# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Form: S-1/A

## Date Filed: 2008-07-08

Corporate Issuer CIK: 1400810

As filed with the Securities and Exchange Commission on July 8, 2008

Registration No. 333-150513

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# Amendment No. 2
# to
# FORM S-1

**REGISTRATION STATEMENT**
***UNDER***
***THE SECURITIES ACT OF 1933***

# HOMEOWNERS CHOICE, INC.

**(Exact name of registrant as specified in its charter)**

| Florida | 6331 | 20-5961396 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

**145 N.W. Central Park Plaza, Suite 115**
**Port St. Lucie, Florida 34986**
**(772) 204-9394**
**(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)**

**F&L Corp.**
**One Independent Drive, Suite 1300**
**Jacksonville, Florida 32202**
**(904) 359-2000**
**(Name, address including zip code, and telephone number, including area code, of agent for service)**

***Copies to:***

**Carolyn T. Long, Esq.**
**Megan A. Odroniec, Esq.**
**Foley & Lardner LLP**
**100 North Tampa Street, Suite 2700**
**Tampa, Florida 33602**
**(813) 229-2300**
**(813) 221-4210—Fax**

**Bradley A. Haneberg, Esq.**
**Anthony W. Basch, Esq.**
**Kaufman & Canoles, P.C.**
**1051 East Cary Street, 12th Floor**
**Richmond, Virginia 23219**
**(804) 771-5700**
**(804) 771-5777—Fax**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐_____:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐_____.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐_____.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☐ | Smaller reporting company x |

**The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement**

**shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION DATED JULY 8, 2008**


HOMEOWNERS CHOICE

*Insurance for Floridians by Floridians*

# Maximum of 1,666,668 Units

# Minimum of 1,333,334 Units

# Each Unit Consisting of One Share of Common Stock and One Warrant

We are offering for sale up to 1,666,668 units, with each unit consisting of one share of common stock and one warrant. Two warrants may be exercised to acquire one share of common stock at an exercise price equal to $7.97 per share (130% of the public offering price). You may exercise your warrants at any time after the closing of this offering and ending five years after the closing of this offering. We may cancel the warrants, in whole or in part, and if in part, by lot, at any time following the six month anniversary of the closing of this offering if the closing price per share of our common stock exceeds $9.96 (125% of the exercise price of the warrant) for at least ten trading days within any period of twenty consecutive trading days.

Our placement agents, Anderson & Strudwick, Incorporated and GunnAllen Financial, Inc., are selling the units on a minimum/maximum "best efforts" basis. The placements agents are not required to sell any specific dollar amount of securities but will use their best efforts to sell the securities offered. Our placement agents will receive a fee with respect to such sales. Subscriptions for the units will be deposited into escrow with SunTrust Bank, N.A. until a minimum of 1,333,334 units have been sold. In the event we do not sell a minimum of 1,333,334 units by September 30, 2008, escrowed funds will be promptly returned to investors without interest or deduction. In the event that a minimum of 1,333,334 units are sold by September 30, 2008, we will close on those funds received and promptly issue the units.

Prior to this offering, there has been no public market for our units, common stock or warrants. We anticipate that the initial public offering price of the units will be between $5.13 and $7.13 per unit. The shares of common stock and warrants comprising the units will trade separately immediately upon commencement of trading. We have applied to list our units on The NASDAQ Global Market under the symbol "HCIIU." Once the securities comprising the units begin separate trading, the common stock and the warrants will be traded on The NASDAQ Global Market under the symbols "HCII" and "HCIIW," respectively.

**Investing in our common stock involves risks. See 'Risk Factors" on page 10.**

| | Price to Public | Placement Agent Fees[1] | Proceeds, Before Expenses, to Homeowners Choice[2] |
|---|---|---|---|
| Per Unit | $ | $ | $ |
| Total if minimum sold | $ | $ | $ |
| Total if maximum sold | $ | $ | $ |

(1) We have also agreed to issue to our placement agent warrants to purchase that number of shares of our common stock equal to 10% of the number of units sold in the offering. These warrants will have an exercise price equal to 130% of the initial public offering price.

(2) We expect total cash expenses for this offering to be approximately $700,000.

Delivery of the units will be made on or about_____, 2008.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**ANDERSON & STRUDWICK, INCORPORATED** **GUNNALLEN FINANCIAL, INC.**

The date of this prospectus is_____, 2008.

## PROSPECTUS SUMMARY

*This summary highlights information that we present more fully in the rest of this prospectus and does not contain all of the information you should consider before investing in our securities. This summary contains forward-looking statements that involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances or achievements expressed or implied by the forward-looking statements. You should read the entire prospectus carefully, including the "Risk Factors" section and our consolidated financial statements and related notes. Except as otherwise indicated, the market data and industry statistics in this prospectus are based upon independent industry publications and other publicly available information. Unless the context requires otherwise, as used in this prospectus, the terms "HCI," "we," "us," "our," "the Company," "our company," and similar references refer to Homeowners Choice, Inc. and its subsidiaries.*

### Our Business

*Overview*

We are a property and casualty insurance holding company. Through our subsidiaries, we currently provide property and casualty homeowners' insurance, condominium-owners' insurance, and tenants' insurance to individuals owning property in Florida. We provide these insurance products at competitive rates, while pursuing profitability using our selective underwriting criteria.

We began operations in June of 2007 by participating in a "take-out program" through which we assumed insurance policies held by Citizens Property Insurance Corporation ("Citizens"), a Florida state-supported insurer. Since inception, we have assumed, through our insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc., more than 23,000 property and casualty insurance policies from Citizens representing $66 million in annualized premiums. Of those policies, approximately 85% are homeowners' insurance policies, and the remaining 15% are a combination of policies written for condominium-owners and tenants. As of March 31, 2008, we had total assets of $57.1 million and stockholders' equity of $18.4 million. Our net income was $1.0 million for the year ended December 31, 2007 and $3.9 million for the quarter ended March 31, 2008.

The Florida Residential Property and Casualty Joint Underwriting Association (now known as Citizens) was formed by the Florida legislature in December of 1992 following Hurricane Andrew. The losses resulting from Hurricane Andrew caused several small property insurance companies to become insolvent, while some of the large insurance companies began canceling many of their Florida policies in order to reduce their potential loss exposure in the event of another major hurricane. This left a large number of Florida homeowners without access to property insurance coverage. Citizens' mission is to provide residential property insurance coverage to Florida homeowners who cannot obtain private insurance. If an insurance agent is unable to place a policy with a private insurer, the agent can write a policy for Florida residential property through Citizens. Citizens now has over 1.2 million policies in force and has the largest market share of any insurer in the State of Florida, making the State vulnerable to the risk of a catastrophic event. In an effort to reduce this risk, the Florida legislature instituted a depopulation or "take-out" program to encourage private insurance companies, like ours, to assume policies from Citizens thereby reducing the State's loss exposure.

After thoroughly reviewing the policies that we are eligible to assume from Citizens, we assume only those policies that meet our selective underwriting criteria. Citizens currently retains 16% of the unearned premium for the policies that we assume, as our acquisition cost. Our rates on these policies must be equal to or less than the rates charged by Citizens. If Citizens reduces its rates, we must reduce our rates by the same amount for our assumed policies; however, if Citizens increases its rates, we will not be permitted to automatically increase our

rates. We must provide coverage to Citizens' policyholders that we assume in this manner for a period of three years, provided that we can cancel a policy in certain circumstances, including for fraud or misrepresentation and non-payment of premiums.

We must have the approval of the insurance agent in order to assume a policy written by such agent from Citizens. We obtain this approval through a limited producer agreement with the agent. In some instances, we must also have the approval of the agent's affiliated insurance company. This typically applies when the agent is affiliated with a large, national insurance company. Currently, the Florida subsidiaries of two large, national insurance companies, Allstate Floridian Insurance Company and State Farm Florida Insurance Company, permit us to assume policies from Citizens that have been written through their agents. We currently have agent consents relating to approximately one-half of Citizens' policies. In an effort to increase the pool of Citizens' policies that we may assume, we are in discussions with other agents and insurance companies to obtain similar approvals.

Historically, the Florida property and casualty insurance market has been dominated by large, national insurance companies, which began writing property and casualty insurance policies in Florida when rates were much lower than they are today. Following Hurricane Andrew, it became apparent that the historical rates charged by these insurance companies were not adequate to cover the risks they assumed. This problem resurfaced following Florida's unusual hurricane activity in 2004 and 2005. Insurance companies that continued to do business in Florida following these events requested rate increases from the Florida Office of Insurance Regulation ("OIR"). The OIR is typically reluctant to implement large rate increases over a short period in an effort to ensure that property and casualty rates do not become cost prohibitive for Florida homeowners. As a result, many insurers have been unable to implement in a timely manner, rate increases that they believed were sufficient to offset the risks being assumed. Consequently, many insurers are continuing to decrease the number of property and casualty insurance policies they write in Florida.

We currently have a network of over 1,500 independent agents that have entered into limited producer agreements with us. We have also begun writing insurance policies through these agents that are unrelated to the Citizens' take-out program, which we refer to as voluntary policies. As of March 31, 2008, approximately 99% of our policies are assumed from Citizens and approximately 1% of our policies were voluntary policies. Our independent agents typically represent several insurance companies in order to provide various insurance product lines. Because many large, national insurers have significantly decreased the number of homeowners' insurance policies they write in the State of Florida as described above, we believe a significant opportunity exists to increase the number of voluntary policies that we write through their agents. In some cases, however, we must gain the approval of these larger direct writing insurers in order to provide an alternative source to their agents for writing homeowners' policies in Florida. We intend to seek additional voluntary business from the top-producing agents in our independent agent network and will seek approvals from their affiliated insurance companies as required.

*Our Market and Opportunity*

We believe that the significant decrease in the number of Florida property and casualty insurance policies written by various large, national insurance companies coupled with the Citizens take-out program has provided smaller, domestic insurance companies, such as our insurance subsidiary, with a unique opportunity for growth in the Florida property and casualty insurance market. Unlike many of the large national insurance companies that have found their rates insufficient to offset the potential risk of loss, we have been able to selectively assume policies meeting our underwriting criteria at a rate that we believe is adequate.

According to the OIR June 2007 data, the market for homeowners' insurance, condominium-owners' insurance, and tenants' insurance (i.e., the insurance products offered by our insurance subsidiary) in Florida is 4.7 million policyholders representing annual premiums in excess of $8 billion. Citizens currently writes approximately 30% of these policies. Large, national insurance companies account for another 45% of these policies.

Although the Florida property and casualty insurance market is particularly susceptible to risks due to hurricanes, the statistical likelihood of experiencing catastrophic hurricane-related losses is not as great as recent storm activity might suggest. Each year, forecasters predict the number of storms for the year and the number of storms likely to hit the United States. These forecasts refer to all manner of storms ranging from tropical storms to category 5 hurricanes. Moreover, these predictions do not anticipate the number of storms to impact a particular state, such as Florida.

The Saffir/Simpson hurricane scale classifies hurricanes into five categories according to intensity of sustained winds, central barometric pressure and storm surge. The scale is used primarily to measure the potential damage and flooding a hurricane will cause upon landfall. The U.S. National Hurricane Center classifies hurricanes of category 3 and above as “major hurricanes.” Tropical storms and the lowest two categories, category 1 and category 2 hurricanes, have wind speeds of less than 110 miles per hour and do not present a significant risk of loss. According to the National Hurricane Center, category 1 storms cause no significant damage to building structures, other than unanchored mobile homes. According to the same source, category 2 storms may damage roofing material, poorly constructed doors and windows, and mobile homes. Consequently, we believe only category 3 and above hurricanes present a significant risk of property damage to our insureds.

A NOAA Technical Memorandum published by the National Weather Service—National Hurricane Center in April 2007 reveals that between 1951 and 2006 (a span of 55 years), only 11 “major” storms (a category 3 or greater) struck Florida, five of which occurred during the well-publicized 2004-2005 hurricane season. The following table contains a compilation of the information in the Technical Memorandum regarding the “major” storms (category 3 or higher) that struck Florida since 1952:

**FLORIDA HURRICANE HISTORY**

**Category 3 or Greater, 1952-2007**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1952 - | None | 1966 - | None | 1980 - | None | 1994 - | None |
| 1953 - | None | 1967 - | None | 1981 - | None | 1995 - | 1 |
| 1954 - | None | 1968 - | None | 1982 - | None | 1996 - | None |
| 1955 - | None | 1969 - | None | 1983 - | None | 1997 - | None |
| 1956 - | None | 1970 - | None | 1984 - | None | 1998 - | None |
| 1957 - | None | 1971 - | None | 1985 - | 1 | 1999 - | None |
| 1958 - | None | 1972 - | None | 1986 - | None | 2000 - | None |
| 1959 - | None | 1973 - | None | 1987 - | None | 2001 - | None |
| 1960 - | 1 | 1974 - | None | 1988 - | None | 2002 - | None |
| 1961 - | None | 1975 - | 1 | 1989 - | None | 2003 - | None |
| 1962 - | None | 1976 - | None | 1990 - | None | 2004 - | 3 |
| 1963 - | None | 1977 - | None | 1991 - | None | 2005 - | 2 |
| 1964 - | None | 1978 - | None | 1992 - | 1 | 2006 - | None |
| 1965 - | 1 | 1979 - | None | 1993 - | None | 2007 - | None |

*Competitive Strengths*

We believe the following are our key competitive strengths:

- *Our Relatively New Position in the Property & Casualty Insurance Market.* Unlike the larger, national insurance companies that have traditionally written homeowners' insurance policies in Florida, we have not had to struggle to maintain rates that we believe are commensurate with the amount of risk that we assume. As a new company, we believe we entered the market with appropriate rates and have not had to request increases in our rates in order to achieve profitability.
- *Our Capital Structure.* While other domestic insurance companies have relied upon debt to provide start-up and working capital, since inception, we have been funded entirely by equity.
- *Our Underwriting Criteria.* With the aid of our personalized policy rating and administration system, we use highly refined and continually evolving underwriting criteria to determine which new insurance policies we are willing to accept.
- *Our Relationships with Government Agencies.* Our Chief Executive Officer and other members of our management team have long standing relationships with agents and insurance regulators in the State of Florida.
- *Our Ability to Attract Independent Agents.* Our management team's extensive industry experience and network of contacts facilitate our ability to attract a network of independent agents that we believe will direct potential policyholders to our company to fulfill their homeowners' insurance needs.
- *Our In-House Policy Administration System.* Rather than outsourcing the policy administration function, we service, renew, rate and administer all of our policies in-house which we believe allows us to maintain closer relationships with our agents and policyholders and improves our responsiveness to changes in our industry and business.

