carolina Dividend Advantage Municipal Fund 3 (NII)**  
**Nuveen North Carolina Premium Income Municipal Fund (NNC)**  
**Nuveen Ohio Dividend Advantage Municipal Fund (NXI)**  
**Nuveen Ohio Dividend Advantage Municipal Fund 2 (NBJ)**  
**Nuveen Ohio Dividend Advantage Municipal Fund 3 (NVJ)**  
**Nuveen Ohio Quality Income Municipal Fund, Inc. (NUO)**  
**Nuveen Pennsylvania Dividend Advantage Municipal Fund (NXM)**  
**Nuveen Pennsylvania Dividend Advantage Municipal Fund 2 (NVY)**  
**Nuveen Pennsylvania Investment Quality Municipal Fund (NQP)**  
**Nuveen Pennsylvania Premium Income Municipal Fund 2 (NPY)**  
**Nuveen Texas Quality Income Municipal Fund (NTX)**  
**Nuveen Virginia Dividend Advantage Municipal Fund (NGB)**  
**Nuveen Virginia Dividend Advantage Municipal Fund 2 (NNB)**  
**Nuveen Virginia Premium Income Municipal Fund (NPV)**

**To the Shareholders of the Above Funds:**

Notice is hereby given that the Annual Meeting of Shareholders (the Annual Meeting ) of Nuveen Arizona Premium Income Municipal Fund, Inc. ( Arizona Premium Income ), Nuveen California Investment Quality Municipal Fund, Inc. ( California Investment Quality ), Nuveen California Municipal Market Opportunity Fund, Inc. ( California Market Opportunity ), Nuveen California Municipal Value Fund, Inc. ( California Value ), Nuveen California Performance Plus Municipal Fund, Inc. ( California Performance Plus ), Nuveen California Quality Income Municipal Fund, Inc. ( California Quality Income ), Nuveen California Select Quality Municipal Fund, Inc. ( California Select Quality ), Nuveen Insured California Premium Income Municipal Fund, Inc. ( Insured California Premium Income ), Nuveen Insured California Premium Income Municipal Fund 2, Inc. ( Insured California Premium Income 2 ), Nuveen Michigan Premium Income Municipal Fund, Inc. ( Michigan Premium Income ), Nuveen Michigan Quality Income Municipal Fund, Inc. ( Michigan Quality Income ), Nuveen New Jersey Investment Quality Municipal Fund, Inc. ( New Jersey Investment Quality ), Nuveen New Jersey Premium Income Municipal Fund, Inc. ( New Jersey Premium Income ) and Nuveen Ohio Quality Income Municipal Fund, Inc. ( Ohio Quality Income ), **each a Minnesota corporation (collectively, the Minnesota Corporations )**, and Nuveen Floating Rate Income Fund ( Floating Rate ), Nuveen Floating Rate Income Opportunity Fund ( Floating Rate Income Opportunity ), Nuveen Senior Income Fund ( Senior Income ), Nuveen Tax-Advantaged Floating Rate Fund ( Tax-Advantaged Floating Rate ), Nuveen Arizona Dividend Advantage Municipal Fund ( Arizona Dividend Advantage ), Nuveen Arizona Dividend Advantage Municipal Fund 2 ( Arizona Dividend Advantage 2 ), Nuveen Arizona Dividend Advantage Municipal Fund 3 ( Arizona Dividend Advantage 3 ), Nuveen California Dividend Advantage Municipal Fund ( California Dividend Advantage ), Nuveen California Dividend Advantage Municipal Fund 2 ( California Dividend Advantage 2 ), Nuveen California Dividend Advantage Municipal Fund 3 ( California Dividend Advantage 3 ), Nuveen California Premium Income Municipal Fund ( California Premium Income ), Nuveen Insured California Dividend Advantage Municipal Fund ( Insured California Dividend Advantage ), Nuveen Insured California Tax-Free Advantage Municipal Fund ( Insured California Tax-Free Advantage ), Nuveen Connecticut Dividend Advantage Municipal Fund ( Connecticut Dividend Advantage ), Nuveen Connecticut Dividend Advantage Municipal Fund 2 ( Connecticut Dividend Advantage 2 ), Nuveen Connecticut Dividend Advantage Municipal Fund 3 ( Connecticut Dividend Advantage 3 ), Nuveen Connecticut Premium Income Municipal Fund

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( Connecticut Premium Income ), Nuveen Florida Investment Quality Municipal Fund ( Florida Investment Quality ), Nuveen Florida Quality Income Municipal Fund ( Florida Quality Income ), Nuveen Insured Florida Premium Income Municipal Fund ( Insured Florida Premium Income ), Nuveen Insured Florida Tax-Free Advantage Municipal Fund ( Insured Florida Tax-Free Advantage ), Nuveen Georgia Dividend Advantage Municipal Fund ( Georgia Dividend Advantage ), Nuveen Georgia Dividend Advantage Municipal Fund 2 ( Georgia Dividend Advantage 2 ), Nuveen Georgia Premium Income Municipal Fund ( Georgia Premium Income ), Nuveen Maryland Dividend Advantage Municipal Fund ( Maryland Dividend Advantage ), Nuveen Maryland Dividend Advantage Municipal Fund 2 ( Maryland Dividend Advantage 2 ), Nuveen Maryland Dividend Advantage Municipal Fund 3 ( Maryland Dividend Advantage 3 ), Nuveen Maryland Premium Income Municipal Fund ( Maryland Premium Income ), Nuveen Massachusetts Dividend Advantage Municipal Fund ( Massachusetts Dividend Advantage ), Nuveen Massachusetts Premium Income Municipal Fund ( Massachusetts Premium Income ), Nuveen Insured Massachusetts Tax-Free Advantage Municipal Fund ( Insured Massachusetts Tax-Free Advantage ), Nuveen Michigan Dividend Advantage Municipal Fund ( Michigan Dividend Advantage ), Nuveen Missouri Premium Income Municipal Fund ( Missouri Premium Income ), Nuveen New Jersey Dividend Advantage Municipal Fund ( New Jersey Dividend Advantage ), Nuveen New Jersey Dividend Advantage Municipal Fund 2 ( New Jersey Dividend Advantage 2 ), Nuveen North Carolina Dividend Advantage Municipal Fund ( North Carolina Dividend Advantage ), Nuveen North Carolina Dividend Advantage Municipal Fund 2 ( North Carolina Dividend Advantage 2 ), Nuveen North Carolina Dividend Advantage Municipal Fund 3 ( North Carolina Dividend Advantage 3 ), Nuveen North Carolina Premium Income Municipal Fund ( North Carolina Premium Income ), Nuveen Ohio Dividend Advantage Municipal Fund ( Ohio Dividend Advantage ), Nuveen Ohio Dividend Advantage Municipal Fund 2 ( Ohio Dividend Advantage 2 ), Nuveen Ohio Dividend Advantage Municipal Fund 3 ( Ohio Dividend Advantage 3 ), Nuveen Pennsylvania Dividend Advantage Municipal Fund ( Pennsylvania Dividend Advantage ), Nuveen Pennsylvania Dividend Advantage Municipal Fund 2 ( Pennsylvania Dividend Advantage 2 ), Nuveen Pennsylvania Investment Quality Municipal Fund ( Pennsylvania Investment Quality ), Nuveen Pennsylvania Premium Income Municipal Fund 2 ( Pennsylvania Premium Income 2 ), Nuveen Texas Quality Income Municipal Fund ( Texas Quality Income ), Nuveen Virginia Dividend Advantage Municipal Fund ( Virginia Dividend Advantage ), Nuveen Virginia Dividend Advantage Municipal Fund 2 ( Virginia Dividend Advantage 2 ) and Nuveen Virginia Premium Income Municipal Fund ( Virginia Premium Income ), **each a Massachusetts business trust (collectively, the Massachusetts Business Trusts)** (the Minnesota Corporations and Massachusetts Business Trusts are each, a Fund and collectively, the Funds ), will be held in the 31st floor conference room of Nuveen Investments, 333 West Wacker Drive, Chicago, Illinois 60606, on Tuesday, November 18, 2008, at 9:30 a.m., Central time, for the following purposes and to transact such other business, if any, as may properly come before the Annual Meeting:

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**Matters to Be Voted on by Shareholders:**

1. To elect Members to the Board of Directors/Trustees (each a Board and each Director or Trustee a Board Member ) of each Fund as outlined below:
    - a. For each Minnesota Corporation, except California Value, to elect nine (9) Board Members:
      - i) seven (7) Board Members to be elected by the holders of Common Shares and Municipal Auction Rate Cumulative Preferred Shares ( Preferred Shares ), voting together as a single class; and
      - ii) two (2) Board Members to be elected by the holders of Preferred Shares only, voting separately as a single class.
    - b. For California Value, to elect four (4) Board Members.
    - c. For each Massachusetts Business Trust, to elect five (5) Board Members:
      - i) For each Massachusetts Business Trust, except Floating Rate, Floating Rate Income Opportunity, Senior Income, Tax-Advantaged Floating Rate and Insured California Tax-Free Advantage, three (3) Board Members to be elected by the holders of Common Shares and Preferred Shares, voting together as a single class; and three (3) Board Members to be elected by the holders of Common Shares and Taxable Auctioned Preferred Shares for Senior Income, FundPreferred Shares for Floating Rate, Floating Rate Income Opportunity and Tax-Advantaged Floating Rate and Variable Rate Demand Preferred Shares for Insured California Tax-Free Advantage (collectively, also referred to herein as Preferred Shares ), voting together as a single class; and
      - ii) two (2) Board Members to be elected by the holders of Preferred Shares only, voting separately as a single class.
  2. To approve the elimination of fundamental investment policies and to approve the adoption of new fundamental investment policies for Arizona Dividend Advantage, Arizona Dividend Advantage 2, Arizona Dividend Advantage 3, Arizona Premium Income, California Dividend Advantage, California Dividend Advantage 2, California Dividend Advantage 3, California Investment Quality, California Market Opportunity, California Value, California Performance Plus, California Premium Income, California Quality Income, California Select Quality, Connecticut Dividend Advantage, Connecticut Dividend Advantage 2, Connecticut Dividend Advantage 3, Connecticut Premium Income, Florida Investment Quality, Florida Quality Income, Georgia Dividend Advantage, Georgia Dividend Advantage 2, Georgia Premium Income, Maryland Dividend Advantage, Maryland Dividend Advantage 2, Maryland Dividend Advantage 3, Maryland Premium Income, Massachusetts Dividend Advantage, Massachusetts Premium Income, Michigan Dividend Advantage, Michigan Premium Income, Michigan Quality Income, Missouri Premium Income, New Jersey Dividend Advantage, New Jersey Dividend Advantage 2, New Jersey Investment Quality, New Jersey Premium Income, North Carolina Dividend Advantage, North Carolina Dividend Advantage 2, North Carolina Dividend Advantage 3, North Carolina Premium Income, Ohio Dividend Advantage, Ohio Dividend Advantage 2, Ohio Dividend Advantage 3, Ohio Quality Income, Pennsylvania Dividend Advantage, Pennsylvania Dividend Advantage 2, Pennsylvania Investment Quality,
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Pennsylvania Premium Income 2, Texas Quality Income, Virginia Dividend Advantage, Virginia Dividend Advantage 2 and Virginia Premium Income (each a Municipal Fund ), as follows:

- a. For each Municipal Fund, to approve the elimination of the Fund's fundamental investment policies relating to investments in municipal securities and below investment grade securities.
  - b. For each Municipal Fund, to approve the new fundamental policy relating to investments in municipal securities.
  - c. For Arizona Premium Income, California Investment Quality, California Market Opportunity, California Value, California Performance Plus, California Premium Income, California Quality Income, California Select Quality, Connecticut Premium Income, Florida Investment Quality, Florida Quality Income, Georgia Premium Income, Maryland Premium Income, Massachusetts Premium Income, Michigan Premium Income, Michigan Quality Income, Missouri Premium Income, New Jersey Investment Quality, New Jersey Premium Income, North Carolina Premium Income, Ohio Quality Income, Pennsylvania Investment Quality, Pennsylvania Premium Income 2, Texas Quality Income and Virginia Premium Income (each a Premium/Quality Fund ), to approve the elimination of the Fund's fundamental policy relating to commodities.
  - d. For each Premium/Quality Fund, to approve the new fundamental policy relating to commodities.
  - e. For each Premium/Quality Fund, to approve the elimination of the Fund's fundamental policies relating to derivatives and short sales.
  - f. For each Premium/Quality Fund, to approve the elimination of the Fund's fundamental policy prohibiting investment in other investment companies.
3. To approve the elimination of fundamental investment policies and to approve the new fundamental investment policy for Insured California Dividend Advantage, Insured California Premium Income, Insured California Premium Income 2, Insured California Tax-Free Advantage, Insured Florida Premium Income, Insured Florida Tax-Free Advantage and Insured Massachusetts Tax-Free Advantage (each an Insured Fund ), as follows:
- a. For each Insured Fund, to approve the elimination of the Fund's fundamental investment policies relating to investments in insured municipal securities.
  - b. For each Insured Fund, to approve the new fundamental investment policy relating to investment in insured municipal securities.
  - c. For Insured California Premium Income, Insured California Premium Income 2 and Insured Florida Premium Income, to approve the elimination of the Fund's fundamental policy relating to commodities.
  - d. For Insured California Premium Income, Insured California Premium Income 2 and Insured Florida Premium Income, to approve the new fundamental policy relating to commodities.
  - e. For Insured California Premium Income, Insured California Premium Income 2 and Insured Florida Premium Income, to approve the elimination of the Fund's fundamental policies relating to derivatives and short sales.
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- f. For Insured California Premium Income, Insured California Premium Income 2 and Insured Florida Premium Income, to approve the elimination of the Fund's fundamental policy prohibiting investment in other investment companies.