*Our Strategies*

Our primary goal is to continue to expand our property and casualty writings in the State of Florida. We intend to employ the following strategies to achieve this goal:

- *Increase our Property and Casualty Insurance Offerings in the State of Florida by Increasing our Number of Voluntary Policies.* In recent years, large, national insurance companies have significantly reduced their homeowners' policies written in Florida. We believe this trend presents an opportunity to acquire a number of homeowners policies from these national insurers. We will focus on expanding our relationship with our current network of agents in an effort to secure new business that is unrelated to the Citizens' take-out program, which we refer to as "voluntary" business. When required, we will also seek the approval of their affiliated insurance companies to become an alternative insurance source for their agents and policyholders in Florida.
- *Increase our Property and Casualty Insurance Offerings in the State of Florida Through Assumption of Policies Held by Citizens.* Approximately 30% of Florida's homeowners' policies are currently written by Citizens. We intend to continue selecting and assuming, from the large pool of policies held by Citizens, existing insurance policies that meet our selective underwriting criteria. We also will continue to develop our network of independent agents and, when necessary, obtain approval of their affiliated insurance companies in order to increase the number of policies that we are eligible to assume from Citizens.
- *Attract and Retain High-Quality Agents.* We intend to focus our marketing efforts on maintaining and improving our relationships with highly productive agents in our current network, as well as on attracting new high-quality agents in areas with a substantial potential for growth. We believe that these agents will play a key role in our efforts to increase the number of voluntary policies written by our insurance subsidiary.

- *Reducing our Ratio of Expenses to Net Premiums Earned and Using Technology to Increase our Operating Efficiency.* We are committed to improving our profitability by reducing expenses through enhanced technologies and by increasing the number of policies written through the strategic deployment of our capital. We consolidate all processing and administration of our policies to achieve quality control, operating synergies and tighter expense control. We use technology to automate much of our underwriting activities and to efficiently and cost-effectively facilitate policyholder communications.
- *Evaluate Appropriate Levels of Reinsurance and Utilize our Planned Reinsurance Subsidiary.*We will continue evaluating the appropriate amount of reinsurance that we believe will limit our loss exposure on individual property and casualty risks in the most cost-effective manner. We have also formed a new subsidiary through which we intend to meet certain of our insurance subsidiary's reinsurance needs.

In addition to the goals and strategies described above, we may at some point consider diversifying our business by offering additional insurance products while maintaining our selective underwriting standards. We may also expand our business outside the State of Florida through the organic growth of our company or through strategic acquisitions. We currently have no definitive plans or arrangements for product line diversification or geographic expansion outside the State of Florida.

*Challenges and Risks*

We face a number of challenges and risks in implementing our operating and growth strategies, including the following:

- We have a limited operating history—less than one year—on which to base an evaluation of our business and prospects. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of development.
- In the Florida property insurance market, we compete with large, well-established insurance companies, as well as other specialty insurers. Most of these competitors possess greater financial resources, larger agency networks and greater name recognition than we do.
- We write insurance policies that cover homeowners, condominium owners, and tenants for losses that result from, among other things, catastrophes. We are, therefore, subject to claims arising out of catastrophes that may have a significant effect on our business, results of operations, and financial condition. Catastrophes can be caused by various events, including hurricanes, windstorms, hailstorms, explosions, power outages, fires and man-made events.
- The insurance industry is highly regulated and supervised. Our insurance subsidiary is subject to the supervision and regulation of the State of Florida. These regulations are administered by the OIR and relate to, among other things: approval of policy forms and premium rates; licensing of insurers and their products; restrictions on the nature, quality and concentration of investments; restrictions on the ability of our insurance subsidiary to pay dividends to us; restrictions on transactions between insurance company subsidiaries and their affiliates; and standards of solvency, including risk-based capital measurements.
- Our success depends on our ability to accurately assess the risks associated with the policies that we write. If we fail to accurately assess the risks associated with these policies, we may fail to establish adequate premium rates, which could reduce our net income and result in losses.
- Our loss and loss adjustment expense reserves may deviate substantially from the amounts we will ultimately pay on claims and the related costs of adjusting those claims. If actual losses and loss adjustment expenses exceed our reserves, our net income and capital would decrease.

- The implementation of our growth strategies is subject to various risks, including risks associated with our ability to identify, recruit and integrate new independent agents; develop our relationships with these agents; identify additional profitable policies to assume from Citizens; identify new geographic markets and product lines to enter; obtain necessary licenses; identify acquisition candidates and successfully execute and integrate acquisitions we undertake and identify, hire and train new underwriting and financial personnel.

For a discussion of these challenges and other risks relating to our business and an investment in our common stock, see "Risk Factors" beginning on page 10.

**Corporate Information**

Our principal executive offices are located at 145 N.W. Central Park Plaza, Suite 115, Port St. Lucie, Florida 34986, and our telephone number is (772) 204-9394. Our website is www.hcpci.com. Information contained on our website is not incorporated by reference into this prospectus, and such information should not be considered to be part of this prospectus.

| The Offering | |
|---|---|
| Securities Offered | A minimum of 1,333,334 and a maximum of 1,666,668 units. Each unit consists of one share of common stock and one warrant. |
| Warrant Terms | The warrants included in the units will be exercisable any time following the completion of the offering, and will expire on the final day of the 60th month following the date of the closing of this offering. Two warrants may be exercised to purchase one share of our common stock at an exercise price equal to 130% of the public offering price ($7.97 assuming the mid-point of the expected public offering price range).<br><br>We may cancel the warrants, in whole or in part, and if in part, by lot, at any time following the six-month anniversary of the closing date of this offering, if the closing price per share of our common stock exceeds 125% of the exercise price of the warrant ($9.96 assuming the mid-point of the expected public offering price range) for at least ten trading days within any period of twenty consecutive trading days. In such an event, the warrant expiration date will be reduced to 30 days from the date of our issuance of a press release announcing such change to the warrant term. |
| Common Stock Outstanding After the Offering | Assuming that we sell the minimum number of units, we will have 6,515,334 shares outstanding and assuming that we sell the maximum number of units, we will have 6,848,668 shares outstanding (not including the shares of common stock underlying the warrants offered hereby nor the shares of common stock underlying the warrants to be issued to our placement agents). |
| Proposed NASDAQ Global Market Symbols | “HCIIU” for our units, “HCII” for our common stock, and “HCIIW” for our warrants. |
| Use of Proceeds | We intend to use the estimated net proceeds from this offering primarily for increasing our statutory surplus so that we can write additional policies, as well as general corporate purposes. |
| Risk Factors | See “Risk Factors” and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our securities. |
| Conditions to Closing | We will not close the offering if we do not receive subscriptions to purchase at least the minimum offering amount. |
| Escrow Period | Funds will be held in escrow until the earlier of our receipt of commitments to purchase 1,333,334 units or September 30, 2008. |
| Escrow Agent | SunTrust Bank, N.A. will serve as escrow agent for the subscription funds pending the closing of the offering. |

| | |
|---|---|
| Plan of Distribution | The placement agent intends to market the securities on a “best efforts” agency basis. |

The number of shares of common stock outstanding after the offering excludes:

- 1,150,000 shares of common stock issuable upon the exercise of options outstanding as of April 1, 2008 at a weighted average exercise price of $2.50 per share; and
- 4,850,000 shares of common stock reserved for future grant or issuance as of April 1, 2008 under our 2007 Stock Option and Incentive Plan.

Unless otherwise indicated, all information in this prospectus assumes:

- a 1-for-2.50 stock split that was effected by us on June 16, 2008;
- no person will exercise any outstanding options; and
- the sale of 1,666,668 units at an assumed initial public offering price of $6.13 per unit, the midpoint of the range set forth on the cover page of this prospectus.

## Summary Consolidated Financial Data

The following tables set forth a summary of our consolidated financial data for the periods presented and should be read in conjunction with our consolidated financial statements and the related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. All share and per share information have been restated to reflect a 1-for-2.50 stock split effected as of June 16, 2008.

| | Year Ended December 31, 2007 | Period from November 30, 2006 (Inception) to December 31, 2006 | Three months Ended March 31, 2008 | Three months Ended March 31, 2007 |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| **Consolidated Statement of Operations Data:** | | | | |
| **Revenue** | | | | |
| Net premiums earned | $ 7,034 | — | $10,441 | — |
| Net investment income | 602 | — | 346 | — |
| Other | 24 | — | 119 | — |
| Total revenue | 7,660 | — | 10,906 | — |
| **Expenses** | | | | |
| Losses and loss adjustment expenses | 2,742 | — | 2,274 | — |
| Policy acquisition and other underwriting expenses | 2,868 | — | 2,316 | — |
| Preopening expenses | 419 | 62 | — | 79 |
| Total expenses | 6,029 | 62 | 4,590 | 79 |
| Income (loss) before income taxes | 1,631 | (62) | 6,316 | (79) |
| Income taxes | 614 | — | 2,392 | — |
| Net income (loss) | $ 1,017 | (62) | $ 3,924 | (79) |
| Net earnings per share[1] | $ .29 | — | $ .76 | — |

| | At December 31, 2007 | At December 31, 2006 | At March 31, 2008 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| **Condensed Balance Sheet Data:** | | | |
| Cash and cash equivalents | $15,729 | 1 | $ 19,285 |
| Short-term investments | 17,055 | — | 25,075 |
| Premiums receivable | 3,256 | — | 6,358 |
| Deferred acquisition costs | 3,163 | — | 4,686 |
| Deferred income taxes | 653 | — | 855 |
| Total assets | 39,993 | 1 | 57,083 |
| Losses and loss adjustment expenses | 1,688 | — | 2,848 |
| Unearned premiums | 19,814 | — | 29,405 |
| Total liabilities | 25,655 | 63 | 38,713 |
| Additional paid-in capital | 13,383 | — | 13,491 |
| Retained earnings (accumulated deficit) | 955 | (62) | 4,879 |

(1) based on 3,454,667 and 5,182,000 weighted-average shares outstanding for the year ended December 31, 2007 and three month period ended March 31, 2008, respectively.

## RISK FACTORS

*An investment in our securities involves a high degree of risk and many uncertainties. You should carefully consider the specific factors listed below together with the other information included in this prospectus before purchasing our securities in this offering. If any of the possibilities described as risks below actually occurs, our operating results and financial condition would likely suffer and the trading price of our securities could fall, causing you to lose some or all of your investment in the securities we are offering. The following is a description of what we consider the key challenges and material risks to our business and an investment in our securities.*

### Risks Related to Our Business

**We have a limited operating history, and our business and future prospects are difficult to evaluate.**

Our company was organized in November 2006, and we did not commence operations until June 2007. Due to our limited operating history, our ability to execute our business strategy is materially uncertain and our operations and prospects are subject to all risks inherent in a developing business enterprise. Our limited operating history also makes it difficult to evaluate our long term commercial viability. More specifically, our ability to execute our business strategy must be evaluated in light of the problems, expenses and difficulties frequently encountered by new businesses in general and property and casualty insurance companies doing business only in Florida and offering primarily homeowners insurance policies in particular.

As a new business, we must work to establish successful operating procedures, to hire staff, to tailor and fine-tune our information management and other systems, to maintain adequate control of our expenses, to develop business relationships, to implement our marketing strategies (and to adapt and modify them as needed), to establish a positive image and reputation in the community, and to take any other steps necessary to conduct our business. As a result of these challenges and the expenses incurred in meeting these challenges, it is possible that we may not be successful in implementing our business strategy or completing the development of the infrastructure necessary to expand our business.

**Because our insurance subsidiary currently conducts business in only one state, any single catastrophic event or other condition affecting losses in that particular state could adversely affect our insurance subsidiary's business, financial condition, and results of operations.**

Our insurance subsidiary conducts business in only one state, the State of Florida. While our insurance subsidiary actively manages its exposure to catastrophic events through its underwriting process and the purchase of reinsurance, a single catastrophic event, destructive weather pattern, general economic trend, regulatory development or other condition specifically affecting the State of Florida could have a disproportionately adverse impact on our insurance subsidiary's business, financial condition, and results of operations. In addition, the fact that our insurance subsidiary's business is concentrated in the State of Florida subjects it to increased exposure to certain catastrophic events and destructive weather patterns such as hurricanes, tropical storms, and floods. Changes in the prevailing regulatory, legal, economic, political, demographic, competitive, and other conditions in the State of Florida could also make it less attractive for our insurance subsidiary to do business in the State of Florida and would have a more pronounced effect on our insurance subsidiary than it would on other insurance companies that are geographically diversified. Because our insurance subsidiary's business is concentrated in this manner, the occurrence of one or more catastrophic events or other conditions affecting losses in the State of Florida could have an adverse effect on its business, financial condition, and results of operations.

**Our results may fluctuate based on many factors including cyclical changes in the insurance industry.**

The insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favorable underwriting profits. An increase in premium levels is often over time offset by an increasing supply of insurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers, which may cause prices to decrease. Any of these factors

could lead to a significant reduction in premium rates, less favorable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on our results of operations and cash flows. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance business significantly. These factors may also cause the price of our common stock to be volatile.