- 4. To transact such other business as may properly come before the Annual Meeting.

Shareholders of record at the close of business on September 22, 2008 are entitled to notice of and to vote at the Annual Meeting.

**All shareholders are cordially invited to attend the Annual Meeting. In order to avoid delay and additional expense and to assure that your shares are represented, please vote as promptly as possible, regardless of whether or not you plan to attend the Annual Meeting. You may vote by mail, telephone or over the Internet. To vote by mail, please mark, sign, date and mail the enclosed proxy card. No postage is required if mailed in the United States. To vote by telephone, please call the toll-free number located on your proxy card and follow the recorded instructions, using your proxy card as a guide. To vote over the Internet, go to the Internet address provided on your proxy card and follow the instructions, using your proxy card as a guide.**

Kevin J. McCarthy  
*Vice President and Secretary*

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333 West Wacker Drive  
Chicago, Illinois 60606  
(800) 257-8787

**Joint Proxy Statement**

**October 14, 2008**

This Joint Proxy Statement is first being mailed to shareholders on or about October 14, 2008.

**Nuveen Floating Rate Income Fund (JFR)**  
**Nuveen Floating Rate Income Opportunity Fund (JRO)**  
**Nuveen Senior Income Fund (NSL)**  
**Nuveen Tax-Advantaged Floating Rate Fund (JFP)**  
**Nuveen Arizona Dividend Advantage Municipal Fund (NFZ)**  
**Nuveen Arizona Dividend Advantage Municipal Fund 2 (NKR)**  
**Nuveen Arizona Dividend Advantage Municipal Fund 3 (NXE)**  
**Nuveen Arizona Premium Income Municipal Fund, Inc. (NAZ)**  
**Nuveen California Dividend Advantage Municipal Fund (NAC)**  
**Nuveen California Dividend Advantage Municipal Fund 2 (NVX)**  
**Nuveen California Dividend Advantage Municipal Fund 3 (NZH)**  
**Nuveen California Investment Quality Municipal Fund, Inc. (NQC)**  
**Nuveen California Municipal Market Opportunity Fund, Inc. (NCO)**  
**Nuveen California Municipal Value Fund, Inc. (NCA)**  
**Nuveen California Performance Plus Municipal Fund, Inc. (NCP)**  
**Nuveen California Premium Income Municipal Fund (NCU)**  
**Nuveen California Quality Income Municipal Fund, Inc. (NUC)**  
**Nuveen California Select Quality Municipal Fund, Inc. (NVC)**  
**Nuveen Insured California Dividend Advantage Municipal Fund (NKL)**  
**Nuveen Insured California Premium Income Municipal Fund, Inc. (NPC)**  
**Nuveen Insured California Premium Income Municipal Fund 2, Inc. (NCL)**  
**Nuveen Insured California Tax-Free Advantage Municipal Fund (NKX)**  
**Nuveen Connecticut Dividend Advantage Municipal Fund (NFC)**  
**Nuveen Connecticut Dividend Advantage Municipal Fund 2 (NGK)**  
**Nuveen Connecticut Dividend Advantage Municipal Fund 3 (NGO)**  
**Nuveen Connecticut Premium Income Municipal Fund (NTC)**  
**Nuveen Florida Investment Quality Municipal Fund (NQF)**  
**Nuveen Florida Quality Income Municipal Fund (NUF)**  
**Nuveen Insured Florida Premium Income Municipal Fund (NFL)**  
**Nuveen Insured Florida Tax-Free Advantage Municipal Fund (NWF)**  
**Nuveen Georgia Dividend Advantage Municipal Fund (NZX)**  
**Nuveen Georgia Dividend Advantage Municipal Fund 2 (NKG)**  
**Nuveen Georgia Premium Income Municipal Fund (NPG)**  
**Nuveen Maryland Dividend Advantage Municipal Fund (NFM)**  
**Nuveen Maryland Dividend Advantage Municipal Fund 2 (NZR)**  
**Nuveen Maryland Dividend Advantage Municipal Fund 3 (NWI)**  
**Nuveen Maryland Premium Income Municipal Fund (NMY)**  
**Nuveen Massachusetts Dividend Advantage Municipal Fund (NMB)**

**Nuveen Massachusetts Premium Income Municipal Fund (NMT)**  
**Nuveen Insured Massachusetts Tax-Free Advantage Municipal Fund (NGX)**  
**Nuveen Michigan Dividend Advantage Municipal Fund (NZW)**  
**Nuveen Michigan Premium Income Municipal Fund, Inc. (NMP)**  
**Nuveen Michigan Quality Income Municipal Fund, Inc. (NUM)**  
**Nuveen Missouri Premium Income Municipal Fund (NOM)**

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**Nuveen New Jersey Dividend Advantage Municipal Fund (NXJ)**  
**Nuveen New Jersey Dividend Advantage Municipal Fund 2 (NUJ)**  
**Nuveen New Jersey Investment Quality Municipal Fund, Inc. (NQJ)**  
**Nuveen New Jersey Premium Income Municipal Fund, Inc. (NNJ)**  
**Nuveen North Carolina Dividend Advantage Municipal Fund (NRB)**  
**Nuveen North Carolina Dividend Advantage Municipal Fund 2 (NNO)**  
**Nuveen North Carolina Dividend Advantage Municipal Fund 3 (NII)**  
**Nuveen North Carolina Premium Income Municipal Fund (NNC)**  
**Nuveen Ohio Dividend Advantage Municipal Fund (NXI)**  
**Nuveen Ohio Dividend Advantage Municipal Fund 2 (NBJ)**  
**Nuveen Ohio Dividend Advantage Municipal Fund 3 (NVJ)**  
**Nuveen Ohio Quality Income Municipal Fund, Inc. (NUO)**  
**Nuveen Pennsylvania Dividend Advantage Municipal Fund (NXM)**  
**Nuveen Pennsylvania Dividend Advantage Municipal Fund 2 (NVY)**  
**Nuveen Pennsylvania Investment Quality Municipal Fund (NQP)**  
**Nuveen Pennsylvania Premium Income Municipal Fund 2 (NPY)**  
**Nuveen Texas Quality Income Municipal Fund (NTX)**  
**Nuveen Virginia Dividend Advantage Municipal Fund (NGB)**  
**Nuveen Virginia Dividend Advantage Municipal Fund 2 (NNB)**  
**Nuveen Virginia Premium Income Municipal Fund (NPV)**

## **General Information**

This Joint Proxy Statement is furnished in connection with the solicitation by the Board of Directors or Trustees (each a Board and collectively, the Boards, and each Director or Trustee, a Board Member and collectively, the Board Members) of Nuveen Arizona Premium Income Municipal Fund, Inc. (Arizona Premium Income), Nuveen California Investment Quality Municipal Fund, Inc. (California Investment Quality), Nuveen California Municipal Market Opportunity Fund, Inc. (California Market Opportunity), Nuveen California Municipal Value Fund, Inc. (California Value), Nuveen California Performance Plus Municipal Fund, Inc. (California Performance Plus), Nuveen California Quality Income Municipal Fund, Inc. (California Quality Income), Nuveen California Select Quality Municipal Fund, Inc. (California Select Quality), Nuveen Insured California Premium Income Municipal Fund, Inc. (Insured California Premium Income), Nuveen Insured California Premium Income Municipal Fund 2, Inc. (Insured California Premium Income 2), Nuveen Michigan Premium Income Municipal Fund, Inc. (Michigan Premium Income), Nuveen Michigan Quality Income Municipal Fund, Inc. (Michigan Quality Income), Nuveen New Jersey Investment Quality Municipal Fund, Inc. (New Jersey Investment Quality), Nuveen New Jersey Premium Income Municipal Fund, Inc. (New Jersey Premium Income) and Nuveen Ohio Quality Income Municipal Fund, Inc. (Ohio Quality Income), **each a Minnesota corporation (collectively, the Minnesota Corporations)**, and Nuveen Floating Rate Income Fund (Floating Rate), Nuveen Floating Rate Income Opportunity Fund (Floating Rate Income Opportunity), Nuveen Senior Income Fund (Senior Income), Nuveen Tax-Advantaged Floating Rate Fund (Tax-Advantaged Floating Rate), Nuveen Arizona Dividend Advantage Municipal Fund (Arizona Dividend Advantage), Nuveen Arizona Dividend Advantage Municipal Fund 2 (Arizona Dividend Advantage 2), Nuveen Arizona Dividend Advantage Municipal Fund 3 (Arizona Dividend Advantage 3), Nuveen California Dividend Advantage Municipal Fund (California Dividend Advantage), Nuveen California Dividend Advantage Municipal Fund 2 (California Dividend Advantage 2), Nuveen California Dividend Advantage Municipal Fund 3 (California Dividend Advantage 3), Nuveen California Premium Income Municipal Fund (California Premium Income), Nuveen



Insured California Dividend Advantage Municipal Fund ( Insured California Dividend Advantage ), Nuveen Insured California Tax-Free Advantage Municipal Fund ( Insured California Tax-Free Advantage ), Nuveen Connecticut Dividend Advantage Municipal Fund ( Connecticut Dividend Advantage ), Nuveen Connecticut Dividend Advantage Municipal Fund 2 ( Connecticut Dividend Advantage 2 ), Nuveen Connecticut Dividend Advantage Municipal Fund 3 ( Connecticut Dividend Advantage 3 ), Nuveen Connecticut Premium Income Municipal Fund ( Connecticut Premium Income ), Nuveen Florida Investment Quality Municipal Fund ( Florida Investment Quality ), Nuveen Florida Quality Income Municipal Fund ( Florida Quality Income ), Nuveen Insured Florida Premium Income Municipal Fund ( Insured Florida Premium Income ), Nuveen Insured Florida Tax-Free Advantage Municipal Fund ( Insured Florida Tax-Free Advantage ), Nuveen Georgia Dividend Advantage Municipal Fund ( Georgia Dividend Advantage ), Nuveen Georgia Dividend Advantage Municipal Fund 2 ( Georgia Dividend Advantage 2 ), Nuveen Georgia Premium Income Municipal Fund ( Georgia Premium Income ), Nuveen Maryland Dividend Advantage Municipal Fund ( Maryland Dividend Advantage ), Nuveen Maryland Dividend Advantage Municipal Fund 2 ( Maryland Dividend Advantage 2 ), Nuveen Maryland Dividend Advantage Municipal Fund 3 ( Maryland Dividend Advantage 3 ), Nuveen Maryland Premium Income Municipal Fund ( Maryland Premium Income ), Nuveen Massachusetts Dividend Advantage Municipal Fund ( Massachusetts Dividend Advantage ), Nuveen Massachusetts Premium Income Municipal Fund ( Massachusetts Premium Income ), Nuveen Insured Massachusetts Tax-Free Advantage Municipal Fund ( Insured Massachusetts Tax-Free Advantage ), Nuveen Michigan Dividend Advantage Municipal Fund ( Michigan Dividend Advantage ), Nuveen Missouri Premium Income Municipal Fund ( Missouri Premium Income ), Nuveen New Jersey Dividend Advantage Municipal Fund ( New Jersey Dividend Advantage ), Nuveen New Jersey Dividend Advantage Municipal Fund 2 ( New Jersey Dividend Advantage 2 ), Nuveen North Carolina Dividend Advantage Municipal Fund ( North Carolina Dividend Advantage ), Nuveen North Carolina Dividend Advantage Municipal Fund 2 ( North Carolina Dividend Advantage 2 ), Nuveen North Carolina Dividend Advantage Municipal Fund 3 ( North Carolina Dividend Advantage 3 ), Nuveen North Carolina Premium Income Municipal Fund ( North Carolina Premium Income ), Nuveen Ohio Dividend Advantage Municipal Fund ( Ohio Dividend Advantage ), Nuveen Ohio Dividend Advantage Municipal Fund 2 ( Ohio Dividend Advantage 2 ), Nuveen Ohio Dividend Advantage Municipal Fund 3 ( Ohio Dividend Advantage 3 ), Nuveen Pennsylvania Dividend Advantage Municipal Fund ( Pennsylvania Dividend Advantage ), Nuveen Pennsylvania Dividend Advantage Municipal Fund 2 ( Pennsylvania Dividend Advantage 2 ), Nuveen Pennsylvania Investment Quality Municipal Fund ( Pennsylvania Investment Quality ), Nuveen Pennsylvania Premium Income Municipal Fund 2 ( Pennsylvania Premium Income 2 ), Nuveen Texas Quality Income Municipal Fund ( Texas Quality Income ), Nuveen Virginia Dividend Advantage Municipal Fund ( Virginia Dividend Advantage ), Nuveen Virginia Dividend Advantage Municipal Fund 2 ( Virginia Dividend Advantage 2 ) and Nuveen Virginia Premium Income Municipal Fund ( Virginia Premium Income ), **each a Massachusetts business trust (collectively, the Massachusetts Business Trusts )** (the Minnesota Corporations and Massachusetts Business Trusts are each, a Fund and collectively, the Funds ), of proxies to be voted at the Annual Meeting of Shareholders to be held in the 31st floor conference room of Nuveen Investments, 333 West Wacker Drive, Chicago, Illinois 60606, on Tuesday, November 18, 2008, at 9:30 a.m., Central time (for each Fund, an Annual Meeting and collectively, the Annual Meetings ), and at any and all adjournments thereof.

On the matters coming before each Annual Meeting as to which a choice has been specified by shareholders on the proxy, the shares will be voted accordingly. If a proxy is returned and no choice is specified, the shares will be voted **FOR** the election of the nominees as listed in this

Joint Proxy Statement and **FOR** the elimination of the fundamental investment policies and the adoption of new fundamental investment policies for each Fund. Shareholders of a Fund who execute proxies may revoke them at any time before they are voted by filing with that Fund a written notice of revocation, by delivering a duly executed proxy bearing a later date, or by attending the Annual Meeting and voting in person.

The Board of each Fund has determined that the use of this Joint Proxy Statement for each Annual Meeting is in the best interest of each Fund and its shareholders in light of the similar matters being considered and voted on by the shareholders.

The following table indicates which shareholders are solicited with respect to each matter:

<b>Matter</b>	<b>Common Shares</b>	<b>Preferred Shares<sup>(1)(2)</sup></b>
1a(i). For each Minnesota Corporation, except California Value, election of seven (7) Board Members by all shareholders.	X	X
a(ii). For each Minnesota Corporation, except California Value, election of two (2) Board Members by Preferred Shares only.		X
b. Election of four (4) Board Members for California Value by all shareholders.	X	N/A
c(i). For each Massachusetts Business Trust, election of three (3) Board Members by all shareholders.	X	X
c(ii). For each Massachusetts Business Trust, election of two (2) Board Members by Preferred Shares only.		X

Matter	Common Shares	Preferred Shares <sup>(1)(2)</sup>
<p>2a. For Arizona Dividend Advantage, Arizona Dividend Advantage 2, Arizona Dividend Advantage 3, Arizona Premium Income, California Dividend Advantage, California Dividend Advantage 2, California Dividend Advantage 3, California Investment Quality, California Market Opportunity, California Value, California Performance Plus, California Premium Income, California Quality Income, California Select Quality, Connecticut Dividend Advantage, Connecticut Dividend Advantage 2, Connecticut Dividend Advantage 3, Connecticut Premium Income, Florida Investment Quality, Florida Quality Income, Georgia Dividend Advantage, Georgia Dividend Advantage 2, Georgia Premium Income, Maryland Dividend Advantage, Maryland Dividend Advantage 2, Maryland Dividend Advantage 3, Maryland Premium Income, Massachusetts Dividend Advantage, Massachusetts Premium Income, Michigan Dividend Advantage, Michigan Premium Income, Michigan Quality Income, Missouri Premium Income, New Jersey Dividend Advantage, New Jersey Dividend Advantage 2, New Jersey Investment Quality, New Jersey Premium Income, North Carolina Dividend Advantage, North Carolina Dividend Advantage 2, North Carolina Dividend Advantage 3, North Carolina Premium Income, Ohio Dividend Advantage, Ohio Dividend Advantage 2, Ohio Dividend Advantage 3, Ohio Quality Income, Pennsylvania Dividend Advantage, Pennsylvania Dividend Advantage 2, Pennsylvania Investment Quality, Pennsylvania Premium Income 2, Texas Quality Income, Virginia Dividend Advantage, Virginia Dividend Advantage 2 and Virginia Premium Income (each a Municipal Fund ), to approve the elimination of the Fund s fundamental investment policies relating to investments in municipal securities and below investment grade securities.</p>	X	X
<p>b. For each Municipal Fund, to approve the new fundamental policy relating to investments in municipal securities.</p>	X	X

Matter	Common Shares	Preferred Shares <sup>(1)(2)</sup>
c. For Arizona Premium Income, California Investment Quality, California Market Opportunity, California Value, California Performance Plus, California Premium Income, California Quality Income, California Select Quality, Connecticut Premium Income, Florida Investment Quality, Florida Quality Income, Georgia Premium Income, Maryland Premium Income, Massachusetts Premium Income, Michigan Premium Income, Michigan Quality Income, Missouri Premium Income, New Jersey Investment Quality, New Jersey Premium Income, North Carolina Premium Income, Ohio Quality Income, Pennsylvania Investment Quality, Pennsylvania Premium Income 2, Texas Quality Income and Virginia Premium Income (each a Premium/Quality Fund ), to approve the elimination of the Fund s fundamental policy relating to commodities.	X	X
d. For each Premium/Quality Fund, to approve the new fundamental policy relating to commodities.	X	X
e. For each Premium/Quality Fund, to approve the elimination of the Fund s fundamental policies relating to derivatives and short sales.	X	X
f. For each Premium/Quality Fund, to approve the elimination of the Fund s fundamental policy prohibiting investment in other investment companies.	X	X
3a. For Insured California Dividend Advantage, Insured California Premium Income, Insured California Premium Income 2, Insured California Tax-Free Advantage, Insured Florida Premium Income, Insured Florida Tax-Free Advantage and Insured Massachusetts Tax-Free Advantage (each an Insured Fund ), to approve the elimination of the Fund s fundamental investment policies relating to investments in insured municipal securities.	X	X
b. For ea000, respectively. AUDIT RELATED FEES Audit related fees for the fiscal years ended December 31, 2006 and December 31, 2005 were \$0. TAX FEES Tax fees for the fiscal years ended December 31, 2006 and December 31,		

2005 were \$33,500 and \$31,500, respectively. ALL OTHER FEES All other fees for products and services provided by the Company's principal accountant for the fiscal years ended December 31, 2006 and December 31, 2005 were \$0.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF THE INDEPENDENT AUDITOR All audit related services were pre-approved by the Audit Committee, which concluded that the provision of such services by Blackman Kallick Bartelstein LLP was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

30 SIGNATURES In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report on Form 10-KSB/A to be signed on its behalf by the undersigned, hereunto duly authorized. UNIVERSAL INSURANCE HOLDINGS, INC. Dated: August 24, 2007

By: /s/ Bradley I. Meier -----

Bradley I. Meier, President and Chief Executive Officer 31 UNIVERSAL INSURANCE HOLDINGS, INC. AND

SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS Page ---- Report of Independent Registered Public Accounting

Firm.....F-2 Consolidated Balance Sheet -

December 31, 2006.....F-3 Consolidated

Statements of Operations for the Years Ended December 31, 2006 and 2005 .....

F-4 Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2006 and

2005.....F-5 Consolidated

Statements of Cash Flows for the Years Ended December

31, 2006 and 2005.....F-6 Notes to

Consolidated Financial Statements.....F-7 -

F-26 F-1 REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM Board of Directors

Universal Insurance Holdings, Inc. Fort Lauderdale, Florida

We have audited the accompanying consolidated balance sheet of Universal Insurance Holdings, Inc. and Subsidiaries

(the "Company") as of December 31, 2006, and the related

consolidated statements of operations, stockholders' equity

and cash flows for each of the two years in the period ended

December 31, 2006. These consolidated financial statements

are the responsibility of the Company's management. Our

responsibility is to express an opinion on these consolidated

financial statements based on our audits. We conducted our

audits in accordance with the standards of the Public

Company Accounting Oversight Board (United States).

Those standards require that we plan and perform the audit

to obtain reasonable assurance about whether the

consolidated financial statements are free of material

misstatement. The Company is not required to have, nor

were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Universal Insurance Holdings, Inc. and Subsidiaries as of December 31, 2006, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective January 1, 2006. /s/ Blackman Kallick Bartelstein LLP Chicago, Illinois March 30, 2007 F-2 UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET DECEMBER 31, 2006

Assets	
Cash and cash equivalents	\$ 232,890,297
Real estate, net	3,253,064
Reinsurance recoverables	209,757,903
Premiums and other receivables, net	24,294,652
Deferred policy acquisition costs, net	2,106,116
Property and equipment, net	618,912
Deferred income taxes	8,671,756
Other assets	17,724
<b>Total assets</b>	<b>\$ 481,610,424</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
LIABILITIES:	
Unpaid losses and loss adjustment expenses	\$ 49,564,514
Unearned premiums	230,346,266
Accounts payable	2,726,049
Reinsurance payable	102,857,079
Federal and state income taxes payable	14,969,270
Dividends payable	1,902,855
Other accrued expenses	15,285,829
Other liabilities	4,529,100
Loans payable	12,324,278
Long-term debt	25,057,266
<b>Total liabilities</b>	<b>459,562,506</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	
(Notes 12-13) <b>STOCKHOLDERS' EQUITY:</b>	
Cumulative convertible preferred stock, \$.01 par value, 1,000,000 shares authorized, 138,640 shares issued and outstanding, minimum liquidation preference of \$1,419,700	1,387
Common stock, \$.01 par value, 50,000,000 shares authorized, 38,057,103 shares issued and 34,948,458 shares outstanding	380,572
Common stock in treasury, at cost	-

208,645 shares (101,820) Common stock held in trust, at cost - 2,900,000 shares (Note 11) (2,349,000) Additional paid-in capital 18,726,387 Retained earnings 5,390,392  
 ----- Total stockholders' equity 22,047,918  
 ----- Total liabilities and stockholders' equity \$ 481,610,424 =====

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

F-3 UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS Years Ended December 31, 2006 December 31, 2005 -----

PREMIUMS EARNED AND OTHER REVENUES: Direct premiums written \$ 371,754,514 \$ 88,701,123 Ceded premiums written (230,718,709) (67,094,245) -----  
 Net premiums written 141,035,805 21,606,878 Increase in unearned premiums (86,899,853) (5,780,896) -----  
 ----- Premiums earned net 54,135,952 15,825,982 Net investment income 3,986,414 682,085 Commission revenue 6,714,511 2,523,861 Other revenue 310,873 325,272  
 ----- Total premiums earned and other revenues 65,147,750 19,357,200 -----

OPERATING COSTS AND EXPENSES Losses and loss adjustment expenses, net 24,940,879 9,597,984 General and administrative expenses 13,485,562 3,551,117 -----  
 ----- Total operating costs and expenses 38,426,441 13,149,101 -----

INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES \$ 26,721,309 \$ 6,208,099 -----  
 Income taxes, current 17,541,697 140,238 Income taxes, deferred (8,064,457) (607,299) -----  
 Income taxes, net 9,477,240 (467,061) -----

INCOME FROM CONTINUING OPERATIONS \$ 17,244,069 \$ 6,675,160 -----

DISCONTINUED OPERATIONS: Loss from discontinued operations (93,136) (156,657) Provision for income tax expense 35,927 (11,906) ----- Total loss from discontinued operations (57,209) (168,563) -----  
 ----- NET INCOME \$ 17,186,860 \$ 6,506,597

===== INCOME PER COMMON SHARE: Basic income from continuing operations \$ 0.50 \$ 0.20 =====  
 Basic income from discontinued operations \$ - \$ -  
 ===== Basic net income per share \$ 0.50 \$ 0.20 =====

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING-BASIC 34,409,415 32,807,521