We cannot predict whether market conditions will improve, remain constant or deteriorate. Negative market conditions may impair our ability to write insurance at rates that we consider appropriate relative to the risk assumed. If we cannot write insurance at appropriate rates, our ability to transact business would be materially and adversely affected.

**Increased competition, competitive pressures, industry developments and market conditions could affect the growth of our business and adversely impact our financial results.**

The property and casualty insurance industry in Florida is cyclical and, during times of increased capacity, highly competitive. We compete not only with other stock companies but also with mutual companies, other underwriting organizations and alternative risk sharing mechanisms. Our principal competitors cannot be easily classified. Our principal lines of business are written by numerous other insurance companies. Competition for any one account may come from very large, well-established national companies, smaller regional companies, other specialty insurers in our field, and other companies that write insurance only in Florida. Many of these competitors have greater financial resources, larger agency networks and greater name recognition than our company. We compete for business not only on the basis of price, but also on the basis of financial strength, types of coverages offered, availability of coverage desired by customers, commission structure and quality of service. We may have difficulty continuing to compete successfully on any of these bases in the future. Competitive pressures coupled with market conditions may affect our rate of premium growth and financial results.

Our ability to compete in the property and casualty insurance industry and our ability to expand our business may be negatively affected by the fact that we are a new company. As a new company that has been in business for less than five years, we are not eligible to be rated by A.M. Best. Mortgage companies operating in the state of Florida accept a Demotech rating. However, in some states, mortgage companies require homeowners to obtain property insurance from an insurance company with a certain minimum A.M. Best rating. As a result, the minimum A.M. Best rating requirement may prevent us from expanding our business into other states, which may in turn limit our ability to compete with large, national insurance companies and certain regional insurance companies.

As a new company, we also have a limited operating history and a limited loss history which may negatively impact our ability to establish loss reserves. Our current loss reserves are based primarily on estimates involving projections of our expectations regarding the ultimate settlement and administration costs of claims incurred. These projections are based in part on our experience with the types of claims incurred and the risks related to such claims. However, as a new company, our claims experience and our experience with the risks related to certain claims is inherently limited. These inherent limitations may increase the likelihood that our projections and our estimates may be inaccurate, which in turn may increase the likelihood that our actual losses may exceed our loss reserves. If our actual losses exceed our loss reserves, our financial results, our ability to expand our business, and our ability to compete in the property and casualty insurance industry may be negatively affected.

In addition, industry developments could further increase competition in our industry. These developments could include:

- an influx of new capital in the marketplace as existing companies attempt to expand their businesses and new companies attempt to enter the insurance business as a result of better pricing and/or terms;

- programs in which state-sponsored entities provide property insurance in catastrophe-prone areas or other alternative markets types of coverage;
- changing practices caused by the Internet, which has led to greater competition in the insurance business;
- changes in Florida's regulatory climate; and
- the passage of federal proposals for an optional federal charter that would allow some competing insurers to operate under regulations different or less stringent than those applicable to our insurance subsidiary.

These developments and others could make the property and casualty insurance marketplace more competitive by increasing the supply of insurance available.

If competition limits our ability to write new business at adequate rates, our future results of operations would be adversely affected.

**If our actual losses from insureds exceed our loss reserves, our financial results would be adversely affected.**

We record reserves for specific claims incurred and reported and reserves for claims incurred but not reported. The estimates of losses for reported claims are established judgmentally on an individual case basis. Such estimates are based on our particular experience with the type of risk involved and our knowledge of the circumstances surrounding each individual claim. Reserves for reported claims consider our estimate of the ultimate cost to settle the claims, including investigation and defense of the claim, and may be adjusted for differences between costs originally estimated and costs re-estimated or incurred. Reserves for incurred but not reported claims are based on the estimated ultimate cost of settling claims, including the effects of inflation and other social and economic factors, using past experience adjusted for current trends and any other factors that would modify past experience. We use a variety of statistical and actuarial techniques to analyze current claim costs, frequency and severity data, and prevailing economic, social and legal factors. While management believes that amounts included in the consolidated financial statements are adequate, there can be no assurance that future changes in loss development, favorable or unfavorable, will not occur. The estimates are periodically reviewed and any changes are reflected in current operations.

Our objective is to set reserves that are adequate and represent management's best estimate; that is, the amounts originally recorded as reserves should at least equal the ultimate cost to investigate and settle claims. However, the process of establishing adequate reserves is inherently uncertain, and the ultimate cost of a claim may vary materially from the amounts reserved. We regularly monitor and evaluate loss and loss adjustment expense reserve development to verify reserve adequacy. Any adjustment to reserves is reflected in underwriting results for the accounting period in which the adjustment is made.

Due to the uncertainties discussed above, the ultimate losses may vary materially from current loss reserves which could have a material adverse effect on our future financial condition, results of operations and cash flows.

**The effects of emerging claim and coverage issues on our business are uncertain.**

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued and renewed, and our financial position and results of operations may be adversely affected.

**The failure of our claims handling administrator to pay claims accurately could adversely affect our business, financial results and capital requirements.**

We have outsourced our claims handling administration to a third party adjuster. We therefore rely on this third party adjuster to accurately evaluate and pay claims that are made under our policies. Many factors affect the ability of our third party adjuster to pay claims accurately, including the training and experience of its claims representatives, the culture of its claims organization and the effectiveness of its management, its ability to develop or select and implement appropriate procedures and systems to support its claims functions and other factors. As claims administration is our responsibility, any failure on the part of our third party adjuster to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our image and negatively affect our financial results.

**If we are unable to expand our business because our capital must be used to pay greater than anticipated claims, our financial results may suffer.**

Our future growth will depend on our ability to expand the number of insurance policies we write in Florida, to expand the kinds of insurance products we offer, and to expand the geographic markets in which we do business, all balanced by the business risks we choose to assume and cede. Our existing sources of funds include possible sales of our securities and our earnings from operations and investments. Unexpected catastrophic events in our market areas, such as the hurricanes experienced in Florida in recent years, may result in greater claims losses than anticipated, which could require us to limit or halt our growth while we redeploy our capital to pay these unanticipated claims unless we are able to raise additional capital.

**We may require additional capital in the future which may not be available or may only be available on unfavorable terms.**

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that our present capital is insufficient to meet future operating requirements or to cover losses, we may need to raise additional funds through financings or curtail our growth. Based on our current operating plan, we believe current capital together with our anticipated retained earnings will support our operations without the need to raise additional capital. However, we cannot provide any assurance in that regard, since many factors will affect our capital needs and their amount and timing, including our growth and profitability, and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions and other unforeseeable developments. If we had to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders could result, and in any case such securities may have rights, preferences and privileges that are senior to those of existing shareholders. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition or results of operations could be materially adversely affected.

**Our financial results may be negatively affected by the fact that a portion of our income is generated by the investment of our company's capital and surplus, premiums and loss reserves.**

A portion of our income is, and likely will continue to be, generated by the investment of our company's capital and surplus, premiums and loss reserves. The amount of income so generated is a function of our investment policy, available investment opportunities, and the amount of capital and surplus, premium and loss reserves invested. As we continue to grow and to deploy our capital, the proportion of income invested will decrease, and investment income will make up a smaller percentage of our net revenue. Currently, all of our capital is invested in money market funds or in bank deposits (i.e., CDs) that mature in no more than thirteen months. Fluctuating interest rates and other economic factors make it impossible to estimate accurately the amount of investment income that will be realized. In fact, we may realize losses on our investments.

**We have exposure to unpredictable catastrophes, which can materially and adversely affect our financial results.**

We write insurance policies that cover homeowners, condominium owners, and tenants for losses that result from, among other things, catastrophes. We are therefore subject to claims arising out of catastrophes that may have a significant effect on our business, results of operations, and/or financial condition. Catastrophes can be caused by various events, including hurricanes, tropical storms, tornadoes, windstorms, earthquakes, hailstorms, explosions, power outages, fires and by man-made events, such as terrorist attacks. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Our policyholders are currently concentrated in Florida, which is especially subject to adverse weather conditions such as hurricanes and tropical storms. Insurance companies are not permitted to reserve for catastrophes until such event takes place. Therefore, although we attempt to manage our exposure to catastrophes through our underwriting process and the purchase of reinsurance protection, an especially severe catastrophe or series of catastrophes could exceed our reinsurance protection and may have a material adverse impact on our results of operations and financial condition. See the risk factor below entitled “Although we follow the industry practice of reinsuring a portion of our risks, our costs of obtaining reinsurance may increase and we may not be able to successfully alleviate risk through reinsurance arrangements” for a discussion of our reinsurance coverage.

**Industry trends, such as increased litigation against the insurance industry and individual insurers, the willingness of courts to expand covered causes of loss, rising jury awards, and the escalation of loss severity may contribute to increased costs and to the deterioration of the reserves of our insurance subsidiary.**

Loss severity in the property and casualty insurance industry has continued to increase in recent years, principally driven by larger court judgments. In addition, many legal actions and proceedings have been brought on behalf of classes of complainants, which can increase the size of judgments. The propensity of policyholders and third party claimants to litigate and the willingness of courts to expand causes of loss and the size of awards may render the loss reserves of our insurance subsidiary inadequate for current and future losses.

**Although we follow the industry practice of reinsuring a portion of our risks, our costs of obtaining reinsurance may increase and we may not be able to successfully alleviate risk through reinsurance arrangements.**

Reinsurance is the practice of transferring part of an insurance company’s liability and premium under an insurance policy to another insurance company. We use reinsurance arrangements to limit and manage the amount of risk we retain, to stabilize our underwriting results and to increase our underwriting capacity. We have a reinsurance structure that is a combination of private reinsurance and the Florida Hurricane Catastrophe Fund (“FHCF”). Our reinsurance structure is composed of several reinsurance companies with varying levels of participation providing coverage for loss and loss adjustment expense (“LAE”) at pre-established minimum and maximum amounts. In accordance with OIR’s minimum requirements, our amount of maximum reinsurance coverage is determined by subjecting our homeowner exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of the amount of our probable maximum loss from a storm of the severity that occurs once in every 100 years. Our amount of losses retained (our deductible) in connection with a catastrophic event is determined by market capacity, pricing conditions and surplus preservation. Losses incurred in connection with a catastrophic event below the minimum and above the maximum are the responsibility of our insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc.

For the 2007-2008 hurricane season, the private reinsurance and FHCF treaties insured our insurance subsidiary for approximately $39 million of aggregate loss and LAE, with our insurance subsidiary retaining the first $1.8 million of loss and LAE. Our insurance subsidiary’s reinsurance program included coverage purchased from the private market, which afforded Reinstatement Premium Protection that provided for a second event up to $3.7 million, along with coverage from the FHCF. Overall, in the 2007-2008 hurricane season, our insurance subsidiary retained an aggregate of $1.8 million in loss and LAE.

For the 2008-2009 hurricane season, we expect to retain an aggregate of $3.2 million in loss and LAE for each of the first two events. We expect to purchase private reinsurance and FHCF treaties to insure our insurance subsidiary to the same standard as 2007-2008 which consisted of first event coverage up to the 1- in -100 year level, as required by the OIR, and second event coverage up to the FHCF level. It is expected that this will result in our purchasing coverage totaling approximately $190 million of aggregate loss and LAE.

**We face a risk of non-availability of reinsurance, which could materially and adversely affect our ability to write business and our results of operations and financial condition.**

Market conditions beyond our control, such as the amount of capital in the reinsurance market and natural and man-made catastrophes, determine the availability and cost of the reinsurance protection we purchase. We cannot be assured that reinsurance will remain continuously available to the same extent and on the same terms and rates as are currently available. If we are unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that are considered sufficient, we would either have to be willing to accept an increase in our net exposures or reduce our insurance writings. Either of these potential developments could have a material adverse effect on our financial position, results of operations and cash flows.

**We face a risk of non-collectibility of reinsurance, which could materially and adversely affect our business, results of operations and/or financial condition.**

As is common practice within the insurance industry, we transfer a portion of the risks insured under our policies to other companies through the purchase of reinsurance. This reinsurance is maintained to protect our insurance subsidiary against the severity of losses on individual claims, unusually serious occurrences in which a number of claims produce an aggregate extraordinary loss and catastrophic events. Although reinsurance does not discharge our insurance subsidiary from its primary obligation to pay for losses insured under the policies it issues, reinsurance does make the assuming reinsurer liable to the insurance subsidiary for the reinsured portion of the risk. A credit exposure exists with respect to ceded losses to the extent that any reinsurer is unable or unwilling to meet the obligations assumed under the reinsurance contracts. The collectibility of reinsurance is subject to the solvency of the reinsurers, interpretation of contract language and other factors. We are selective with regard to our reinsurers, placing reinsurance with those reinsurers with strong financial strength ratings from A.M. Best, Standard & Poor's, or a combination thereof, although the financial condition of a reinsurer may change based on market conditions. We perform credit reviews on our reinsurers, focusing on, among other things, financial condition, stability, trends and commitment to the reinsurance business. We may require assets in trust, letters of credit or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. It has not always been standard business practice to require security for balances due; therefore, certain balances are not collateralized. A reinsurer's insolvency or inability to make payments under the terms of a reinsurance contract could have a material adverse effect on our results of operations and financial condition.

We also obtain a significant portion of our reinsurance through the FHCF program. Therefore, in the event of a catastrophic loss, we may become dependent upon the FHCF's ability to pay, which may, in turn, be dependent upon the FHCF's ability to issue bonds in amounts that would be required to meet its reinsurance obligations in the event of such a catastrophic loss. There is no assurance that the FHCF will be able to do this.

**The failure of the risk mitigation strategies we utilize could have a material adverse effect on our financial condition or results of operations.**

We utilize a number of strategies to mitigate our risk exposure including:

- engaging in vigorous underwriting;
- carefully evaluating terms and conditions of our policies;
- focusing on our risk aggregations by geographic zones, credit exposure and other bases; and
- ceding insurance risk to reinsurance companies.