===== INCOME PER COMMON SHARE Diluted income from continuing operations \$ 0.44 \$ 0.19 =====  
 Diluted income from discontinued operations \$ - \$ -  
 ===== Diluted net income per

share \$ 0.44 \$ 0.19 =====

WEIGHTED AVERAGE COMMON SHARES  
 OUTSTANDING-DILUTED 39,078,643 33,945,639  
 ===== CASH DIVIDEND  
 DECLARED PER COMMON SHARE \$ 0.18 \$ -  
 ===== The accompanying  
 notes are an integral part of the consolidated financial  
 statements. F-4 UNIVERSAL INSURANCE HOLDINGS,  
 INC. AND SUBSIDIARIES CONSOLIDATED  
 STATEMENTS OF STOCKHOLDERS' EQUITY Years  
 Ended December 31, 2006 December 31, 2005  
 ----- Shares Amount Shares  
 Amount ----- PREFERRED STOCK  
 Balance, beginning of period 138,640 \$ 1,387 138,640 \$  
 1,387 ----- Balance,  
 end of period 138,640 1,387 138,640 1,387  
 =====  
 COMMON STOCK Balance, beginning of period  
 36,463,219 315,037 34,408,775 294,493 Issuance of  
 common stock 1,593,884 65,535 2,054,444 20,544  
 ----- Balance, end of  
 period 38,057,103 380,572 36,463,219 315,037  
 =====  
 TREASURY STOCK Balance, beginning of period 208,645  
 (101,820) 208,645 (101,820) -----  
 ----- Balance, end of period 208,645  
 (101,820) 208,645 (101,820) =====  
 ===== STOCK GRANTOR TRUST  
 Balance, beginning of period 2,900,000 (2,349,000)  
 2,900,000 (2,349,000) -----  
 ----- Balance, end of period 2,900,000 (2,349,000)  
 2,900,000 (2,349,000) =====  
 ===== ADDITIONAL PAID-IN  
 CAPITAL Balance, beginning of period 17,504,331  
 17,434,407 Issuance of common stock 1,222,056 69,924  
 ----- Balance, end of period 18,726,387  
 17,504,331 ----- MINORITY INTEREST  
 Balance, beginning of period 35,000 - Net income (loss)  
 attributable to minority interest 4,421 (4,421) Minority  
 interest (39,421) 39,421 ----- Balance, end  
 of period - 35,000 ----- RETAINED  
 EARNINGS (ACCUMULATED DEFICIT) Balance,  
 beginning of period (5,488,807) (11,949,875) Net income  
 attributable to retained earnings 17,182,439 6,511,018  
 (Accumulated Deficit) Preferred stock dividend (49,950)  
 (49,950) Common stock dividend (6,253,290) - -----  
 ----- Balance, end of period 5,390,392 (5,488,807)  
 ----- Total stockholders' equity \$  
 22,047,918 \$ 9,916,128 =====

The accompanying notes are an integral part of the  
 consolidated financial statements. F-5 UNIVERSAL



INSURANCE HOLDINGS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Year Ended Year Ended December 31, 2006 December 31,  
2005 ----- CASH FLOWS  
FROM OPERATING ACTIVITIES: Net income \$  
17,186,860 \$ 6,506,597 Adjustments to reconcile net  
income to cash provided by operations: Amortization and  
depreciation 373,533 377,748 Issuance of common stock as  
compensation 1,238,338 90,468 Net change in assets and  
liabilities relating to operating activities: Reinsurance  
recoverable (87,820,035) (34,464,485) Premiums and other  
receivables (19,238,882) (4,956,387) Allowance for  
doubtful accounts 568,766 - Deferred taxes (8,064,457)  
(607,299) Deferred acquisition costs, net (2,106,116) -  
Other assets 925,946 31,246 Reinsurance payable  
58,404,726 21,379,423 Deferred ceding commission  
(1,043,544) 1,043,544 Other liabilities 3,521,271 525,806  
Accounts payable 1,846,604 (2,104,954) Taxes payable  
15,285,828 - Other accrued expenses 10,340,148 3,024,756  
Unpaid losses and loss adjustment expenses (17,435,442)  
9,128,004 Unearned premiums 179,456,261 27,000,144  
----- Net cash provided by operating  
activities - continuing operations 153,439,805 26,974,611  
Net cash used in operating activities - discontinued  
operations (55,596) - ----- Net cash  
provided by operating activities 153,384,209 26,974,611  
----- CASH FLOWS FROM  
INVESTING ACTIVITIES: Capital expenditures (36,706)  
(302,907) Building improvements (230,936) (1,514,226)  
----- Net cash used in investing  
activities - continuing operations (267,642) (1,817,133) Net  
cash provided by investing activities - discontinued  
operations 51,524 - ----- Net cash  
used in investing activities (216,118) (1,817,133)  
----- CASH FLOWS FROM  
FINANCING ACTIVITIES: Preferred stock dividend  
(49,950) (49,950) Common stock dividend (4,505,867) -  
Issuance of common stock 49,251 - Payments on loans  
payable (770,543) (591,730) Proceeds from loans payable  
37,000,000 1,039,938 Minority interest (39,421) 39,421  
----- Net cash provided by financing  
activities - continuing operations 31,683,470 437,679  
----- Net cash provided by financing  
activities 31,683,470 437,679 -----  
NET INCREASE IN CASH AND CASH 184,851,561  
25,595,157 EQUIVALENTS CASH AND CASH  
EQUIVALENTS, Beginning of year 48,038,736 22,443,579  
----- CASH AND CASH  
EQUIVALENTS, End of year \$ 232,890,297 \$ 48,038,736  
===== The  
accompanying notes are an integral part of the consolidated

financial statements. F-6 UNIVERSAL INSURANCE HOLDINGS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION NATURE OF OPERATIONS Universal Insurance Holdings, Inc. (the "Company") was originally incorporated as Universal Heights, Inc. in Delaware in November 1990. The Company changed its name to Universal Insurance Holdings, Inc. on January 12, 2001. The Company, through its wholly owned subsidiary, Universal Insurance Holding Company of Florida, formed Universal Property & Casualty Insurance Company ("UPCIC") in 1997. To conform to the 2006 presentation, certain amounts in the prior year's consolidated financial statements and notes have been reclassified. INSURANCE OPERATIONS UPCIC's application to become a Florida licensed property and casualty insurance company was filed in May 1997 with the Florida Office of Insurance Regulation ("OIR") and was approved on October 29, 1997. In 1998, UPCIC began operations through the acquisition of homeowner insurance policies issued by the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"). The JUA was established in 1992 as a temporary measure to provide insurance coverage for individuals who could not obtain coverage from private carriers because of the impact on the private insurance market of Hurricane Andrew in 1992. Rather than serving as a temporary source of emergency insurance coverage as was originally intended, the JUA became a major provider of original and renewal insurance coverage for Florida residents. In an attempt to reduce the number of policies in the JUA, and thus the exposure of the program to liability, the Florida legislature approved a number of initiatives to depopulate the JUA, which resulted in policies being acquired by private insurers and provided additional incentives to private insurance companies to acquire policies from the JUA. On December 4, 1997, the Company raised approximately \$6,700,000 in a private offering with various institutional and/or otherwise accredited investors pursuant to which the Company issued, in the aggregate, 11,208,996 shares of its common stock at a price of \$.60 per share. The proceeds of this transaction were used partially for working capital purposes and to meet the minimum regulatory capitalization requirements of \$5,000,000 required by the Florida Department of Insurance to engage in this type of homeowners' insurance company business. In February 1998, the Company commenced its insurance business. Since then the Company has developed into a vertically integrated insurance holding company performing all aspects of insurance underwriting, distribution and claims. Universal Risk Advisors, Inc. was incorporated in

Florida on July 2, 1998, and became licensed by the Florida Department of Insurance on August 17, 1998 and contracted with UPCIC on September 28, 1998 as the Company's wholly owned managing general agent ("MGA"). Through the MGA, the Company has underwriting and claims authority for UPCIC as well as third-party insurance companies. The MGA seeks to generate revenue through policy fee income and other administrative fees from the marketing of UPCIC and third-party insurance products through the Company's distribution network and UPCIC. Universal Florida Insurance Agency was incorporated in Florida on July 2, 1998, and Coastal Homeowners Insurance Specialists, Inc. was incorporated in Florida on July 2, 2001, each as wholly owned subsidiaries of Universal Insurance Holdings, Inc. to solicit voluntary business and to generate commission revenue. These entities are a part of the Company's agency operations, which seek to generate income from commissions, premium financing referral fees and the marketing of ancillary services. In addition, Capital Resources Group, LTD. was incorporated in the British Virgin Islands on June 2, 2000 as a subsidiary of the Company to participate in contingent capital products. The Company has also formed a claims adjusting company, Universal Adjusting Corporation, which was incorporated in Delaware on August 9, 1999. Universal Adjusting Corporation currently has claims authority for UPCIC.

**F-7 ONLINE COMMERCE OPERATIONS** The Company had also formed subsidiaries that specialize in selling insurance and generating insurance leads via the Internet. Tigerquote.com Insurance & Financial Services Group, Inc. ("Tigerquote.com") and Tigerquote.com Insurance Solutions, Inc. were incorporated in Delaware on June 6, 1999 and August 23, 1999, respectively. Tigerquote.com was an Internet insurance lead generating network while Tigerquote.com Insurance Solutions, Inc. was a network of Internet insurance agencies. Insurance agencies had been established in 22 states. None of these agencies are currently active as the Company changed its focus to selling leads to other companies and independent agents. During 2006, the Company decided to discontinue online commerce operations and focus on its core operations.

**CORPORATE AND OTHER OPERATIONS** During 2001, the Company formed Tiger Home Services, Inc., which furnished pool services to homeowners until the operation was sold during the second quarter of 2005.

**BASIS OF PRESENTATION** The accompanying consolidated financial statements include the accounts of Universal Insurance Holdings, Inc., its wholly owned subsidiary, Universal Property & Casualty Insurance Co. and other wholly owned entities, Atlas Florida Financial Corporation, parent of Sterling Premium Finance Company, Sterling Premium Finance Company,

and the Universal Insurance Holdings, Inc. Stock Grantor Trust. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities. Prior to the Company's decision to discontinue online commerce operations, the Company and its subsidiaries operated principally in two business segments consisting of insurance and online commerce during each period reported in the accompanying consolidated financial statements, based upon management reporting.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES** The significant accounting policies followed by the Company are summarized as follows:

**USE OF ESTIMATES.** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company's primary areas of estimate are the recognition of premium revenues, insurance liabilities, deferred policy acquisition costs and reinsurance. Actual results could differ from those estimates.

**PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements include the accounts, after intercompany eliminations, of the Company and its subsidiaries. Prior to being a wholly owned subsidiary of the Company in 2006, Sterling Premium Finance Company, was consolidated in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46(R),

**CONSOLIDATION OF VARIABLE INTEREST ENTITIES ("FIN 46R").** FIN 46R requires the consolidation of certain entities considered to be variable interest entities ("VIEs"). An entity is considered to be a VIE when it has equity investors who lack the characteristics of having a controlling financial interest, or its capital is insufficient to permit it to finance its activities without additional subordinated financial support. Consolidation of a VIE by an investor is required when it is determined that the investor will absorb a majority of the VIE's expected losses if they occur, received a majority of the entity's expected residual returns if they occur, or both.

**CASH AND CASH EQUIVALENTS.** The Company includes in cash equivalents all short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity of three months or less.

**PREMIUMS RECEIVABLE.** Written premiums are earned into income on a pro rata basis over the policy term. Accordingly,

unearned premiums represent the portion of written premiums that is applicable to the unexpired risk. Generally, premiums are collected prior to providing risk coverage, minimizing the Company's exposure to credit risk. The Company performs a policy level evaluation to determine the extent the premiums receivable balance exceeds the unearned premiums balance. The Company then ages this exposure to establish an allowance for doubtful accounts based on prior experience. As of December 31, 2006, the F-8 Company had recorded an allowance for doubtful accounts in the amount of \$568,766. SECURITIES HELD TO MATURITY. Debt securities which the Company has the intent and ability to hold to maturity are reported at amortized cost, adjusted for amortization of premiums or accretion of discounts and other-than-temporary declines in fair value. The Company had no such securities during 2005 or 2006. INVESTMENTS IN REAL ESTATE. Investments in real estate are carried at cost less depreciation. Real estate represents a building purchased by UPCIC that the Company uses as its home office. Depreciation is provided on the straight-line basis over twenty-seven-and-one-half years. The Company reviews its real estate annually and whenever changes in circumstances indicate that the carrying amount may not be recoverable. SECURITIES AVAILABLE FOR SALE. Equity securities are reported at fair value, with unrealized gains and losses reported net of applicable deferred tax as a separate component of stockholders' equity. Realized gains and losses are determined on the specific identification method. The Company had no such securities during 2005 or 2006. PROPERTY AND EQUIPMENT. Property and equipment is recorded at cost. Depreciation is provided on the straight-line basis over the estimated useful life of the assets. Estimated useful life of all property and equipment ranges from three to five years. Routine repairs and maintenance are expensed as incurred. Website development costs are capitalized and amortized over their estimated useful life. The Company reviews its property and equipment annually and whenever changes in circumstances indicate that the carrying amount may not be recoverable. RECOGNITION OF PREMIUM REVENUES. Property and liability premiums are recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS. In the event policyholders cancel their policies, unearned premiums represent amounts that UPCIC would refund policyholders. Accordingly, 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 owed over the life of each policy. As of December 31, 2006, the Company has direct unearned premiums of \$230,346,266.

#### RECOGNITION OF COMMISSION REVENUE.

Commission revenue, which is comprised of the MGA's policy fee income on all new and renewal insurance policies and commissions generated from agency operations is recognized as income upon policy inception. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, REVENUE

#### RECOGNITION IN FINANCIAL STATEMENTS.

#### RECOGNITION OF TRANSACTION FEE REVENUE.

Transaction fee revenue, which is comprised of revenue from the selling of insurance leads is recognized as income upon sale of the lead. Effective November 2004, for most customers payment was required in advance of distribution of the leads. The Company believes that its revenue recognition policies conform to Staff Accounting Bulletin 101, REVENUE RECOGNITION IN FINANCIAL

#### STATEMENTS. DEFERRED POLICY ACQUISITION

COSTS. Commissions and other costs of acquiring insurance that vary with and are primarily related to the production of new and renewal business, net of reinsurance commissions, are deferred and amortized over the terms of the policies or reinsurance treaties to which they are related.

#### INSURANCE LIABILITIES. Unpaid losses and loss adjustment expenses ("LAE") are provided for as claims are

incurred. The provision for unpaid losses and loss adjustment expenses includes: (1) the accumulation of individual case estimates for claims and claim adjustment expenses reported prior to the close of the accounting period; (2) estimates for unreported claims based on

industry data; and (3) estimates of expenses for investigating and adjusting claims based on the experience of the Company and the industry. Inherent in the estimates of ultimate claims are expected trends in claim 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 claims experience relative to the development period, knowledge of the actual facts and circumstances and the amount of insurance risk retained. In the case of UPCIC, this uncertainty is compounded by UPCIC's limited history of claims experience. In addition, UPCIC's policyholders are currently concentrated in South Florida, which is periodically subject to adverse weather conditions, such as hurricanes and tropical storms.

F-9 The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings. PROVISION FOR PREMIUM

DEFICIENCY. It is the Company's policy to evaluate and recognize losses on insurance contracts when estimated future claims and maintenance costs under a group of existing contracts will exceed anticipated future premiums. No accrual for premium deficiency was considered necessary as of December 31, 2006. REINSURANCE. In the normal course of business, the Company 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 provisions of the reinsurance agreement and consistent with the establishment of the liability of the Company. INCOME TAXES. Income tax provisions are based on the asset and liability method. Deferred federal and state income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, net of valuation allowance. The Company reviews its deferred tax assets for recoverability. At December 31, 2006, the Company determined that the benefit of its deferred tax assets was fully realizable and, therefore, no valuation allowance was recorded. INCOME (LOSS) PER SHARE OF COMMON STOCK. Basic earnings per share is computed by dividing the Company's net income (loss) less cumulative Preferred Stock dividends by the weighted-average number of shares of Common Stock outstanding during the period. Diluted earnings per share is computed by dividing the Company's net income (loss) minus Preferred Stock dividends by the weighted average number of shares of Common Stock outstanding during the period and the impact of all dilutive potential common shares, primarily Preferred Stock, options and warrants. The dilutive impact of stock options and warrants is determined by applying the treasury stock method and the dilutive impact of the Preferred Stock is determined by applying the "if converted" method. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS. Statement of Financial Accounting Standards ("SFAS") No. 107, DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, requires disclosure of the estimated fair value of all financial instruments, including both assets and liabilities unless specifically exempted. The Company uses the following methods and assumptions in estimating the fair value of financial instruments. Cash and cash equivalents: the carrying amount reported in the consolidated balance sheet for cash and cash equivalents approximates fair value due to the short-term nature of those items. Premiums and other receivables, reinsurance recoverables and accounts payable: the carrying amounts

reported in the consolidated balance sheet for premiums and other receivables, reinsurance recoverables and accounts payable approximate their fair value due to their short-term nature. Long-term debt and loans payable are held at carrying value, which approximates fair value as of December 31, 2006. **CONCENTRATIONS OF CREDIT RISK.** Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash, investments, premiums receivable and reinsurance recoverables. Concentrations of credit risk with respect to cash on deposit are limited by the Company's policy of investing excess cash in a money market account and overnight repurchase agreements of US Government and US Government Agency securities with major national banks. These accounts are held by Wachovia Bank, N.A. and SunTrust Banks, Inc. Concentrations of credit risk with respect to premiums receivable are limited due to the large number of individuals comprising the Company's customer base. However, the majority of the Company's revenues are currently derived from products and services offered to customers in Florida, which could be adversely affected by economic downturns, an increase in competition or other environmental changes. In order to reduce credit risk for amounts due from reinsurers, the Company seeks to do business with financially sound reinsurance companies and regularly evaluates the financial strength of all reinsurers used. **F-10 STOCK OPTIONS.** The Company grants options for a fixed number of shares to employees and outside directors with an exercise price equal to the fair value of the shares as of the grant date. Prior to January 1, 2006 the Company elected to apply Accounting Principles Board ("APB") No. 25, **ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES**, and related interpretations in accounting for its stock options granted to employees and directors, and SFAS No. 123 **ACCOUNTING FOR STOCK-BASED COMPENSATION**, for its stock options granted to non-employees. Under APB No. 25, because the exercise price of the Company's employee and director stock options equal the market price of underlying stock on the date of the grant, no compensation expense was recognized. The Company expensed the fair value (determined as of the grant date) of options and warrants granted to non-employees in accordance with SFAS No. 123. SFAS 123 (R) was adopted using the modified prospective transition method. Under this transition method, compensation cost recognized in the periods after adoption includes (i) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006 based on the grant-date fair value estimated in accordance with the original provision of SFAS 123, and (ii) compensation cost for all share-based payments granted



subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123 (R). Results from prior periods have not been restated. As a result of adopting SFAS 123 (R), the Company's income before income taxes and net income for the year ended December 31, 2006 are \$24,212 and \$15,738 lower, respectively, than if it had continued to account for share-based compensation under APB 25. In addition, during the year ended December 31, 2006, the Company issued common stock valued at \$1,102,014 as compensation. The following table illustrates the effects on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the Company's stock option plans for all periods presented. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes-Merton option pricing model and amortized to expense over the options' vesting periods. Year Ended

December 31, 2006	December 31, 2005	-----
-----	Net income reported	\$ 17,186,860
6,506,597	Add: Total stock-based compensation expense included in reported net income, net of related tax effects	15,738
15,738	- Deduct: Total stock-based compensation expense determined under fair value based method, net of related tax effects (15,738)	(32,775)
-----	-----	SFAS No. 123 (R) pro forma net income
\$ 17,186,860	\$ 6,473,822	=====
=====	=====	Pro forma earnings per share
Basic	\$0.50	\$0.20
=====	=====	Fully diluted
\$0.44	\$0.19	=====
=====	=====	Earnings per share, as reported
Basic	\$0.50	\$0.20
=====	=====	Fully diluted
\$0.44	\$0.19	=====

STATUTORY ACCOUNTING. UPCIC prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Office of Insurance Regulation of the State of Florida. Effective January 1, 2001, the Office of Insurance Regulation of the State of Florida required that insurance companies domiciled in the State of Florida prepare their statutory financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual (the "Manual"), as modified by the Office of Insurance Regulation of the State of Florida. Accordingly, the admitted assets, liabilities and capital and surplus of UPCIC as of December 31, 2006, and the results of its operations and its cash flow, for the year then ended have been determined in accordance with statutory accounting principles, but adjusted to accounting principles generally accepted in the United States of America (GAAPUSA) for purposes of these financial statements.

These principles are designed primarily to demonstrate the ability to meet obligations to policyholders and claimants and, consequently, differ in some respects from GAAPUSA. NEW ACCOUNTING PRONOUNCEMENTS. SFAS No.123 (Revised 2004), Share-Based Payments, issued in December 2004, is a revision of FASB Statement 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payments transactions. SFAS No. 123 (Revised 2004) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions) with the cost recognized over the period during which an employee is required to provide service in exchange for the award. This statement is effective as of the beginning of the first interim or annual reporting period of the company's first fiscal year that begins on or after December 15, 2005 and the Company adopted the standard in the first quarter of fiscal year 2006. On March 29, 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. (SAB 107) regarding the Staff's interpretation of SFAS 123(R). This interpretation expresses the views of the Staff regarding the interaction between SFAS 123(R) and certain SEC rules and regulations and provides the Staff's views regarding the valuation of share-based payments arrangements by public companies. In particular, this SAB provides guidance related to share-based payments transactions with non-employees, the transition from nonpublic to public entity status, valuation methods, the accounting for certain redeemable financial instruments issued under shared-based payments arrangements, the classification of compensation expense, non-GAAP financial measures, first-time adoption of SFAS 123(R) in an interim period, capitalization of compensation cost related to share-based payments arrangements, the accounting for income tax effects of share-based payments arrangements upon adoption of SFAS 123(R), the modification of employee share options prior to adoption of SFAS 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of SFAS 123(R). The Company adopted SAB 107 in connection with its adoption of SFAS 123(R). In May 2005, FASB issued SFAS No. 154, Accounting Changes and Error Corrections, which establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in absence of explicit transition requirements specific to the newly adopted accounting principle. The

statement provides guidance for determining whether retrospective application of a change in accounting principle is impracticable. The statement also addresses the reporting of a correction of error by restating previously issued financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 14, 2005. The Company adopted SFAS No. 154 in the first quarter of 2006. The impact of such adoption did not have an effect on the Company's consolidated financial statements. In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes -- an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not threshold should be measured in order to determine the tax benefit to be recognized in the financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on our results of operations, financial position and cash flows. In September 2006, the FASB issued SFAS No. 157 which redefines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No. 157 applies where other accounting pronouncements require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The effects of adoption will be determined by the types of instruments carried at fair value in the Company's financial statements at the time of adoption as well as the method utilized to determine their fair values prior to adoption. Based on the Company's current use of fair value measurements, SFAS No. 157 is not expected to have a material effect on the results of operations or financial position of the Company.

**F-12 RECLASSIFICATIONS.** Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

**NOTE 3 - REINSURANCE** UPCIC's in-force policyholder coverage for windstorm exposures as of December 31, 2006 was approximately \$52.0 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 policy. Reinsurance premiums, losses and loss adjustment expenses 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 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. QUOTA SHARE Effective June 1, 2006, UPCIC entered into a quota share reinsurance treaty and excess per risk agreements with various reinsurers. Under the quota share treaty, through May 31, 2007, UPCIC cedes 50% of its gross written premiums, losses and LAE for policies with coverage for wind risk with a ceding commission equal to 28% of ceded gross written premiums. In addition, the quota share treaty has a limitation for any one occurrence of \$25,000,000 and a limitation of \$55,000,000 from losses arising out of events that are assigned a catastrophe serial number by the Insurance Services Office, Inc.'s (ISO) Property Claims Services unit. For the year ended December 31, 2005, UPCIC ceded 80% of gross written premiums, losses and loss adjustment expenses during the first five months of 2005 for policies with coverage for wind risk with a ceding commission equal to 28% of ceded gross premiums written versus 55% of policies with coverage for wind risk with a ceding commission equal to 31% of ceded gross premiums written during the remaining seven months of 2005 and the first five months of 2006. Effective December 1, 2005, UPCIC entered into a second quota share reinsurance treaty with one of the reinsurers on the earlier treaty. Under the second quota share treaty, UPCIC ceded an additional 25% of its gross written premiums, losses and loss adjustment expenses for policies with coverage for wind risk with a ceding commission equal to 35% of ceded gross written premiums through May 31, 2006. In addition, the quota share treaties effective June 1, 2005 and December 1, 2005 had a limitation for any one occurrence of \$3,000,000. EXCESS PER RISK Effective June 1, 2006 through May 31, 2007 and June 1, 2005 through May 31, 2006, UPCIC entered into a multiple line excess per risk agreement with various reinsurers. Under the multiple line excess per risk agreement, UPCIC obtained coverage of \$1,300,000 in

excess of \$500,000 ultimate net loss for each risk and each property loss, and \$1,000,000 in excess of \$300,000 for each casualty loss. A \$5,200,000 aggregate limit applies to the term of the contract. Effective June 1, 2006 through May 31, 2007 and June 1, 2005 through May 31, 2006, UPCIC entered into a property per risk excess agreement covering ex-wind only policies. Under the property per risk excess agreement, UPCIC obtained coverage of \$300,000 in excess of \$200,000 for each property loss. A \$2,100,000 aggregate limit applies to the term of the contract.