However, there are inherent limitations in all of these tactics. No assurance can be given that an event or series of unanticipated events will not result in loss levels which could have a material adverse effect on our financial condition or results of operations.

**The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or our results of operations.**

Various provisions of our policies, such as limitations or exclusions from coverage which have been negotiated to limit our risks, may not be enforceable in the manner we intend. At the present time, we employ a variety of endorsements to our policies that limit exposure to known risks, including but not limited to exclusions relating to homes in close proximity to the coast line.

In addition, the policies we issue contain conditions requiring the prompt reporting of claims to us or to our claims handling administrator and our right to decline coverage in the event of a violation of that condition. While our insurance product exclusions and limitations reduce the loss exposure to us and help eliminate known exposures to certain risks, it is possible that a court or regulatory authority could nullify or void an exclusion or legislation could be enacted modifying or barring the use of such endorsements and limitations in a way that would adversely effect our loss experience, which could have a material adverse effect on our financial condition or results of operations.

**We have had significant deficiencies in internal control over financial reporting in the past and cannot assure you that additional significant deficiencies or material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements that could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.**

Management and our auditors concluded that we had significant deficiencies with respect to our internal control over financial reporting. We believe that each of the significant deficiencies identified by management and our auditors was a direct or indirect result of one primary deficiency—inadequate segregation of duties resulting from limited finance and accounting personnel to prepare and review our financial statements and supporting documentation. The following significant deficiencies relate to our policies and procedures pertaining to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and the disposition of our assets: (1) inadequate documentation of cash receipts and premium payments received, and (2) inadequate maintenance of records regarding cash receipts, depreciation expenses and approval of claims payments. In addition, the following significant deficiencies relate to our policies and procedures that provide reasonable assurance that our receipts and expenditures are being made only in accordance with the authorization of our management and directors: (1) inadequate safeguarding of unused checks, and (2) failure to maintain supporting documentation for all disbursements. We also had a significant deficiency relating to the timely preparation of bank reconciliations, which affected our financial statements for the year ended December 31, 2007 and the three months ended March 31, 2008.

In order to improve our internal control and to prevent additional significant deficiencies in the future, we have focused on addressing the primary significant deficiency described above (i.e., the inadequate segregation of duties resulting from inadequate staffing). Accordingly, we have added two additional members to our finance and accounting staff—a controller and a staff accountant. The addition of these two members has enabled us to better segregate various responsibilities and duties and to implement additional controls relating to the timing of bank reconciliations. Although not directly related to our financial reporting, we are also increasing staff and implementing controls at a company-wide level, which we believe will help to eliminate the risk of significant deficiencies with respect to our internal controls over financial reporting. There is no assurance that these remedial actions will improve our internal control and prevent additional significant deficiencies in the future.

We cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in our implementation of controls, could result in additional significant deficiencies or material weaknesses. Exchange Act Rule 12b-2 provides that a significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the registrant's financial reporting. This rule also provides that a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis.

The existence of significant deficiencies or a material weakness could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price. Any such failure could also adversely affect the results of periodic management evaluations and annual audit or attestation reports regarding the effectiveness of our internal control over financial reporting when required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated under Section 404. We will be required to provide such management evaluations and auditor attestation reports pursuant to Section 404 for our fiscal year ending December 31, 2009.

**We may be unable to attract and retain qualified employees.**

We depend on our ability to attract and retain experienced underwriting talent and other skilled employees who are knowledgeable about our business. If the quality of our underwriters and other personnel decreases, we may be unable to maintain our current competitive position in the specialized markets in which we operate and be unable to expand our operations, which could adversely affect our results.

Because we began operations in June 2007 and have relatively few employees, the loss of, or failure to attract, key personnel could also significantly impede the financial plans, growth, marketing and other objectives of our insurance subsidiary. Its success depends to a substantial extent on the ability and experience of the two members of its senior management team - Francis McCahill and Richard Allen. Our insurance subsidiary believes that its ability to grow and future success will depend in large part on its ability to attract and retain additional skilled and qualified personnel and to expand, train and manage its employees. Our insurance subsidiary may not be successful in doing so, because the competition for experienced personnel in the insurance industry is intense. Our insurance subsidiary does not have employment agreements with its key personnel.

**Our information technology systems may fail or suffer a loss of security which could adversely affect our business.**

Our business is highly dependent upon the successful and uninterrupted functioning of our computer and data processing systems. We rely on these systems to perform actuarial and other modeling functions necessary for writing business, as well as to handle our policy administration process (i.e., the printing and mailing of our policies, endorsements, renewal notices, etc). The failure of these systems could interrupt our operations. This could result in a material adverse effect on our business results.

The development and expansion of our business is dependent upon the successful development and implementation of advanced computer and data processing systems. Because our insurance subsidiary intends to expand its business by writing additional voluntary policies, we are developing new information technology systems to handle and process an increased volume of voluntary policies. The failure of these systems to function as planned could slow our growth and adversely affect our future business volume and results of operations.

Because we believe that our independent agents will play a key role in our efforts to increase the number of voluntary policies written by our insurance subsidiary, we are also in the process of developing business

platforms and distribution initiatives that will allow us to provide information to, and exchange information with, our agents in an effective and efficient manner. These systems are intended to provide us with current information regarding the insurance markets in which we operate, therefore permitting us to adjust our selective underwriting criteria as needed to rapidly respond to market changes. In the event that the development of these systems does not proceed as planned, the expansion of our business could be delayed. Internet disruptions or system failures once these systems are fully operational could also adversely affect our future business volume and results of operations.

In addition, we license the software used in our policy administration process from an entity owned by the Chairman of our Board of Directors, Scorpio Systems, Inc. This license agreement may be terminated by either party upon six months' written notice or by Scorpio Systems, Inc. upon thirty days' written notice to us within three months following the occurrence of a change in control of our company. If such a termination occurs, we may be required to spend significant capital and other resources to purchase and implement a replacement software system, which could adversely affect our results of operations. Alternatively, we could outsource our policy administration process to a third party, in which case any failure on the part of such third party to property handle our policy administration process could lead to material litigation, undermine our reputation in the marketplace, impair our image and negatively affect our financial results.

In addition, a security breach of our computer systems could damage our reputation or result in liability. We retain confidential information regarding our business dealings in our computer systems. We may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. It is critical that these facilities and infrastructure remain secure. Despite the implementation of security measures, this infrastructure may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, we could be subject to liability if hackers were able to penetrate our network security or otherwise misappropriate confidential information.

**The development and implementation of new technologies will require an additional investment of our capital resources in the future.**

Frequent technological changes, new products and services and evolving industry standards are all influencing the insurance business. The Internet, for example, is increasingly used to transmit benefits and related information to clients and to facilitate business-to-business information exchange and transactions. We believe that the development and implementation of new technologies will require additional investment of our capital resources in the future. We have not determined, however, the amount of resources and the time that this development and implementation may require, which may result in short-term, unexpected interruptions to our business, or may result in a competitive disadvantage in price and/or efficiency, as we endeavor to develop or implement new technologies.

**We rely on independent agents to write our insurance policies, and if we are not able to attract and retain independent agents, our revenues would be negatively affected.**

We currently obtain most of our policies through the assumption of policies from Citizens. In order to assume a policy written by an agent from Citizens, we must have the consent and approval of that insurance agent which is obtained through a limited producer agreement. We currently have a network of over 1,500 independent agents that have entered into limited producer agreements with us. Because policies assumed from Citizens pursuant to limited producer agreements with our network of independent agents constitute approximately 99% of our business and generate approximately $60 million in annualized premiums, our business and revenues would be negatively affected if we were unable to attract and retain such independent agents.

We have also begun writing insurance policies through these independent agents that are unrelated to the Citizens' take-out program, which we refer to as voluntary policies. Although voluntary policies written through these independent agents currently constitute only approximately 1% of our business and generate approximately $0.3 million in annualized premiums, we expect to increase the number of voluntary policies we write as our

business expands, which will further increase our reliance on our network of independent agents. In fact, in the future, we may rely on these independent agents to be the primary source for our property insurance policies.

Many of our competitors also rely on independent agents. As a result, we must compete with other insurers for independent agents' business. Our competitors may offer a greater variety of insurance products, lower premiums for insurance coverage, or higher commissions to their agents. If our products, pricing and commissions do not remain competitive, we may find it more difficult to attract business from independent agents to sell our products. A material reduction in the amount of our products that independent agents sell would negatively affect our revenues.

**Our success depends on our ability to accurately price the risks we underwrite.**

The results of our operations and the financial condition of our insurance subsidiary depend on our ability to underwrite and set premium rates accurately for a wide variety of risks. Rate adequacy is necessary to generate sufficient premiums to pay losses, LAE and underwriting expenses and to earn a profit. In order to price our products accurately, we must collect and properly analyze a substantial amount of data; develop, test and apply appropriate rating formulas; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. Our ability to undertake these efforts successfully, and as a result price our products accurately, is subject to a number of risks and uncertainties, some of which are outside our control, including:

- The availability of sufficient reliable data and our ability to properly analyze available data;
- The uncertainties that inherently characterize estimates and assumptions;
- Our selection and application of appropriate rating and pricing techniques;
- Changes in legal standards, claim settlement practices, and restoration costs; and
- Legislatively imposed consumer initiatives.

Because we assumed the substantial majority of our current policies from Citizens, our rates are based, to a certain extent, on the rates charged by Citizens. In determining the rates we charge in connection with the policies we assumed from Citizens, our rates must be equal to or less than the rates charged by Citizens. If Citizens reduces its rates, we must reduce our rates to keep them equivalent to or less than Citizens' rates; however, if Citizens increases its rates, we may not automatically increase our rates. The risk that Citizens will reduce its rates is exacerbated by the fact that, absent certain circumstances, we must continue to provide coverage to the policyholders that we assume from Citizens for a period of three years. We cannot assure you that Citizens will not lower its rates in the future. Consequently, we could underprice risks, which would negatively affect our profit margins. With respect to the voluntary policies that we write, we could also overprice risks, which could reduce our sales volume and competitiveness. In either event, the profitability of our insurance subsidiary could be materially and adversely affected.

**Current operating resources are necessary to develop future new insurance products.**

We currently intend to expand our product offerings by underwriting additional insurance products and programs, and marketing them through our distribution network. Expansion of our product offerings will result in increases in expenses due to additional costs incurred in actuarial rate justifications, software and personnel. Offering additional insurance products may also require regulatory approval, further increasing our costs and potentially affecting the speed with which we will be able to pursue new market opportunities. There can be no assurance that we will be successful bringing new insurance products to our marketplace.

**Our merger and acquisition strategy may not succeed.**

Our strategy for growth may include merger and acquisition transactions. This strategy presents risks that could have a material adverse effect on our business and financial performance, including: (1) the diversion of

management's attention, (2) our ability to execute a transaction effectively, including the integration of operations and the retention of employees, and (3) the contingent and latent risks associated with the past operations of and other unanticipated problems arising from a transaction partner. The risks associated with the acquisition of a smaller insurance company include:

- the inadequacy of reserves for loss and loss expenses;
- the quality of their data and underwriting processes;
- the need to supplement management with additional experienced personnel;
- conditions imposed by regulatory agencies that make the realization of cost-savings through integration of operations more difficult;
- a need for additional capital that was not anticipated at the time of the acquisition; and
- the use of more of our management's time than was originally anticipated.

We cannot predict whether we will be able to identify and complete a future transaction on terms favorable to us. We cannot know if we will realize the anticipated benefits of a completed transaction or if there will be substantial unanticipated costs associated with the transaction. In addition, a future transaction may result in tax consequences at either or both the shareholder and company level, potentially dilutive issuances of our securities, the incurrence of additional debt and the recognition of potential impairment of goodwill and other intangible assets. Each of these factors could adversely affect our financial position and results of operations.

**We will incur additional costs as a result of being a public company, which could reduce our profits.**

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission, have required changes in the corporate governance practices of public companies, including rules requiring public companies to include a report of management on the company's internal control over financial reporting in their annual reports on Form 10-K, which will be required of us for our fiscal year ending December 31, 2009. Compliance with these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs, which could increase our operating costs and reduce our profits.

**Risks Related to Regulation of our Insurance Operations**

**As an insurance holding company, we are currently subject to regulation by the State of Florida and in the future may become subject to regulation by certain other states or a federal regulator.**

All states regulate insurance holding company systems. State statutes and administrative rules generally require each insurance company in the holding company group to register with the department of insurance in its state of domicile and to furnish information concerning the operations of the companies within the holding company system which may materially affect the operations, management or financial condition of the insurers within the group. As part of its registration, each insurance company must identify material agreements, relationships and transactions with affiliates, including without limitation loans, investments, asset transfers, transactions outside of the ordinary course of business, certain management, service, and cost sharing agreements, reinsurance transactions, dividends, and consolidated tax allocation agreements.

Insurance holding company regulations generally provide that transactions between an insurance company and its affiliates must be fair and equitable, allocated between the parties in accordance with customary accounting practices, and fully disclosed in the records of the respective parties. Many types of transactions between an insurance company and its affiliates, such as transfers of assets among such affiliated companies, certain dividend payments from insurance subsidiaries and certain material transactions between companies within the system, may be subject to prior notice to, or prior approval by, state regulatory authorities. If we are

unable to obtain the requisite prior approval for a specific transaction, we would be precluded from taking the action which could adversely affect our operations.

Our insurance subsidiary currently operates only in the State of Florida. In the future, our insurance subsidiary may become authorized to transact business in other states and therefore will become subject to the laws and regulatory requirements of those states. These regulations may vary from state to state, and states occasionally may have conflicting regulations. Currently, the federal government's role in regulating or dictating the policies of insurance companies is limited. However, Congress, from time to time, considers proposals that would increase the role of the federal government in insurance regulation, either in addition to or in lieu of state regulation. The impact of any future federal insurance regulation on our insurance operations is unclear and may adversely impact our business or competitive position.