**EXCESS CATASTROPHE** UPCIC's excess catastrophe reinsurance agreement provides four layers of excess catastrophe coverage of \$46,000,000 in excess of \$3,000,000 as of June 1, 2005 as follows:

Layer	First Layer	Second Layer	Third Layer	Fourth Layer
Coverage	\$13,000,000	\$9,500,000	\$10,000,000	
in excess of	\$13,500,000	in excess of	in excess of	in excess of
of	\$3,000,000	\$16,000,000	\$25,500,000	\$35,500,000
each loss occurrence	each loss occurrence	each loss occurrence	each loss occurrence	each loss occurrence
Deposit premium	\$4,290,000			
Minimum premium	\$2,090,000	\$1,400,000	\$1,012,500	
Premium rate	\$3,432,000	\$1,672,000	\$1,120,000	\$810,000
-% of total insured value	0.050%	0.024%	0.016%	0.012%

Effective June 1, 2006, UPCIC revised and enhanced its catastrophe reinsurance program. UPCIC's excess catastrophe reinsurance agreement provides three layers of excess catastrophe coverage of \$76,000,000 in excess of \$25,000,000 as of December 31, 2006 as follows:

Layer	First Layer	Second Layer	Third Layer
Coverage	\$32,000,000	\$18,000,000	\$25,000,000
in excess of	\$26,000,000	excess of	excess of
each loss occurrence	\$57,000,000	\$75,000,000	each loss occurrence
(placed 100%)	(placed 100%)	(placed 100%)	(placed 100%)
Deposit premium	(100%)		
Minimum premium	\$14,720,000	\$6,210,000	\$6,240,000
Premium rate	(100%)	\$13,248,000	\$5,589,000
-% of total insured value	0.074%	0.031%	0.031%

Loss occurrence is defined as all individual losses directly occasioned by any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event, which occurs in the State of Florida. The contract contains a provision for one reinstatement in the event coverage is exhausted. An additional premium will be calculated pro rata as to amount and 100% as to time. Effective June 1, 2006 through May 31, 2007, UPCIC purchased a reinstatement premium protection contract which reimburses the Company for its cost to reinstate the catastrophe coverage of \$76,000,000 in excess of \$25,000,000. Also, effective June 1, 2006, UPCIC obtained subsequent catastrophe event excess of loss reinsurance to cover certain levels of the Company's net retention through

three catastrophe events, including hurricanes, as follows:

F-14	2nd Event	2nd/3rd Event	3rd Event	2nd Layer	3rd	
-----	-----	-----	-----	-----	-----	
Coverage	\$11,250,000	\$11,250,000	in \$6,750,000			
\$11,250,000 in in excess of	\$11,250,000 in in excess of	\$11,250,000 in in excess of	\$11,250,000 in in excess of	\$11,250,000 in in excess of	\$11,250,000 in in excess of	
\$13,750,000	\$13,750,000	each \$7,000,000	\$13,750,000	\$13,750,000	\$13,750,000	
each loss occurrence	each loss occurrence	each loss occurrence	each loss occurrence	each loss occurrence	each loss occurrence	
subject to an occurrence	subject to an occurrence	subject to an occurrence	subject to an occurrence	subject to an occurrence	subject to an occurrence	
subject to an occurrence	subject to an occurrence	subject to an occurrence	subject to an occurrence	subject to an occurrence	subject to an occurrence	
otherwise subject to	otherwise subject to	otherwise subject to	otherwise subject to	otherwise subject to	otherwise subject to	
otherwise subject to	otherwise subject to	otherwise subject to	otherwise subject to	otherwise subject to	otherwise subject to	
recoverable amount of	recoverable amount of	recoverable amount of	recoverable amount of	recoverable amount of	recoverable amount of	
recoverable \$11,250,000	recoverable \$11,250,000	recoverable \$11,250,000	recoverable \$11,250,000	recoverable \$11,250,000	recoverable \$11,250,000	
(placed 12.5%)	(placed 12.5%)	(placed 12.5%)	(placed 12.5%)	(placed 12.5%)	(placed 12.5%)	
\$13,500,000	\$13,500,000	\$22,500,000	\$11,250,000	\$11,250,000	\$11,250,000	
(placed 50%)	(placed 37.5%)	(placed 17.5%)	Deposit	Deposit	Deposit	
premium (100%)	premium (100%)	premium (100%)	premium (100%)	premium (100%)	premium (100%)	
\$1,800,000	\$3,037,500	\$1,012,500	\$1,518,750	\$1,620,000	\$1,620,000	
Minimum premium	Minimum premium	Minimum premium	Minimum premium	Minimum premium	Minimum premium	
(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	
\$2,733,750	\$911,250	\$1,366,875	Premium rate	Premium rate	Premium rate	
-% of total insured value	-% of total insured value	-% of total insured value	-% of total insured value	-% of total insured value	-% of total insured value	
0.009%	0.015%	0.005%	0.00759%	0.00759%	0.00759%	
UPCIC	UPCIC	UPCIC	UPCIC	UPCIC	UPCIC	
also obtained coverage from the Florida Hurricane Catastrophe Fund ("FHCF"), which is administered by the Florida State Board of Administration. Under the reimbursement agreement, FHCF would reimburse the Company, with respect to each loss occurrence during the contract year for 90% of the ultimate loss paid by the Company in excess of the Company's retention plus 5% of the reimbursed losses to cover loss adjustment expenses. 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, 2005 to May 31, 2006, FHCF provided coverage of \$85,333,000 in excess of \$26,827,000. The premium for this coverage was \$4,266,662. For the contract year June 1, 2006 to May 31, 2007, the Fund has provided coverage of \$217,480,380 in excess of \$81,363,626. The premium for this coverage was \$15,432,459. Also at June 1, 2006, the FHCF made available, and the Company obtained, \$10,000,000 of additional catastrophe excess of loss coverage with one free reinstatement of coverage to carriers qualified as Limited Apportionment Companies, such as UPCIC. This particular layer of coverage is \$10,000,000 in excess of \$3,750,000. The premium for this coverage was \$5,000,000. Amounts recoverable from reinsurers are estimated in accordance with the reinsurance contract. Reinsurance premiums, losses and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The preceding reinsurance arrangements had the following effect on certain items in the accompanying consolidated financial statements:	Year Ended	Year Ended	December 31, 2006	December 31, 2005	-----	-----
Year Ended	Year Ended	December 31, 2006	December 31, 2005	-----	-----	
PREMIUMS	PREMIUMS	LOSS AND LOSS	PREMIUMS			

PREMIUMS LOSS AND LOSS WRITTEN EARNED  
 ADJUSTMENT WRITTEN EARNED ADJUSTMENT  
 EXPENSES EXPENSES Direct \$ 371,754,514 \$  
 192,298,253 \$ 70,704,156 \$ 88,701,123 \$ 61,700,978 \$  
 91,540,103 Ceded (230,718,709) (138,162,301)  
 (45,763,277) (67,094,245) (45,874,996) (81,942,119)

----- Net \$ 141,035,805 \$ 54,135,952 \$ 24,940,879 \$  
 21,606,878 \$ 15,825,982 \$ 9,597,984 =====

===== F-15 Other amounts:

December 31, 2006 ----- Reinsurance recoverable  
 on unpaid losses and loss adjustment expenses \$32,369,503  
 Reinsurance recoverable on paid losses 13,106,236 Other  
 reinsurance receivables 30,078,990 Prepaid reinsurance  
 premiums 134,203,174 ----- Reinsurance recoverable  
 \$209,757,903 ===== Reinsurance payable  
 \$102,857,079 ===== Reinsurance payable, as of  
 December 31, 2006, has been reduced by \$18,912,852  
 which represents ceding commissions due from reinsurers.  
 The Company has determined that a right of offset, as  
 defined in FASB Interpretation No. 39, "Offsetting of  
 Amounts Related to Certain Contracts", exists between the  
 Company and its reinsurers, under its quota share  
 reinsurance treaties. 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. UPCIC evaluates the similar  
 geographic regions, activities, or economic characteristics of  
 the reinsurers to minimize its exposure to significant losses  
 from reinsurer insolvencies. UPCIC currently has  
 reinsurance contracts with various reinsurers located  
 throughout the United States and internationally. UPCIC  
 believes that ceding risks to reinsurers whom it considers to  
 be financially sound combined with the distribution of  
 reinsurance contracts to an array of reinsurers adequately  
 minimizes UPCIC's risk from any potential operating  
 difficulties of its reinsurers. The Company may also be  
 subject to assessments by Citizens Property Insurance  
 Corporation, the state-run insurer of last resort and the  
 FHCF as a result of operating deficiencies related to  
 windstorm catastrophes. In addition, the Company is subject  
 to assessments by the Florida Insurance Guaranty  
 Association, as a result of other company insolvencies.  
 Under current regulations, insurers may recoup the amount  
 of their assessments from policyholders, or in some cases  
 collect the amount of the assessments from policyholders as  
 surcharges for the benefit of the assessing entity. On August  
 17, 2005 the Board of Governors of Citizens Property  
 Insurance Corporation ("Citizens") authorized the levying of

a regular assessment on assessable insurers to recoup the 2004 Plan Year Deficit incurred in the High Risk Account. The assessment is based upon the Company's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the plan year in which the deficit occurred. UPCIC's participation in this assessment totaled \$203,300. Pursuant to Florida statutes, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to Citizens. UPCIC completed the recoupment of this assessment in 2006. On June 12, 2006, the Florida Office of Insurance Regulation ("OIR") ordered an emergency FHCF assessment of 1% of direct premiums written for policies with effective dates beginning January 1, 2007, which the Company will collect from policyholders, as the assessment is to policyholders, not the Company. This assessment was a result of catastrophe losses Florida experienced in 2004 and 2005. During its meeting on June 16, 2006, the Board of Directors of Florida Insurance Guaranty Association ("FIGA") determined the need for an assessment upon its member companies. FIGA decided on an assessment on member companies of 2% of the Florida net direct premiums for the calendar year 2005. Based on the 2005 net direct premium of \$11.2 billion, this would generate approximately \$225 million. UPCIC's participation in this assessment totaled \$1,772,861. Pursuant to Florida statutes, insurers are permitted to recoup the assessment by adding a surcharge F-16 to policies in an amount not to exceed the amount paid by the insurer to FIGA. UPCIC recouped this assessment in 2006. On September 14, 2006 the Board of Governors of Citizens authorized the levying of a regular assessment on assessable insurers to recoup the 2005 Plan Year Deficit incurred in the High Risk Account. The assessment is based upon the Company's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the plan year in which the deficit occurred. UPCIC's participation in this assessment totaled \$263,650. Pursuant to Florida statutes, insurers are permitted to recoup the assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to Citizens. UPCIC recouped this assessment in 2006. During its meeting on December 14, 2006 the Board of Directors of FIGA determined the need for an emergency assessment upon its member companies. The Board decided on an emergency assessment on member companies of 2% of the Florida net direct premiums for the calendar year 2005. Based on the 2005 net direct premium of \$11.2 billion, this would generate approximately \$225 million. UPCIC's participation in this assessment totaled \$1,772,861. Pursuant to Florida statutes, insurers are permitted to recoup the



assessment by adding a surcharge to policies in an amount not to exceed the amount paid by the insurer to FIGA. As a result, UPCIC recorded this assessment as an expense during the year ended December 31, 2006 and will be underwriting the recoupment in connection with this assessment in 2007. NOTE 4 - INVESTMENTS Major categories of net investment income are summarized as follows: Year Ended Year Ended December 31, 2006

December 31, 2005 -----	
Investment income on cash and cash equivalents \$	
4,259,399	\$ 925,387
Investment expenses	272,985
	243,302
-----	
Net investment income	\$ 3,986,414
	\$ 682,085

=====  
As of December 31, 2006, the Company's investments consisted entirely of cash and cash equivalents with a value of \$232,890,297. Cash is comprised of accounts with an aggregate carrying value \$205,957,796 as of December 31, 2006, which is primarily invested daily in overnight repurchase agreements of U.S. government and U.S. government agency securities. Cash equivalents is comprised of a money market account with carrying value of \$25,432,501 and short-term investment with a carrying value of \$1,500,000 on deposit with regulatory authorities. As of December 31, 2006, the Company had no available-for-sale or held-to-maturity securities. NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, as of December 31, 2006, consisted of the following: Computers \$ 50,041 Furniture 290,147 Automobiles and equipment 261,928 Boat 160,371 Software 668,057 ----- Total cost 1,430,544 Less: Accumulated depreciation and amortization (811,632) ----- Property and equipment, net \$ 618,912

=====  
F-17 Depreciation and amortization of property and equipment was \$373,533 and \$377,748 during 2006 and 2005, respectively. Real estate, as of December 31, 2006 consisted of the following: Land \$ 270,000 Building 1,410,000 Capital Improvements 1,745,164 ----- Total cost 3,425,164 Less: Accumulated depreciation (172,100) ----- Real estate, net \$ 3,253,064

=====  
Depreciation of real estate was \$118,932 and \$53,168 during 2006 and 2005, respectively. NOTE 6 - LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES As described in Note 2, UPCIC establishes liabilities for unpaid losses and loss adjustment expenses on reported and unreported claims of insured losses. These liability estimates are based on known facts and interpretation of factors such as claim payment patterns, loss payments, pending levels of unpaid claims, product mix and industry experience. The establishment of appropriate liabilities, including liabilities for catastrophes, is an inherently uncertain process. This uncertainty is compounded by

UPCIC's limited history of claims experience. UPCIC regularly updates its estimates as new facts become known and further events occur which may impact the resolution of unsettled claims. The level of catastrophe loss experienced in any year cannot be predicted and could be material to results of operations and financial position. UPCIC's policyholders are concentrated in South Florida, which is periodically subject to adverse weather conditions, such as hurricanes and tropical storms. During 2006, the Company did not experience any catastrophic events. During 2005, Florida experienced three windstorms catastrophes (Hurricanes Dennis, Katrina and Wilma) which resulted in losses. During 2004, Florida experienced four windstorm catastrophes (Hurricanes Charley, Frances, Ivan, and Jeanne) which resulted in losses. UPCIC's in-force policyholder coverage for windstorm exposures as of December 31, 2006 was approximately \$52 billion. UPCIC continuously evaluates alternative business strategies to more effectively manage its exposure to catastrophe losses, including the maintenance of catastrophic reinsurance coverage as discussed in Note 3. Management believes that the liabilities for claims and claims expense as of December 31, 2006 are appropriately established in the aggregate and adequate to cover the ultimate cost of reported and unreported claims arising from losses which had occurred by that date. However, if losses exceeded direct loss reserve estimates there could be a material adverse effect on the Company's financial statements. Also, if there are regulatory initiatives, legislative enactments or case law precedents which change the basis for policy coverage, in any of these events, there could be an effect on direct loss reserve estimates having a material adverse effect on the Company's financial statements. F-18 Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

Year Ended December 31, 2005	-----	Balance at beginning of year	\$ 66,999,956	\$ 57,871,952	Less reinsurance recoverable	(60,859,231)	(56,292,041)
-----	-----	Net balance at beginning of year	6,140,725	1,579,911	-----	-----	-----
		Incurred related to:	Current year	9,246,922	7,048,934	Prior years	15,693,957
				2,549,050	-----	-----	Total incurred
				9,597,984	-----	-----	Paid related to:
				4,453,684	3,821,743	Prior years	9,432,910
				-----	-----	-----	1,215,427
				-----	-----	Total paid	13,886,594
				-----	-----	-----	5,037,170
				-----	-----	Net balance at end of year	17,195,010
				6,140,725	Plus reinsurance recoverable	32,369,504	-----
				60,859,231	-----	-----	Balance at end of year
				49,564,514	\$ 66,999,956	=====	=====

===== The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of

December 31, 2006 were increased in the current year by \$15,693,957 for claims that had occurred on or before the prior year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. The Company's liabilities for unpaid losses and LAE, net of related reinsurance recoverables, as of December 31, 2005 were increased during 2005 by \$2,549,050 for claims that had occurred on or before the previous year balance sheet date. This unfavorable loss emergence resulted principally from higher than expected hurricane losses in 2004. There can be no assurance that the Company's unpaid losses and LAE will not develop redundancies or deficiencies and possibly differ materially from the Company's unpaid losses and LAE as of December 31, 2006. In the future, if the unpaid losses and LAE develop redundancies or deficiencies, such redundancy or deficiency would have a positive or adverse impact, respectively, on future results of operations. NOTE 7 - LOANS PAYABLE During 2003, the Company purchased software for \$520,000. Management believes the software will assist it in reducing overall management expenses versus the previous outside vendor agreement. The final installment payment on the software of \$150,000 was paid in March 2005. Loans payable as of December 31, 2006 also consists of the following bank loans secured by the respective assets: a boat loan for \$65,549 principal due in May 2011, with interest paid monthly at 8.8%, and several vehicle loans totaling \$16,015 principal due from January 2005 to March 2008, with interest paid monthly ranging from 5.6% to 10%. Other loans with vendors and private investors amounted to \$37,300,000 as of December 31, 2006. Loans with vendors and private investors are primarily short-term loans utilized for working capital. As noted in "Management's Discussion and Analysis--Liquidity and Capital Resources," two promissory notes from two private investors with an aggregate remaining principal balance of \$300,000 are guaranteed under a financial protection contract. In addition, the Company granted certain vendors and private investors warrants in connection with the short-term loans (see Note 11). On November 9, 2006, UPCIC entered into a \$25.0 million surplus note with the Florida State Board of Administration under Florida's Insurance Capital Build-Up Incentive Program. Given the proximity of the loan origination date to the balance sheet date, the carrying value of the note deemed to approximate its fair value as of December 31, 2006. Under the program, which was implemented by the Florida legislature to encourage insurance companies to write additional residential insurance coverage in Florida, the State Board of Administration matched UPCIC's funds of \$25.0 million that were earmarked for participation in the program. F-19

The surplus note brings the current capital and surplus of UPCIC to approximately \$62 million. Under Florida law, the current surplus will allow UPCIC to write up to approximately \$600 million in gross written premiums in the 2007 calendar year. The surplus note has a twenty-year term and accrues interest at a rate equivalent to the 10-year U.S. Treasury Bond Rate, adjusted quarterly based on the 10-year Constant Maturity Treasury rate. For the first three years of the term of the surplus note, UPCIC is required to pay interest only, although principal payments can be made during this period. Any payment of principal or interest by UPCIC on the surplus note must be approved by the Commissioner of Florida Insurance Regulation. An event of default will occur under the surplus note if UPCIC: (i) defaults in the payment of the surplus note; (ii) fails to meet at least a 2:1 ratio of net premium to surplus ("Minimum Writing Ratio") requirement by June 1, 2007; (iii) fails to submit quarterly filings to the OIR; (iv) fails to maintain at least \$50 million of surplus during the term of the surplus note, except for certain situations; (v) misuses proceeds of the surplus note; (vi) makes any misrepresentations in the application for the program; or (vii) pays any dividend when principal or interest payments are past due under the surplus note. As of December 31, 2006, the Company is in compliance with each of the aforementioned loans covenants. If UPCIC fails to increase its writing ratio for two consecutive quarters prior to June 1, 2007, fails to obtain the 2:1 Minimum Writing Ratio by June 1, 2007, or drops below the 2:1 Minimum Writing Ratio once it is obtained for two consecutive quarters, the interest rate on the surplus note will increase during such deficiency by 25 basis points if the resulting writing ratio is between 1.5:1 and 2:1 and the interest rate will increase by 450 basis points if the writing ratio is below 1.5:1. If the writing ratio remains below 1.5:1 for three consecutive quarters after June 1, 2007, UPCIC must repay a portion of the surplus note so that the Minimum Writing Ratio will be obtained for the following quarter. The Company expects to maintain the 2:1 Minimum Writing Ratio throughout the term of the surplus note. To meet its matching obligation under the Insurance Capital Build-Up Incentive Program, on November 3, 2006, the Company entered into a Secured Promissory Note with Benfield Greig (Holdings), Inc. in the aggregate principal amount of \$12 million. Interest on the note will accrue at the market rate of 12.75% per annum. The outstanding principal is due in six monthly installments of \$1.5 million and a final seventh monthly installment of the remaining balance plus all accrued interest under the terms of the Note starting on January 31, 2007 and ending on July 31, 2007. Given the short duration of the note, the carrying value was deemed to approximate its fair value as

of December 31, 2006. In connection with the loan, the Company and its subsidiaries appointed Benfield Inc. as their reinsurance intermediary for all of their reinsurance placements for the year beginning on June 1, 2007. As of March 30, 2007, all amounts due on the Note have been paid. Loan repayments are due as follows as of December 31, 2006: 2007 \$12,324,278 2008 15,334 2009 14,118 2010 1,007,968 2011 1,050,826 Thereafter 22,969,020 ----- \$37,381,544 ===== Interest expense was \$412,729 and \$37,228 for the twelve months ended December 31, 2006 and 2005, respectively. NOTE 8 - REGULATORY REQUIREMENTS AND RESTRICTIONS UPCIC is subject to comprehensive regulation by the OIR. The Florida Insurance Code (the "Code") requires that UPCIC maintain minimum statutory surplus of \$4,000,000. UPCIC is also required to adhere to prescribed premium-to-surplus ratios under the Code and to maintain approved securities on deposit with the state of Florida. UPCIC's statutory surplus as of December 31, 2006 is \$62,018,676. During 2005 and 2006, UPCIC did not pay dividends to the Company. F-20 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 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 2005 and 2006, UPCIC did not pay dividends to the Company. NOTE 9 - RELATED PARTY TRANSACTIONS All underwriting, rating, policy issuance, reinsurance negotiations and administration functions for UPCIC are performed by UPCIC, Universal Risk Advisors, Inc., a wholly owned subsidiary of the Company, and unaffiliated third parties. Claims adjusting functions are performed by Universal Adjusting Corporation, a wholly owned subsidiary of the Company and unaffiliated third parties. Downes and Associates, Inc., a multi-line insurance adjustment corporation based in Deerfield Beach, Florida performs certain claims adjusting work for UPCIC. Downes and Associates, Inc. is owned by Dennis Downes, who is the father of Sean P. Downes, COO and Senior Vice President of UPCIC. During 2006 and 2005, the Company expensed claims adjusting fees of \$829,208 and \$1,075,188, respectively, to Downes and Associates. During 2005, Sean P. Downes filed a claim on his homeowners' policy issued by UPCIC as a result of damage incurred during Hurricane Wilma. UPCIC handled the claim in the ordinary course of its business and has made a loss payment to Mr. Downes in the amount of \$214,409. In July 2004, the Company borrowed monies

from a private investor in the amount of \$175,000 for working capital. In August 2005, this individual's son, Michael P. Moran, became UPCIC's Vice President of Claims. The loan was paid off in January 2006. In September 2006, the Company acquired Sterling Premium Finance Company, Inc. ("Sterling") for the purchase price of \$50,000 from the Company's CEO and COO, who joint owned Sterling. The purchase price was equal to Sterling's book value at the time of acquisition.

**NOTE 10- INCOME TAX PROVISION** The following table reconciles the statutory federal income tax rate to the Company's effective tax rate for the years ended December 31, 2006 and 2005:

2006	2005	-----	Statutory federal income tax rate
35.0%	35.0%		

	Increases (decreases) resulting from:
Utilization of net operating loss	0% (28.5%)
Carry forward	
Change in valuation allowance	(6.5%) (15.6%)
Alternative minimum tax	0% 2.5%
Disallowed executive compensation	2.9% 0%
Disallowed meals & entertainment	.7% 0%
State income tax	6.1% 0%
Other	(2.7%) (1.0%)
-----	-----
Effective tax rate	35.5% (7.6%)

Deferred income taxes as of December 31, 2006 are provided for the temporary differences between financial reporting basis and the tax basis of the Company's assets and liabilities under SFAS 109. The tax effects of temporary differences are as follows:

F-21 Deferred income tax assets:	
Unearned premiums	\$ 7,417,440
Unpaid losses	576,770
Regulatory assessments	785,584
Executive compensation	472,645
Allowance for uncollectible receivables	219,401
Property and equipment	12,351
-----	9,484,191
Deferred income tax liabilities:	
Deferred policy acquisition costs	(812,435)
-----	-----
Net deferred income tax asset	\$ 8,671,756

=====  
A valuation allowance is deemed unnecessary as of December 31, 2006 because 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. A valuation allowance of \$607,299 associated with the utilization of net operating loss carryforwards had been recorded as of December 31, 2005. As of December 31, 2006, the Company has no remaining net operating loss available to carry forward to offset future taxable income. Included in the income tax is Florida income tax at a rate of 5.5%.

**NOTE 11 - STOCKHOLDERS' EQUITY CUMULATIVE PREFERRED STOCK** Each share of Series A and M Preferred Stock is convertible by the Company into 2.5 shares of Common Stock and 5 shares of Common Stock, respectively, into an aggregate of 568,326 common shares. The Series A Preferred Stock pays a cumulative dividend of \$.25 per share per quarter.