**Our insurance subsidiary is subject to extensive regulation which may reduce our profitability or inhibit our growth. Moreover, if we fail to comply with these regulations, we may be subject to penalties, including fines and suspensions, which may adversely affect our financial condition and results of operations.**

The insurance industry is highly regulated and supervised. Our insurance subsidiary is subject to the supervision and regulation of the state in which it is domiciled (Florida) and the state(s) in which it does business (currently only Florida). Such supervision and regulation is primarily designed to protect our policyholders rather than our shareholders. These regulations are generally administered by a department of insurance in each state and relate to, among other things:

- the content and timing of required notices and other policyholder information;
- the amount of premiums the insurer may write in relation to its surplus;
- the amount and nature of reinsurance a company is required to purchase;
- participation in guaranty funds and other statutorily-created markets or organizations;
- business operations and claims practices;
- approval of policy forms and premium rates;
- standards of solvency, including risk-based capital measurements;
- licensing of insurers and their products;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the ability of our insurance company subsidiary to pay dividends to us;
- restrictions on transactions between insurance company subsidiaries and their affiliates;
- restrictions on the size of risks insurable under a single policy;
- requiring deposits for the benefit of policyholders;
- requiring certain methods of accounting;
- periodic examinations of our operations and finances;
- prescribing the form and content of records of financial condition required to be filed; and
- requiring reserves as required by statutory accounting rules.

The Florida OIR and regulators in other jurisdictions where our insurance subsidiary may become licensed conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may adversely affect or inhibit our ability to achieve some or all of our business objectives. These regulatory authorities also conduct periodic examinations into insurers' business practices. These reviews may reveal

deficiencies in our insurance operations or differences between our interpretations of regulatory requirements and those of the regulators.

In addition, regulatory authorities have relatively broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, we follow practices based on our interpretations of regulations or practices that we believe may be generally followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us. This could adversely affect our ability to operate our business.

Finally, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could adversely affect our ability to operate our business.

**Changes in regulation may reduce our profitability and limit our growth.**

We are subject to extensive regulation in the state in which we conduct business (currently only Florida). This regulation is generally designed to protect the interests of policyholders, as opposed to shareholders and other investors in the insurance company or its affiliates, and relates to authorization for lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, trade practices and claims practices, participation in guaranty funds and other statutorily-created markets or organizations, changes in control, premium rates and a variety of other financial and non-financial components of an insurance company's business. The National Association of Insurance Commissioners ("NAIC") and state insurance regulators are constantly reexamining existing laws and regulations, generally focusing on modifications to holding company regulations, interpretations of existing laws and the development of new laws.

From time to time, states consider and/or enact laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. States also consider and/or enact laws that impact the competitive environment and marketplace for property and casualty insurance. Our insurance company subsidiary currently transacts insurance only in Florida, where the recent political environment has led to aggressive regulation of property and casualty insurance companies. We expect this to continue for the foreseeable future. For example, Florida recently enacted legislation that has led to rate levels in the private insurance market that we believe, in many instances, are inadequate to cover the related underwriting risk. This same legislation requires a state-owned insurance company to reduce its premium rates and begin competing against private insurers in the Florida residential property insurance market. Florida lawmakers may continue to enact or retain legislation that suppresses the rates of this state-owned insurer, further adversely impacting the private insurance market and increasing the likelihood that it must levy assessments on private insurance companies and ultimately on Florida consumers. These and other aspects of the political environment in jurisdictions where we operate may reduce our profitability, limit our growth, or otherwise adversely affect our operations.

During the past several years, various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations include (i) the creation of "market assistance plans" under which insurers are induced to provide certain coverages, (ii) restrictions on the ability of insurers to rescind or otherwise cancel certain policies in mid-term or to nonrenew policies at their scheduled expirations, (iii) advance notice requirements or limitations imposed for certain policy non-renewals, (iv) limitations upon or decreases in rates permitted to be charged, (v) expansion of governmental involvement in the insurance market, and (vi) increased regulation of insurers' policy administration and claims handling practices.

Currently, the federal government does not directly regulate the insurance business. However, in recent years the state insurance regulatory framework has come under increased federal scrutiny. Congress and some federal agencies from time to time investigate the current condition of insurance regulation in the United States to determine whether to impose federal regulation or to allow an optional federal charter, similar to banks. In

addition, changes in federal legislation and administrative policies in several areas, including changes in the Gramm-Leach-Bliley Act, financial services regulation and federal taxation, can significantly impact the insurance industry and us.

We cannot predict with certainty the effect any enacted, proposed or future state or federal legislation or NAIC initiatives may have on the conduct of our business. Furthermore, there can be no assurance that the regulatory requirements applicable to our business will not become more stringent in the future or result in materially higher costs than current requirements, or that creation of a federal insurance regulatory system will not adversely affect our business or disproportionately benefit our competitors. Changes in the regulation of our business may reduce our profitability, limit our growth or otherwise adversely affect our operations.

**Our insurance subsidiary is subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.**

Our insurance subsidiary is subject to risk-based capital standards and other minimum capital and surplus requirements imposed under applicable state laws, including the laws of Florida. The risk-based capital standards, based upon the Risk-Based Capital Model Act adopted by the NAIC, require our insurance subsidiary to report its results of risk-based capital calculations to state departments of insurance and the NAIC. These risk-based capital standards provide for different levels of regulatory attention depending upon the ratio of an insurance company's total adjusted capital, as calculated in accordance with NAIC guidelines, to its authorized control level risk-based capital. Authorized control level risk-based capital is the number determined by applying the NAIC's risk-based capital formula, which measures the minimum amount of capital that an insurance company needs to support its overall business operations.

In addition, our insurance subsidiary is required to maintain certain minimum capital and surplus and to limit its written premiums to specified multiples of its capital and surplus. The insurance subsidiary could exceed these ratios if its volume increases faster than anticipated or if its surplus declines due to catastrophe or non-catastrophe losses or excessive underwriting and operational expenses.

Any failure by our insurance subsidiary to meet the applicable risk-based capital or minimum statutory capital requirements or the writings ratio limitations imposed by the laws of Florida (or other states where we may eventually conduct business) could subject it to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or liquidation.

Any changes in existing risk-based capital requirements, minimum statutory capital requirements, or applicable writings ratios may require us to increase our statutory capital levels, which we may be unable to do.

**Our status as an insurance holding company could adversely affect our ability to meet our obligations and pay dividends.**

As an insurance holding company, we are dependent on dividends and other permitted payments from our insurance subsidiary to pay any cash dividends to our shareholders, to service debt and for our operating capital. The ability of our insurance subsidiary to pay dividends to us is subject to certain restrictions imposed under Florida insurance law, which is the state of domicile for Homeowners Choice Property & Casualty Insurance Company, Inc., our insurance subsidiary. In addition, for a three-year period beginning March 30, 2007, our insurance subsidiary, as a newly licensed insurer in the State of Florida, is precluded from paying dividends unless approved in advance by the OIR. We believe that the OIR is unlikely to approve any such request based upon its preference for new insurers to retain and increase their capital and surplus during their initial years. Absent unforeseen circumstances, we therefore do not expect to seek the OIR's approval of such a request during this three-year period. In addition, there is no guarantee that Homeowners Choice Property & Casualty Insurance Company, Inc. will be permitted to or, if permitted, will elect to pay dividends after 2010.

Business and regulatory considerations may impact the amount of dividends actually paid, and prior approval of dividend payments may be required.

### Risks Related to an Investment in Our Securities

**There is currently no established public trading market for our securities and your investment may be illiquid for an indefinite amount of time.**

Prior to this offering, there has been no public market for our securities. There can be no assurance that an active, public trading market will ever develop even if we are successful with this offering. In addition, there can be no assurance that our securities will be accepted for listing or trading on any exchange or the NASDAQ market. The initial public offering price of the units offered hereby has been determined by negotiations between our company and our placement agent and may not be indicative of the market price for the securities after this offering. The market price of the securities is subject to significant fluctuation in response to variations in quarterly and annual operating results, general trends in our company's industry, actions taken by competitors, the overall performance of the stock market, and other factors.

**The offering may result in a dilution of your interests in our Company.**

Our Articles of Incorporation authorize the issuance of up to 60,000,000 shares of stock, no par value, consisting of 40,000,000 shares of common stock and 20,000,000 shares of preferred stock (after giving effect to our 1-for-2.50 stock split). After completion of this offering, we will have a maximum of approximately 33,484,666 authorized but un-issued shares of common stock and 20,000,000 authorized but un-issued shares of preferred stock available for issuance to shareholders. Our Board of Directors in a variety of circumstances may, subject to applicable securities laws, decide to issue additional shares up to the amounts authorized in our Articles of Incorporation. Existing shareholders who are unwilling or ineligible to purchase subsequently offered shares may experience a dilution of their interests in our company.

**We have never paid dividends on our common stock and do not anticipate paying dividends on our common stock for the foreseeable future; therefore, returns on your investment may only be realized by the appreciation in value of our securities.**

We have never paid any cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We plan to retain any future earnings to finance growth. Because of this, investors who purchase common stock and/or convert their warrants into common stock may only realize a return on their investment if the value of our common stock appreciates. If we determine that we will pay dividends to the holders of our common stock, there is no assurance or guarantee that such dividends will be paid on a timely basis.

In addition, the declaration and payment of dividends will be at the discretion of our Board of Directors and will be dependent upon the profits and financial requirements of our company and other factors, including legal and regulatory restrictions on the payment of dividends, general business conditions and such other factors as our Board of Directors deems relevant.

**Future issuances or sales, or the potential for future issuances or sales, of shares of our common stock may cause the trading price of our securities to decline and could impair our ability to raise capital through subsequent equity offerings.**

Future sales of a substantial number of shares of our common stock or other securities in the public markets, or the perception that these sales may occur, could cause the market price of our common stock and our warrants to decline, and could materially impair our ability to raise capital through the sale of additional securities. An additional 5,182,000 restricted shares of our common stock are eligible for sale in the public markets, subject to volume limitations and other restrictions of Rule 144. In addition, there are outstanding options to purchase 1,150,000 shares of our common stock. Actual sales, or the prospect of sales by our present shareholders, may have a negative effect on the market price of our common stock.

**If we do not maintain an effective registration statement, you may not be able to exercise the warrants.**

For you to be able to exercise the warrants, the resale of the shares of our common stock to be issued to you upon exercise of the warrants must be covered by an effective and current registration statement. We cannot guarantee that we will continue to maintain a current registration statement relating to the resale of the shares of

our common stock underlying the warrants. In such circumstances, you would be unable to exercise the warrants. In those circumstances, we may, but are not required to, redeem the warrants by payment in cash. Consequently, there is a possibility that you will never be able to exercise the warrants and receive the underlying shares. This potential inability to exercise the warrants, our right to cancel the warrants under certain circumstances, and the possibility that we may redeem the warrants for nominal value may have an adverse effect on demand for the warrants and the prices that can be obtained from reselling them.

**This offering is being conducted on a "best efforts" basis and we may not be able to execute our growth strategy if a sufficient number of units is not sold in the offering.**

If you invest in the units and more than 1,333,334 units are sold, but less than all of the offered units are sold, you may have acquired an interest in a company with limited financial capability and the risk of losing your entire investment will be increased. Our placement agent is offering our units on a minimum/maximum "best efforts" basis, and we can give no assurance that all 1,666,668 units offered by this prospectus will be sold. If we are unable to sell at least 1,333,334 units offered hereby, we will terminate this offering and all monies collected from subscribers and held in escrow will be returned to such subscribers without interest or deduction. Furthermore, if at least 1,666,668 of the units offered by this prospectus are not sold, we may be unable to fund all the intended uses described in this prospectus from the net proceeds anticipated from this offering without obtaining funds from alternative sources or using working capital that we generate. Alternative sources of funds may not be available to us at what we consider to be a reasonable cost, and the working capital generated by us may not sufficient to fund any uses not financed by offering proceeds.

**Florida law may discourage takeover attempts and may result in entrenchment of management.**

Our articles of incorporation, our bylaws and Florida law contain provisions that could discourage, delay or prevent a third party from acquiring us, even if doing so may be beneficial to our shareholders. In addition, these provisions could limit the price investors would be willing to pay in the future for shares of our common stock. For example:

- The Florida Control Share Act provides that shares acquired in a "control share acquisition" will not have voting rights unless the voting rights are approved by a majority of the corporation's disinterested shareholders. A "control share acquisition" is an acquisition, in whatever form, of voting power in any of the following ranges: (a) at least 20% but less than 33-1/3% of all voting power, (b) at least 33-1/3% but less than a majority of all voting power; or (c) a majority or more of all voting power.
- The Florida Affiliated Transactions Act requires supermajority approval by disinterested shareholders of certain specified transactions between a public company and holders of more than 10% of the outstanding voting shares of the corporation (or their affiliates).
- Special meetings of our shareholders may be called by our President, the board of directors or by the holders of not less than 10% of all the shares entitled to vote at the meeting.
- A director may be removed with or without cause, at a meeting of the shareholders called expressly for that purpose, as provided in Section 607.0808, Florida Statutes.
- We have a staggered board of directors, which means that approximately one-third of our directors are elected each year.
- Our bylaws may be further amended by a majority of the shareholders entitled to vote thereon present at any shareholders' meeting if notice of the proposed action was included in the notice of the meeting or is waived in writing by a majority of the shareholders entitled to vote thereon.
- Our board of directors is authorized to issue, without further action by our shareholders, up to 20,000,000 shares of "blank check" preferred stock in one or more series and to fix the rights, preferences, privileges, qualifications and restrictions granted or imposed on such preferred stock, including dividend rights, conversion rights, voting rights, rights and terms of redemption, liquidation preference and sinking fund terms, any or all of which may be greater than the rights of the common stock.

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions, or future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions. Examples of forward-looking statements include, without limitation:

- statements regarding our acquisition and other strategies, results of operations or liquidity;
- statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance;
- statements of management’s goals and objectives;
- projections of revenue, earnings, capital structure and other financial items;
- assumptions underlying statements regarding us or our business; and
- other similar expressions concerning matters that are not historical facts.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, factors discussed under the headings “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Business.”

Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances, or achievements expressed or implied by the forward-looking statements. These risks include, but are not limited to, those listed below and those discussed in greater detail under the heading “Risk Factors” above:

- our limited operating history;
- the concentration of our business in the State of Florida;
- the cyclical nature of the insurance industry;
- increased competition, competitive pressures, and market conditions;
- the possibility that actual losses may exceed reserves;
- the failure of our claims handling administrator to pay claims accurately;
- our failure to implement adequate internal controls over financial reporting;
- our exposure to catastrophic events;
- increased costs of reinsurance, non-availability of reinsurance, and non-collectibility of reinsurance;
- the failure of our risk mitigation strategies or loss limitation methods;
- our failure to attract and retain qualified employees and independent agents or our loss of key personnel;
- the failure of our information technology systems;
- significant deficiencies or material weaknesses in our internal controls over financial reporting;
- changes in regulations and our failure to meet increased regulatory requirements;
- increased state or federal involvement in the business of insurance;
- the lack of a public trading market for our securities; and
- our failure to execute our growth strategy.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Consequently, you should not place undue reliance on forward-looking statements.

## USE OF PROCEEDS

The gross proceeds from this offering will be approximately $10.2 million if the maximum number of securities offered is sold, and $8.2 million if the minimum number of securities offered is sold, before deducting expenses. We estimate offering expenses to be approximately $700,000 before deducting placement agent fees. We estimate the net proceeds of the offering to be approximately $6.9 million if the minimum offering is obtained and approximately $8.8 million if the maximum offering is obtained. The following table sets forth our estimated net offering proceeds from the sale of the minimum and the maximum amount of securities offered.

### Estimated Offering Proceeds

| | Maximum Offering | Minimum Offering |
|---|---|---|
| Offering Proceeds | $ 10,216,675 | $ 8,173,337 |
| Less Placement Agent Fees and Offering Expenses[1] | $ 1,415,617 | $ 1,272,134 |
| Net Proceeds from Offering | $ 8,801,058 | $ 6,901,203 |

(1) Our lead placement agent, Anderson & Strudwick, Incorporated, will be paid a 7% percent fee and a 1% expense reimbursement for all units sold in the offering. Our estimated offering expenses, including the 1% expense reimbursement but not including placement agent fees, are $700,000.

We intend to use the net proceeds of this offering as follows, and we have ordered the specific uses of proceeds in order of priority.

| Description of Use | Maximum Offering | Minimum Offering |
|---|---|---|
| Increase Statutory Capital and Surplus | $ 4,000,000 | $ 4,000,000 |
| Marketing | $ 1,000,000 | $ 1,000,000 |
| Working Capital | $ 3,801,058 | $ 1,901,203 |
| Total Uses of Proceeds | $ 8,801,058 | $ 6,901,203 |

Except as described above, we have no immediate need for the proceeds we will receive from this offering. The principal purposes of this offering are to increase our statutory capital and surplus, obtain additional capital, to create a public market for our common stock and to facilitate our future access to the public equity markets. We expect to use the net proceeds from this offering to provide additional long-term working capital, in the form of unrestricted cash, to support the growth of our business by providing us with financial flexibility. We may use a portion of the net proceeds from this offering to pursue acquisitions and expansions of the insurance products that we offer in existing and new markets. We have no commitments with respect to any such acquisition or investment, and we are not currently involved in any negotiations with respect to any such transaction. In the event that we sell only the minimum number of units offered, and therefore, receive only the minimum amount of offering proceeds, we would have less working capital with which to pursue the foregoing. Pending the use by us and by Homeowners Choice Property & Casualty Insurance Company, Inc. of such proceeds, we will invest such proceeds in interest-bearing securities consistent with our current investment policies.

## DIVIDEND POLICY

We have not paid dividends on our common stock and anticipate that for the foreseeable future all earnings, if any, will be retained for the operation and expansion of our business. Moreover, our ability to pay dividends if and when our Board of Directors determines to do so, may be restricted by regulatory limits on the amount of dividends which Homeowners Choice Property & Casualty Insurance Company, Inc. is permitted to pay to us. In addition, if we were to borrow against any credit facility that we may enter into, we may be prohibited from paying cash dividends. For a three-year period beginning March 30, 2007, our insurance subsidiary, as a newly licensed insurer in the State of Florida, is precluded from paying dividends unless approved in advance by the OIR. We believe that the OIR is unlikely to approve any such request based upon its preference for new insurers to retain and increase their capital and surplus during their initial years. Absent unforeseen circumstances, we therefore do not expect to seek the OIR's approval of such a request during this three-year period.

## DETERMINATION OF OFFERING PRICE

The public offering price will be determined through negotiations between the placement agent and us. In addition to prevailing market conditions, the factors to be considered in determining the public offering price are:

- prevailing market and general economic conditions;
- our financial information;
- the history of, and the prospects for, our company and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares of our units, common stock, and warrants may not develop. It is possible that after this offering the units, shares and warrants will not trade in the public market at or above the public offering price.

## CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2008:

- on an actual basis;
- on a pro forma as adjusted basis to give effect to the issuance of 1,333,334 units (the minimum that may be sold by us in the offering) at an assumed public offering price of $6.13 per unit (the midpoint of the expected price range) and the anticipated application of the net proceeds from this offering; and
- on a pro forma as adjusted basis to give effect to the issuance of 1,666,668 units (the maximum that may be sold by us in the offering) at an assumed public offering price of $6.13 per unit (the midpoint of the expected price range) and the anticipated application of the net proceeds from this offering.

You should read this table in conjunction with “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

| | As of March 31, 2008 (in thousands, except share data) | | |
|---|---|---|---|
| | | Pro Forma As Adjusted | |
| | Actual | Assuming Minimum | Assuming Maximum |
| Cash and cash equivalents | $19,285 | $26,186 | $28,086 |
| Total long-term obligations | 0 | 0 | 0 |
| Stockholders’ equity | | | |
| Common stock, no par value, 40,000,000 authorized shares, 5,182,000 shares issued and outstanding actual; 6,515,334 shares issued and outstanding pro forma assuming we raise the minimum offering; and 6,848,668 shares issued and outstanding pro forma assuming we raise the maximum offering[1] | 0 | 0 | 0 |
| Additional paid in capital[2] | 13,491 | 20,392 | 22,292 |
| Retained Earnings | 4,879 | 4,879 | 4,879 |
| Total Stockholders’ Equity | 18,370 | 25,271 | 27,171 |
| Total Capitalization | $18,370 | $25,271 | $27,171 |

(1) The share amounts reflect a 1:2.50 stock split effected as of June 16, 2008.
(2) Includes $536 relating to vested stock options recognized in accordance with SFAS 123R.

## DILUTION

If you invest in our securities, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock after this offering. We calculate net tangible book value per share by calculating the total assets less intangible assets and total liabilities, and dividing this total by the number of outstanding shares of common stock.

As of March 31, 2008, after giving effect to (1) our 1-for-2.50 stock split, (2) the sale of the minimum number units offered at an assumed initial public offering price of $6.13 per unit (the midpoint of the expected price range) less estimated placement agent fees and estimated expenses, our pro forma, as adjusted net tangible book value as of March 31, 2008 would have been $20.6 million, or $3.16 per share. This represents an immediate increase in the pro forma as adjusted net tangible book value of $0.52 per share to existing shareholders and an immediate dilution of $2.97 per share to you. Assuming the sale of the maximum number of units offered at an initial public offering price of $6.13 per unit (the midpoint of the expected price range) less estimated placement agent fees and estimated expenses, our pro forma, as adjusted net tangible book value as of March 31, 2008 would have been $22.5 million, or $3.28 per share. This represents an immediate increase in the pro forma as adjusted net tangible book value of $0.64 per share to existing shareholders and an immediate dilution of $2.85 per share to you. This dilution is illustrated in the following table:

| | | Assuming Minimum | | Assuming Maximum |
|---|---|---|---|---|
| Assumed initial public offering price per share | | $ 6.13 | | $ 6.13 |
| Pro forma net tangible book value per share as of March 31, 2008 | $2.64 | | $2.64 | |
| Increase per share attributable to new investors | $0.52 | | $0.64 | |
| Pro forma net book value per share after this offering | | $ 3.16 | | $ 3.28 |
| Dilution per share to new investors | | $ 2.97 | | $ 2.85 |

The following table shows on a pro forma, as adjusted basis at March 31, 2008, the total number of shares of common stock purchased, the total consideration paid to us and the average price per share paid by existing shareholders assuming the sale of the minimum number of units that may be sold by us in the offering:

| | Shares Purchased | | Total Consideration | | Average Price Per Share |
|---|---|---|---|---|---|
| | Number | Percent | Amount | Percent | |
| Existing shareholders | 5,182,000 | 79.5% | $12,955,000 | 61.3% | $ 2.50 |
| New investors | 1,333,334 | 20.5% | $ 8,173,337 | 38.7% | $ 6.13 |
| Totals | 6,515,334 | 100% | $21,128,337 | 100% | $ 3.24 |

The following table shows on a pro forma, as adjusted basis at March 31, 2008, the total number of shares of common stock purchased, the total consideration paid to us and the average price per share paid by existing shareholders assuming the sale of the maximum number of units that may be sold by us in the offering:

| | Shares Purchased | | Total Consideration | | Average Price Per Share |
|---|---|---|---|---|---|
| | Number | Percent | Amount | Percent | |
| Existing shareholders | 5,182,000 | 75.7% | $12,955,000 | 55.9% | $ 2.50 |
| New investors | 1,666,668 | 24.3% | $10,216,675 | 44.1% | $ 6.13 |
| Totals | 6,848,668 | 100% | $23,171,675 | 100% | $ 3.38 |

To the extent that we issue options or rights under our 2007 Stock Option and Incentive Plan or issue additional shares of our capital stock in the future, you may experience further dilution.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*When you read this section of this prospectus, it is important that you also read our selected consolidated financial data, the consolidated financial statements and related notes included elsewhere in this prospectus. This section of this prospectus contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations, and intentions. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons set forth herein, including the factors described below and in "Risk Factors."*

### Overview

HCI was organized in November of 2006 to be an insurance holding company for three of our subsidiaries: Homeowners Choice Property & Casualty Insurance Company, Inc. ("HCPC"), Homeowners Choice Managers, Inc. ("HCM"), and Southern Administration, Inc. ("SA"). We commenced operations in June 2007. HCI has a limited operating history, less than one year, on which to base an evaluation of its business and prospects. HCI's prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development.

HCPC, our insurance subsidiary, is a Florida insurance company that provides property and casualty insurance to individuals that own homes or condominiums in Florida and to certain individuals who rent property in Florida. HCM provides underwriting policy administration, marketing, accounting and financial and other management services to HCPC. HCM contracts with our independent agents for sales services and with SA for policy administration services. SA is our administrative subsidiary and provides policy administration services through HCM.

We recently formed a fourth subsidiary, Claddaugh Casualty Insurance Company Ltd. Claddaugh's incorporation required minimum capital and surplus of $2.0 million, which we funded with a $120,000 cash deposit and a $1.88 million letter of credit. We pledged a certificate of deposit, with a $1.88 million face amount, as collateral for the letter of credit. When deemed appropriate by management, we plan to satisfy some of our reinsurance needs by purchasing reinsurance from this subsidiary. Any reinsurance contracts entered into with this subsidiary will be subject to review by the Florida OIR.

Our level of profitability is primarily determined by how adequately our rates and investment income cover our expenses, which consist of reinsurance, non-catastrophic losses, commissions, overhead and taxes. Most of our expense categories can be measured and managed. The largest potential variable expense is the cost of catastrophic losses (i.e., hurricanes and tropical storms). Our results of operations are further subject to significant variations due to factors affecting the property and casualty insurance industry in general, which include competition, weather, catastrophic events, regulation, general economic conditions, judicial trends, fluctuations in interest rates and other changes in the investment environment.

Our premium growth and underwriting results have been, and will continue to be, influenced by market conditions. Premium rate levels are related to the availability of insurance coverage, which varies according to the level of surplus in the insurance industry and other factors. The level of surplus in the industry varies with returns on capital and regulatory barriers to the withdrawal of surplus. Increases in surplus have generally been accompanied by increased price competition among property and casualty insurers. Pricing in the property and casualty insurance industry historically has been cyclical. During a weakening market cycle, price competition makes it difficult to attract and retain properly priced personal lines business. During a weak insurance market, regulatory rate approval requirements and concerns regarding retention of existing policies may limit our insurance subsidiary's ability to increase prices. We intend to promote and maintain our disciplined underwriting approach and pricing standards during these weaker markets, even if it leads to slower premium growth.

With respect to policies that we assume from Citizens, we are required to have rates that are equivalent to or less than the rates charged by Citizens. If Citizens reduces its rates, we will be required to reduce our rates to

keep them equivalent to or less than Citizens' rates; however, if Citizens increases its rates, we will not be permitted to automatically increase our rates. We must provide coverage to the policyholders that we assume for Citizens in this manner for a period of three years, provided that we can cancel a policy in certain circumstances, including fraud or misrepresentation and non-payment of premiums. In addition, if our insurance subsidiary was to find it necessary to reduce premiums or limit premium increases due to other competitive pressures on pricing, our insurance subsidiary could experience a reduction in profit margins and revenues, an increase in ratios of losses and expenses to premiums and, therefore, lower profitability. The cyclicality of the insurance market and its potential impact on our results is difficult to predict with any significant reliability.