**STOCK OPTIONS** The Company adopted a 1992 Stock Option Plan (the "Plan")

under which new shares of Common Stock are reserved for issuance upon the exercise of the options. The Plan is designed to serve as an incentive for attracting and retaining qualified and competent employees, officers, directors and consultants of the Company. All employees, officers, directors and consultants of the Company or any subsidiary are eligible to participate in the Plan. The Plan does not specify the number of shares for which options are available for grant. The stock options may be granted over a period not to exceed 10 years and generally vest as of the date of grant or upon certain goals attained. The Plan has no provisions for the exercising of options other than paying the cash exercise price. F-22 A summary of the option activity for the years ended December 31, 2006 and 2005 is presented below: Options Exercisable -----

Weighted Average Aggregate Number of Shares	Option Exercise Price	Intrinsic Value	Low	High	Weighted of Shares Price Value
-----	-----	-----	-----	-----	-----
Outstanding January 1, 2005	8,032,999	\$ 0.04	\$ 3.88	\$ 1.00	8,032,999
Cancelled (517,999)		\$ 0.50	\$ 3.88	\$ 1.66	
-----	-----	-----	-----	-----	-----
Outstanding December 31, 2005	7,515,000	\$ 0.04	\$ 1.87	\$ 0.95	7,515,000
Exercised (220,000)		\$ 0.04	\$ 0.50	\$ 0.08	
Cancelled (850,000)		\$ 1.00	\$ 1.25	\$ 1.24	
-----	-----	-----	-----	-----	-----
Outstanding December 31, 2006	6,445,000	\$ 0.04	\$ 1.87	\$ 0.91	6,445,000
		\$ 0.91	\$ 4.517,644		

===== The total intrinsic value of options exercised in 2006 was \$9,480. The total cash received in 2006 for the exercise of stock options was \$18,000. The weighted average remaining contractual life on the 6,445,000 options outstanding and exercisable as of December 31, 2006 was 2.4 years. All options are exercisable and fully vested. There were no options granted in 2006 or 2005. The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, such models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options. WARRANTS A summary of the warrant activity for the years ended December 31, 2006 and 2005 is presented below: Warrants Exercisable -----

Weighted Average Aggregate Number of Shares	Warrant Exercise Price	Low	High	Weighted of Shares Price Value
-----	-----	-----	-----	-----
Outstanding January 1, 2005	3,068,652	\$ 0.03	\$ 4.25	\$ 1.27

3,068,652 \$ 1.27 Granted 200,000 \$ 0.05 \$ 0.05 \$ 0.05  
 Cancelled (1,336,646) \$ 1.00 \$ 4.25 \$ 2.29 -----  
 Outstanding December 31, 2005 1,932,006 \$ 0.03 \$ 3.00 \$  
 1.11 1,932,006 \$ 1.11 Exercised (625,000) \$ 0.05 \$ 0.05 \$  
 0.05 Cancelled (457,006) \$ 0.75 \$ 3.00 \$ 1.20 -----  
 Outstanding December 31, 2006 850,000 \$ 0.03 \$ 1.00 \$  
 0.72 850,000 \$ 0.72 \$482,870 ===== F-23 The

total intrinsic value of warrants exercised in 2006 was \$24,305. The total cash received in 2006 for the exercise of stock warrants was \$31,250. The weighted average remaining contractual life on the 850,000 options outstanding and exercisable as of December 31, 2006 was 1.9 years. All warrants are exercisable and fully vested. The actual tax benefit realized for the tax deductions from option and warrant exercise of the share-based payment arrangements totaled \$376,747 for the year ended December 31, 2006. OTHER STOCK ISSUANCES In February 2006, the Company issued 325,000 shares of restricted Common Stock at a price of \$.05 per share to a private investor pursuant to the exercise of warrants to purchase restricted Common Stock. In April 2006, the Company issued 200,000 shares of Common Stock at a price of \$.05 per share to a vendor pursuant to the exercise of warrants to purchase restricted Common Stock. Also in April 2006, the Company issued 200,000 shares of restricted Common Stock at a price of \$.04 per share to Sean P. Downes, COO of the Company, pursuant to Mr. Downes' exercise of stock options and 123,077 shares of restricted Common Stock at a price of \$.93 per share pursuant to Mr. Downes' election to receive such shares in lieu of accrued vacation. Also in April 2006, the Company issued 10,000 shares of restricted Common Stock at a price of \$.50 per share to Reed J. Slogoff, a director of the Company, pursuant to the exercise of options to purchase restricted Common Stock. In May 2006, the Company issued 400,000 shares of restricted Common Stock to one employee at \$1.23 per share and 25,000 to a second employee at \$1.30 per share in conjunction with employment agreements. Also in May 2006, the Company issued 10,000 shares of restricted Common Stock at a price of \$.50 per share to an employee of the Company pursuant to the exercise of options to purchase the restricted Common Stock. In June 2006, the Company issued 25,000 shares of restricted Common Stock at a price of \$1.52 per share to each of the then outside directors of the Company (Norman M. Meier, Reed Slogoff, and Joel Wilentz) and 200,000 shares of restricted Common Stock at a price of \$1.52 per share to Sean P. Downes, COO of the Company, as a bonus. Also in June 2006, the Company issued James M. Lynch, CFO of the Company, 25,807 shares of Common Stock at a price of \$1.65 per share as a bonus. Unless otherwise specified, such as in the



case of the exercise of stock options or warrants, the per share prices were determined using the closing price of the Company's Common Stock as quoted on the OTC Bulletin Board and the shares were issued in private transactions pursuant Section 4(2) of the Securities Act of 1933, as amended. On October 24, 2006, the Company declared a dividend of \$.05 per share on its outstanding Common Stock of the Company to be paid on April 9, 2007 to the shareholders of record of the Company at the close of business on March 19, 2007. The dividend payable amount of \$1,902,855 for this dividend is accrued in the December 31, 2006 balance sheet. At December 31, 2006, the Company recorded a dividend payable in the amount of \$1,902,855 for this dividend and a net reduction to retained earnings in the amount of \$1,747,423, which represents the total dividend net of the dividends on the shares held in treasury stock and in the Stock Grantor Trust described in Note 11 - Stockholders' Equity. During the fourth quarter, the Company paid a dividend of \$0.05 per share that was accrued at the end of third quarter. The aggregate amount of the dividend was \$1,747,423. During the third quarter, the Company paid a dividend of \$0.04 per share of outstanding Common Stock that was accrued at the end of the second quarter. The aggregate amount of the dividend was \$1,393,938. During the second quarter, the Company paid a dividend of \$0.04 per share of outstanding Common Stock that was accrued at the end of first quarter. The aggregate amount of the dividend was \$1,364,506. At the Company's Annual Meeting of Shareholders held on December 7, 2005, the shareholders voted to amend the Company's certificate of incorporation to increase the number of authorized shares of Common Stock from 40,000,000 to 50,000,000 shares.

**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 Company Common Stock. In exchange, the SGT delivered \$29,000 and a promissory note to the Company for approximately \$2,320,000 which together represents the purchase price of the shares. Amounts owed by the SGT to the Company will be repaid by cash received by the SGT, which will result 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 F-24 state law. The 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. NOTE 12 - COMMITMENTS AND CONTINGENCIES

**EMPLOYMENT AGREEMENTS** The Company's employment agreement with Mr. Meier is dated as of August 11, 1999. The Company and Mr. Meier have amended the employment agreement, with the most recent amendment dated March 21, 2007 (the employment agreement and the amendments are collectively referred to as the "Meier Agreement"). Under the terms of the Meier Agreement, Mr. Meier will serve as the Company's President and Chief Executive Officer. Mr. Meier received a base salary of \$830,324 in 2006, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Meier Agreement, Mr. Meier is entitled to an annual performance bonus equal to three percent (3%) of the pretax income of the Company up to \$5 million, and four percent (4%) of the pretax income of the Company in excess of \$5 million; provided, however, that any such bonus is contingent upon the Company's shareholders approving such bonus formula. Should the Company's shareholders fail to approve the formula, Mr. Meier forfeits his right to the bonus. Mr. Meier is also eligible for other benefits customarily provided by the Company to its executive employees, and the Meier Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Meier Agreement), the Company shall pay Mr. Meier an amount equal to 48 months base salary, plus two times any bonus paid for the preceding fiscal year. Further, in the event of a Change in Control, all options held by Mr. Meier vest and become immediately exercisable. Also, in the event that the Company terminates the Meier Agreement, the Company shall pay Mr. Meier 48 months total compensation. The Meier Agreement expires on December 31, 2008; however, the agreement is automatically extended each year thereafter unless the Company or Mr. Meier provides written notice that the agreement is being terminated 60 days in advance of the anniversary date of the Meier Agreement. The Company's employment agreement with Mr. Downes is dated as of January 1, 2005 and provides that Mr. Downes will serve as Chief Operating Officer and Senior Vice President of the Company. The Company and Mr. Downes have amended the employment agreement, with the most recent amendment dated March 21, 2007 (the employment agreement and the amendments are collectively referred to as the "Downes Agreement"). Mr. Downes received a base salary of \$527,678 in 2006, and he is entitled to a twenty percent (20%) increase in base salary each year. Additionally, pursuant to the Downes Agreement, Mr. Downes is entitled to an annual performance bonus equal to three percent (3%) of the pre-tax profits of the Company; provided, however, that any such bonus is contingent upon

the Company's shareholders approving such bonus formula. Should the Company's shareholders fail to approve the formula, Mr. Downes forfeits his right to the bonus. Under the Downes Agreement, the Company may grant Mr. Downes options or warrants to purchase the Company's Common Stock. Mr. Downes is also eligible for other benefits customarily provided by the Company to its executive employees and the Downes Agreement contains noncompete and nondisclosure provisions. In addition, in the event of a Change in Control of the Company (as defined in the Downes Agreement), the Company shall pay Mr. Downes an amount equal to 12 months base salary, plus the annual bonus paid for the preceding fiscal year. Further, in the event of a Change in Control, all options held by Mr. Downes vest and become immediately exercisable. The Downes Agreement expires on December 31, 2008 unless extended in writing by the Company. During the year ended December 31, 2006, Mr. Downes converted bonus and accrued vacation into 323,077 shares of Common Stock.

The shares were issued to Mr. Downes in private transactions performed in accordance with the terms of the Downes Agreement and pursuant to Section 4(2) of the Securities Act of 1933, as amended. OPERATING LEASE

The Company has leased certain computer equipment and software under a master equipment lease agreement with Relational Funding, Inc. with an original equipment cost of \$743,442. The following is a schedule of future minimum rental payments required under the non-cancelable operating lease as of December 31, 2006: 2007 \$ 227,076 2008

136,581 2009 32,042 ----- \$ 395,699 =====

F-25 NOTE 13 - LITIGATION Certain lawsuits have been filed against the Company. In the opinion of management, none of these lawsuits are 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. On February 7, 2005, Marty Steinberg as a court appointed receiver for the entities consisting of Lancer Management Group LLC, Lancer Management Group II LLC, Lancer Offshore Inc., Omnifund Ltd., LSPV Inc., LSPV LLC, Alpha Omega Group Inc. and G.H. Associates LLC (collectively the "Lancer Entities") filed suit against Alfred Taubman, Anthony Cullen, British American Racing, Centrack International, Inc., Kuwait & Middle East Financial Investment Co., Liberty International Asset Management, Macroview Investments Limited, Opus Portfolio Ltd., Reva Stocker, Roger Dodger, LLC, Signet Management Limited, Thornhill Group Inc. Trust, World Class Boxing and the Company (collectively the "Defendants") in the United States District Court for the

Southern District of Florida. The Company received the notice of suit by mail on September 8, 2005. The suit alleged that the Lancer Entities fraudulently transferred funds to the Defendants and that the transfers unduly enriched the Defendants. The receiver asked the Company to pay \$658,108. The Company had no record of the alleged transfers and vigorously defended the suit. The lawsuit has since been dismissed with prejudice by the receiver.

NOTE 14 - EARNINGS PER SHARE The following table reconciles the numerator (earnings) and denominator (shares) of the basic and diluted earnings per share computations for net income for the years ended December 31, 2006 and 2005. For year ended For year ended December 31, 2006 December 31, 2005 -----

	Income	Income Available to Common Stockholders Per Share Amount	Available to Stockholders Per Share Amount
-----	Income	Available to Common Stockholders Per Share Amount	Available to Stockholders Per Share Amount
-----	-----	-----	-----
	Net income	\$17,186,860	\$6,506,597
	Less: Preferred stock dividends	(49,950)	(49,950)
-----	Income available to common stockholders	17,136,910	32,807,521
		34,409,415	\$ 0.20
	Effect of dilutive securities: Stock options and warrants	- 4,100,903	(0.06) - 569,793
	Preferred stock	49,950	568,325 - 49,950
		568,325	-----
	Income available to common stockholders and assumed conversion	\$17,186,860	33,945,639
		39,078,643	\$ 0.19

NOTE 15 - SUPPLEMENTAL CASH FLOW INFORMATION Cash payments for interest and income taxes during the years ended December 31, 2006 and 2005 were as follows: For the years ended ----- December 31, 2006 December 31, 2005 ----- Interest 178,529 37,228 Income Taxes 2,696,500 80,000 F-26

NOTE 16 - SUBSEQUENT EVENTS On March 15, 2007, the Company declared a dividend of \$.07 per share on its outstanding Common Stock of the Company to be paid on August 10, 2007 to the shareholders of record of the Company at the close of business on July 20, 2007. The dividend payable amount is \$2,446,392. F-27