HCPC, our insurance subsidiary, is required by law to review its property insurance rates no less frequently than annually and to submit a filing either certifying its then current rates as adequate or requesting adjustments to the rates. HCPC may submit rate filings more frequently than annually if appropriate in light of its individual circumstances, market conditions or law changes. HCPC's certifications or filings must be submitted to the Florida OIR using an electronic filing system that requires the insurer to upload various filing components. For a proposed rate change, these components include detailed information such as the proposed rate levels and associated rating manual pages, an explanatory memorandum, rating examples using a specified OIR form, summaries of the filing's compliance with statutory mandates and a filing certification signed by designated company representatives. HCPC may implement rate reductions without prior approval of the OIR, subject to the OIR's authority to review and approve the implemented rates and require any necessary true-up adjustments. HCPC cannot increase its rates without prior approval of the OIR. A rate reduction filing implemented without prior approval may be submitted any time up to 30 days following the effective date. A filing requesting prior OIR approval must be submitted at least 90 days before the proposed effective date.

The OIR considers a variety of factors in evaluating an insurer's periodic rate filings. Among the primary factors, the OIR considers (1) the insurer's past and prospective loss experience, (2) the insurer's past and prospective expenses, (3) the degree of competition in the insurer's market, (4) the insurer's expected investment income, (5) the adequacy of the insurer's loss reserves, (6) the cost of reinsurance, and (7) a reasonable margin for underwriting profit and contingencies. The OIR also evaluates the reasonableness of assumptions made in the insurer's rate filing, including its selection of premium and loss trend factors and other areas of actuarial judgment. Florida law also contains requirements pertaining to the versions of hurricane loss projection models that an insurer may use to estimate its hurricane losses and the manner in which the insurer may use those models. The OIR's rate review process includes evaluation of the insurer's use of these models, according to the OIR's interpretations of applicable requirements.

The adequacy of HCPC's rates and its ability to implement rate changes is affected by factors such as changes in laws or regulations, interpretations of statutes and rules by HCPC and by the OIR, and competitive conditions among insurers writing similar types of policies. There is no assurance that the OIR will agree with the data or assumptions in HCPC's rate filings, that HCPC will be able to adjust its rates as it considers necessary or appropriate, or that it will be granted approval of any adjustments as rapidly as the company may desire. In addition, if HCPC expands into other lines of business or other states, it may become subject to different requirements and standards governing its rates.

We currently invest our excess cash in certificates of deposit and money market accounts. Therefore, our investment income is subject to change based on general interest rate levels. We may change our investment policy in the future, which could subject our investment income to a variety of factors, including adverse events affecting the issuers of debt obligations that we may purchase and changes in pricing of equity securities. We expect that investment income will decrease as a percentage of our revenues in the future as we write additional policies.

As a public company following consummation of this offering, we expect that we will incur significant additional operating expenses such as increased expenses related to hiring additional personnel and expanding our administrative functions, audit fees, Sarbanes-Oxley compliance preparation fees, professional fees,

directors' and officers' insurance costs, and compensation for our board of directors. Many of these expenses were not incurred or were incurred at a lower level by us as a private company and are not included in our historical results of operations.

**Critical Accounting Policies and Estimates**

*General*

We are required to make estimates and assumptions in certain circumstances that affect amounts reported in our consolidated financial statements and related footnotes. We evaluate these estimates and assumptions on an on-going basis based on historical developments, market conditions, industry trends and other information that we believe to be reasonable under the circumstances. There can be no assurance that actual results will conform to our estimates and assumptions, and that reported results of operation will not be materially adversely affected by the need to make accounting adjustments to reflect changes in these estimates and assumptions from time to time. With respect to policies that we assume from Citizens, all claims are reported directly to us following our assumption. Citizens remains responsible for all claims on policies that we assume prior to the date of our assumption. Therefore, we are not dependent upon receiving claims information from Citizens in order to establish our loss reserves. We believe the following policies are the most sensitive to estimates and judgments.

*Reserves for Loss and Loss Adjustment Expenses*

We establish reserves for the estimated total unpaid costs of losses including loss adjustment expenses (LAE). Unless otherwise specified below, the term "loss reserves" shall encompass reserves for both losses and LAE. Loss reserves reflect management's best estimate of the total cost of (i) claims that have been incurred, but not yet paid, and (ii) claims that have been "incurred but not yet reported" ("IBNR"). Loss reserves established by us are not an exact calculation of our liability. Rather, loss reserves represent management's best estimate of our company's liability based on application of actuarial techniques and other projection methodology and taking into consideration other facts and circumstances known at the balance sheet date. The process of establishing loss reserves is complex and necessarily imprecise, as it involves using judgment that is affected by many variables such as past loss experience, current claim trends and the prevailing social, economic and legal environments. The impact of both internal and external variables on ultimate loss and LAE costs is difficult to estimate. Our exposure is impacted by both the risk characteristics of the physical locations where we write policies, such as hurricane and tropical storm-related risks, as well as risks associated with varying social, judicial and legislative characteristics in Florida, the state in which we operate. In determining loss reserves, we give careful consideration to all available data and actuarial analyses, and this process involves significant judgment.

The liability for losses and LAE represents estimates of the ultimate unpaid cost of all losses incurred, including losses for claims that have not yet been reported to our insurance company. The amount of loss reserves for reported claims is based primarily upon a case-by-case evaluation of the kind of risk involved, knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss. The amounts of loss reserves for unreported claims and LAE are determined using historical information by line of insurance as adjusted to current conditions. Inflation is ordinarily implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results over multiple years.

Reserves are closely monitored and are recalculated periodically using the most recent information on reported claims and a variety of actuarial techniques. Specifically, on a bi-weekly basis management reviews existing reserves, new claims, changes to existing case reserves, and paid losses with respect to the current and prior year. A similar review is conducted by a claims committee of our board of directors on a quarterly basis. As we develop historical data regarding paid and incurred losses, we use this data to develop expected ultimate loss and loss adjustment expense ratios. We then apply these expected loss and loss adjustment expense ratios to earned premium to derive a reserve level for each line of business. In connection with the determination of these

reserves, we will also consider other specific factors such as recent weather-related losses, trends in historical paid losses, and legal and judicial trends regarding liability. Most of our business was assumed from Citizens. Therefore, we use the loss ratio method based on the expected loss ratio underlying Citizens' rates, among other methods, to project an ultimate loss expectation, and then the related loss history must be regularly evaluated and loss expectations updated, with the possibility of variability from the initial estimate of ultimate losses.

When a claim is reported to us, our claims personnel establish a "case reserve" for the estimated amount of the ultimate payment. This estimate reflects an informed judgment based upon general insurance reserving practices and on the experience and knowledge of the estimator. The individual estimating the reserve considers the nature and value of the specific claim, the severity of injury or damage, location, and the policy provisions relating to the type of loss. Case reserves are adjusted by us as more information becomes available. It is our policy to settle each claim as expeditiously as possible.

We maintain IBNR reserves to provide for already incurred claims that have not yet been reported and developments on reported claims. The IBNR reserve is determined by estimating our insurance company's ultimate net liability for both reported and IBNR claims and then subtracting the case reserves and payments made to date for reported claims.

*Loss Reserve Estimation Methods.* We apply the following general methods in projecting loss and LAE reserves:

1. Reported loss development;
2. Paid loss development;
3. Loss ratio method; and
4. Average outstanding and open claims.

The results of the reserve calculations using these methods were similar, and therefore, we relied on an average of the four methods.

*Description of Ultimate Loss Estimation Methods.* The reported loss development method relies on the assumption that, at any given state of maturity, ultimate losses can be predicted by multiplying cumulative reported losses (paid losses plus case reserves) by a cumulative development factor. The validity of the results of this method depends on the stability of claim reporting and settlement rates, as well as the consistency of case reserve levels. Case reserves do not have to be adequately stated for this method to be effective; they only need to have a fairly consistent level of adequacy at all stages of maturity. Because of our limited loss experience, we select loss development factors based on industry data found in 2007 A.M. Best's Aggregates and Averages – Property/Casualty – United States & Canada**.** We assume that our loss development patterns will be reasonably consistent with industry averages, and use the selected factors to project the ultimate losses.

The paid loss development method is mechanically identical to the reported loss development method described above. The paid method does not rely on case reserves or claim reporting patterns in making projections.

The validity of the results from using a loss development approach can be affected by many conditions, such as internal claim department processing changes, a shift between single and multiple claim payments, legal changes, or variations in our mix of business from year to year. Also, since the percentage of losses paid for immature years is often low, development factors are volatile. A small variation in the number of claims paid can have a leveraging effect that can lead to significant changes in estimated ultimates. Therefore, ultimate values for immature accident years are often based on alternative estimation techniques.

Because we assumed the majority of our policies from Citizens, we employ a loss ratio method based on the expected loss projections for Citizens' policies. This method relies on the assumption that remaining unreported

losses are a function of the total expected losses rather than a function of currently reported losses. The expected loss ratio is multiplied by earned premium to produce ultimate losses. Paid losses are then subtracted from this estimate to produce expected unreported losses.

The loss ratio method is most useful as an alternative to other models for immature accident years. For these immature years, the amounts reported or paid may be small and unstable, and therefore, not predictive of future development. Therefore, future development is assumed to follow an expected pattern that is supported by more stable historical data or by emerging trends. This method is also useful when changing reporting patterns or payment patterns distort the historical development of losses.

Finally, we employ the average outstanding and open claims method. We segregate our claims according to when we assumed them from Citizens and conduct a detailed review in order to estimate average future development of open claims and average projected loss on IBNR claims. We combine this estimate with our open claims in order to derive an estimate of expected unreported losses. Paid losses are added to this estimate in order to derive an estimate of ultimate losses. This method is based on the assumption that future IBNR claims and the average severity of open claims and IBNR claims can be reasonably estimated from the experience available.

While the property and casualty industry has incurred substantial aggregate losses from claims related to asbestos-related illnesses, environmental remediation, product and mold, and other uncertain or environmental exposures. We have not experienced significant losses from these types of claims.

Currently, we calculate on a monthly basis our estimated ultimate liability using these principles and procedures applicable to the lines of business written. However, because the establishment of loss reserves is an inherently uncertain process, we cannot be certain that ultimate losses will not exceed the established loss reserves and have a material adverse effect on our results of operations and financial condition. Changes in estimates, or differences between estimates and amounts ultimately paid, are reflected in the operating results of the period during which such adjustments are made.

Our reported results, financial position and liquidity would be affected by likely changes in key assumptions that determine our net loss reserves. Management does not believe that any reasonably likely changes in the frequency of claims would affect the Company's loss reserves. However, management believes that a reasonably likely increase or decrease in the severity of claims could impact our net loss reserves. The table below summarizes the effect on net loss reserves and surplus in the event of reasonably likely changes in the severity of claims considered in establishing loss and loss adjustment expense reserves. The range of reasonably likely changes in the severity of our claims was established based on a review of changes in accident year development by line of business and applied to loss reserves as a whole. The selected range of changes does not indicate what could be the potential best or worst case or likely scenarios:

**Impact of Changes in Claim Severity**
**Three Months Ended March 31, 2008**

| Change in severity | Adjusted incurred loss and LAE, net of reinsurance | Percentage change in equity[1] |
|---|---|---|
| -50% | 1,137 | 0.004% |
| -40% | 1,364 | 0.003% |
| -30% | 1,592 | 0.002% |
| -20% | 1,819 | 0.002% |
| -10% | 2,047 | 0.001% |
| **Base** | **2,274** | **—** |
| 10% | 2,501 | -0.001% |
| 20% | 2,728 | -0.002% |
| 30% | 2,956 | -0.002% |
| 40% | 3,183 | -0.003% |
| 50% | 3,410 | -0.004% |

(1) Net of tax.

***Reinsurance***

Reinsurance recoverables recorded with respect to insurance losses ceded to reinsurers under reinsurance contracts are also subject to estimation error, as they are subject to the same uncertainties as reserves for losses and LAE. Additionally, estimates of reinsurance recoverables may prove uncollectible if the reinsurer is unable or unwilling to perform under the contract. We are selective with regard to our reinsurers, placing reinsurance with those reinsurers with strong financial strength ratings from A.M. Best, Standard & Poor's, or a combination thereof, although the financial condition of a reinsurer may change based on market conditions. We perform credit reviews on our reinsurers, focusing on, among other things, financial condition, stability, trends and commitment to the reinsurance business. We may require assets in trust, letters of credit or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. It has not always been standard business practice to require security for balances due; therefore, certain balances are not collateralized. The ceding of insurance does not legally discharge the ceding company from its primary liability for the full amount of the policies, and the ceding company is required to pay the loss and bear collection risk if the reinsurer fails to meet its obligation under the reinsurance agreement. Therefore, we evaluate the balances due from reinsurance companies for collectibility, and when indicated, in management's opinion, issues of collectibility exist, establish an allowance for doubtful accounts.

We also obtain a significant portion of our reinsurance through the FHCF program. Therefore, in the event of a catastrophic loss, we may become dependent upon the FHCF's ability to pay, which may, in turn, be dependent upon the FHCF's ability to issue bonds in amounts that would be required to meet its reinsurance obligations in the event of such a catastrophic loss. There is no assurance that the FHCF will be able to do this.

***Deferred Tax Assets and Liabilities***

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities. Deferred tax liabilities are recognized for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognized for deductible temporary differences and tax operating loss and tax credit carryforwards. The deferred tax assets and liabilities are measured by applying the enacted tax rates and laws in effect for the years in which such differences are expected to reverse. The components of our deferred tax asset are temporary differences primarily attributable to loss reserve discounting and unearned premium reserves.

Realization of deferred tax assets depends upon our generation of sufficient taxable income in the future to recover tax benefits that cannot be recovered from taxes paid in the carryback period, generally two years.

***Share-based Payment***

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payments," which supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and required companies to recognize compensation expense, using a fair-value based method, for costs related to share-based payments including stock options, non-vested stock grants and stock issued under the employee stock plans. Between June 1, 2007 and September 6, 2007 our board of directors granted stock options pursuant to our 2007 Stock Option and Incentive Plan ("the Grants") to certain current and former executive officers, our non-employee directors and certain of our employees. As of March 31, 2008, there was $.9 million of total unrecognized compensation costs related to outstanding options to purchase 1,150,000 of our shares, which will be amortized into expense over the vesting period, typically three to five years. The weighted-average period over which this unrecognized expense is expected to be recognized is 49 months. Based on an assumed initial public offering price of $6.13 per unit, the aggregate intrinsic values of the Company's vested and unvested options outstanding as of March 31, 2008 were approximately $4.2 million and $1.5 million, respectively.

We estimate the value of employee stock options using the Black-Scholes option pricing model. The determination of fair value using the Black-Scholes model requires a number of complex and subjective

variables. One key input into the model is the fair value of our common stock on the date of grant, which we determined contemporaneously with the issuance of the Grants. Prior to the effectiveness of this offering, we were privately held and did not have an internal or external market for our shares, and therefore, we did not have sufficient information available to support an estimate of our stock's expected volatility and share prices. In accordance with FAS 123(R), we used an arms length transaction with unrelated parties, our April 2007 private placement, for estimating our share price and identified a similar public entity for which sufficient information was available and used that information for estimating our expected volatility. Accordingly, we used the following assumptions to calculate the fair market value of each Grant: a stock price volatility of 48.0%, an expected option life of 5.5 to 6.5 years, a risk-free interest rate of 3.63 to 4.75% and a 0% expected dividend yield.

Many methods are available to determine volatility, so the determination is subjective. Applying a different method to determine volatility could impact earnings. Additionally, forfeiture rates are estimated based on prior option vesting experience. If the estimates of employees' forfeiture rates are not correct at the end of the term of the option, we will record either additional expense or a reduction in expense in the period it completely vests. This adjustment may be material to the period in which it is recorded. In addition, option fair value is based on estimates of volatility as determined by management.

**Results of Operations**

From our commencement of operations in June 2007 through December 31, 2007, HCI generated revenues of $7.7 million, of which $7.0 million was a result of net premiums earned. HCI earned an additional $0.6 million in interest income during this time period. From January 1, 2008 through March 31, 2008, HCI generated revenues of $10.9 million, of which $10.4 million was a result of net premiums earned. HCI earned an additional $0.3 million in interest income during this time period.

From June 2007 through December 31, 2007 we incurred a total of $6.7 million in expenses for a net income of $1.0 million. Of the $6.7 million of expenses, $1.1 million were due to underwriting expenses, such as external and internal commissions paid for sold policies, and $2.7 million of direct expenses resulted from losses related to claims and loss adjustment expenses. We also incurred $2.2 million of expenses related to management costs, including salaries, taxes and licensing fees, which were 29.0% of our total revenue. Our expenses also included income taxes of $0.6 million. From January 1, 2008 through March 31, 2008, we incurred a total of $7.0 million in expenses for a net income of $3.9 million. Of the $7.0 million of expenses, $2.3 million were due to underwriting expenses, such as external and internal commissions paid for sold policies, and $2.3 million of direct expenses resulted from losses related to claims and loss adjustment expenses. Our expenses also include income taxes of $2.4 million. We expect that these expenses will increase as we continue to expand the number of underwritten policies.

**Liquidity and Capital Resources**

Since inception, we have financed our cash flow requirements through issuance of our common stock, net premiums received and investment income. In April 2007, we issued and sold 5,182,000 shares of our common stock to a group of accredited investors, including certain of our officers and directors, for an aggregate purchase price of $12,955,000. We believe our cash from net premiums and investment income will be sufficient to cover our cash outflows for at least the next 12 months. However, we expect our cash position to increase as the result of the net proceeds from this offering, approximately $4.0 million of which we will use to increase the statutory capital and surplus of our insurance subsidiary so that we can write additional policies. We will use the remaining proceeds from this offering to increase our marketing efforts and to increase working capital.

In the future, our primary cash flow sources will be premiums and investment income. Our primary cash outflows are claims payments and operating expenses. In the insurance industry cash collected for premiums from policies written is invested, interest and dividends are earned thereon, and loss and settlement expenses are

paid out over a period of years. This period of time varies by the circumstances surrounding each claim. A substantial portion of our loss and loss expenses are paid out over more than one year. Additional cash outflow occurs through payments of underwriting costs such as commissions, taxes, payroll and general overhead expenses.

Our lack of an operating history makes predictions of future operating results difficult to ascertain. Our prospects must be considered in light of the risks, expenses and difficulties encountered by companies in their early stage of development, particularly companies in highly competitive markets. Such risks for us include, but are not limited to, the management of future growth. To address these risks, we must, among other things, target an appropriate base of insureds, implement and successfully execute our business and marketing strategy, continually develop and upgrade our risk-control procedures, respond to competitive pressures, meet the needs of our customers and attract, retain and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so can have a material adverse effect on our business prospects, financial condition and result of operations. In addition, there can be no assurance that our business will not be affected by risks or market conditions that we do not currently foresee.

We have tailored our investment policy in an effort to minimize risk in the current financial market, particularly the debt securities market. Therefore, we currently invest our excess cash in money market accounts or in certificates of deposit (i.e., CDs) that mature in no more than thirteen months. With the exception of large national banks, such as Bank of America and Wachovia Bank, it is our current policy not to deposit more than an aggregate of $5.5 million in any one bank at any time. In the future we may alter our investment policy to include investments such as federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages, as permitted by applicable law, including insurance regulations.

Our insurance subsidiary requires liquidity and adequate capital to meet ongoing obligations to policyholders and claimants and to fund operating expenses. From the beginning of our operations in June 2007 through March 31, 2008, liquidity generated from our private placement, operations and investment income were sufficient to meet obligations. Adequate levels of liquidity and surplus are maintained to manage the risks inherent with any differences between the duration of our liabilities and invested assets. We believe that we maintain sufficient liquidity to pay our insurance subsidiary's claims and expenses, as well as satisfy commitments in the event of unforeseen events such as reinsurer insolvencies, inadequate premium rates, or reserve deficiencies.

We maintain a comprehensive reinsurance program at levels management considers adequate to diversify risk and safeguard its financial position. To the extent that reinsurance costs cannot be passed on to our customers through our rates, our reinsurance program could have a negative impact on our liquidity.

Our insurance subsidiary must maintain certain levels of policyholders' surplus to support premium writings. Guidelines of the National Association of Insurance Commissioners suggest that a property and casualty insurer's ratio of annual statutory net premium written to policyholders' surplus should not exceed 3-to-1. The ratio of annual statutory net premium written by our insurance subsidiary to combined policyholders' surplus was 2.3-to-1 as of December 31, 2007. Our current levels of policyholders' surplus are adequate to support current premium writings, based on this standard. We monitor premium and statutory surplus levels of our insurance subsidiary in an effort to ensure that the subsidiary maintains adequate premium to surplus ratios. Failure of our insurance subsidiary to maintain adequate levels of policyholders' surplus could negatively impact our ability to write additional premiums.

We recently formed a fourth subsidiary, Claddaugh Casualty Insurance Company Ltd. Claddaugh's incorporation required minimum capital and surplus of $2.0 million, which we funded with a $120,000 cash deposit and a $1.88 million letter of credit. We pledged a certificate of deposit, with a $1.88 million face amount, as collateral for the letter of credit. When deemed appropriate by management, we plan to satisfy some of our

reinsurance needs by purchasing reinsurance from this subsidiary. Any reinsurance contracts entered into with this subsidiary will be subject to review by the Florida OIR.

In addition, regulators and rating agencies utilize a risk based capital ("RBC") test designed to measure the acceptable amount of surplus an insurer should maintain, based on specific inherent risks of each insurer. If we fail to meet the benchmark level, we may be subject to scrutiny by the Florida OIR, which could potentially result in rehabilitation or liquidation. At December 31, 2007, the total annual adjusted capital of our insurance subsidiary exceeded the minimum levels required under RBC. We continually monitor the RBC ratios and will implement strategies to maintain ratios above the regulatory minimums.

***Credit Risk***

Credit risk is a major factor in operating our business. We have established policies and procedures to evaluate our exposure, particularly with regard to our investment holdings, and our receivable balances from insureds and reinsurers. We review credit risk from a variety of sources: credit risk from financial institutions; investment risk; counter-party risk from reinsurers; premium receivables; notes receivable and long-term investment assets; loss sensitive underwriting accounts; and key vendor relationships.

We use specific criteria to judge the credit quality and liquidity of our investments in addition to a variety of credit rating services to monitor these criteria. We currently limit our credit exposure related to financial instruments by investing our excess cash in money market funds or in bank deposits (i.e., CDs) that mature in no more than thirteen months.

We are also exposed to credit risk on losses recoverable from reinsurers and premiums receivable from insureds. Downturns in one sector or market can adversely impact other sectors and may result in higher credit exposure. We do not use credit default swaps to mitigate our credit exposure from either investments or counterparties.

**Recent Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of SFAS No. 115 ("SFAS No. 159")," which permits an entity to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions. SFAS No. 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities. SFAS No. 159 also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We did not apply the fair value option to any existing financial assets or liabilities as of January 1, 2008. Consequently, the adoption of SFAS No. 159 had no impact on our consolidated financial position or results of operations and financial condition.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of SFAS No. 133 and SFAS No. 140." SFAS No. 155 (i) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (ii) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (iii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (v) amends SFAS No. 140 to eliminate the exemption from applying the requirements of SFAS No. 133 on a qualifying special-purpose entity from holding a derivative financial instrument that

pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 did not have a material impact on our financial position or results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. The adoption of SFAS No. 157 did not have a material impact on our financial position or results of operations and financial condition.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109" ("FIN 48"). FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this statement did not have a material impact on our financial position or results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. Management is in the process of evaluating the impact of SFAS 141(R) and does not anticipate it will have a material impact on our consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No.160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 requires us to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Management is in the process of evaluating the impact of SFAS 160 and does not anticipate it will have a material effect on our consolidated financial condition or results of operations.

# BUSINESS

## Overview

We are a property and casualty insurance holding company incorporated in Florida in November of 2006. In June of 2007, we began providing property and casualty insurance, through our insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc., to individuals in Florida. Our insurance offerings currently include homeowners' insurance, condominium-owners' insurance, and tenants' insurance. We currently target the Florida property and casualty insurance market because we believe this market is underserved due to the unique weather-related risks in Florida. We provide our policyholders with a selection of insurance products at competitive rates, while pursuing profitability using our selective underwriting criteria.

As of March 31, 2008, we had 23,000 policyholders, total assets of $57.1 million and stockholders' equity of $18.4 million. Our net income was $1.0 million for the year ended December 31, 2007 and $3.9 million for the quarter ended March 31, 2008. We believe that our selective underwriting criteria is largely responsible for our profitability during our year of operations. We also believe that our focus on underwriting and claims management will enable us to achieve loss ratios that out-perform industry averages.

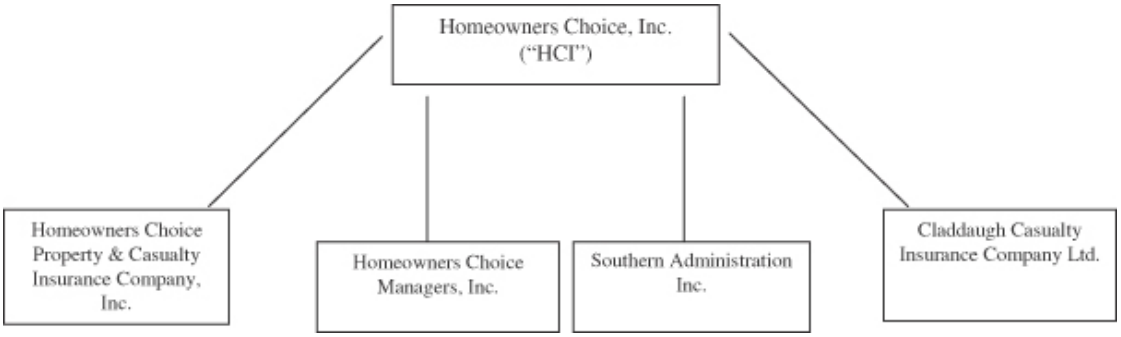
We began operations in June of 2007 by participating in a "take-out program" through which we assumed insurance policies held by Citizens Property Insurance Corporation ("Citizens"), a Florida state-supported insurer. The Florida Residential Property and Casualty Joint Underwriting Association (now known as Citizens) was formed by the Florida legislature in December of 1992 following Hurricane Andrew. The losses resulting from Hurricane Andrew caused several small property insurance companies to become insolvent, while some of the large insurance companies began canceling many of their Florida policies in order to reduce their potential loss exposure in the event of another major hurricane. This left a large number of Florida homeowners without access to property insurance coverage. Citizens' mission is to provide residential property insurance coverage to Florida homeowners who cannot obtain private insurance. If an insurance agent is unable to place a policy with a private insurer, the agent can write a policy for Florida residential property through Citizens. Initially, Citizens was an "insurer of last resort," writing only five to ten percent of Florida's homeowners' policies. Citizens is now the largest single property insurer in Florida, representing approximately 30% of the homeowners' policies written in Florida with over 1.2 million policies in force, making the State vulnerable to the risk of a catastrophic event. In an effort to reduce this risk, the Florida legislature instituted a depopulation or "take-out" program to encourage private insurance companies, like ours, to assume policies from Citizens thereby reducing the State's loss exposure.

We currently derive all our insurance business from insuring property located in the State of Florida. Our initial focus on the Florida market is due, in part, to our management's expertise and specialized knowledge of Florida's insurance industry trends and demographics. We also believe the existence of a state-supported insurer, Citizens, combined with the dynamic of large, national insurers exiting the Florida property and casualty insurance market, has created a unique growth opportunity for smaller insurance companies like ours.

We have an experienced management team led by Francis X. McCahill, III, our President and Chief Executive Officer. Mr. McCahill has served in his current position since November 2006. Mr. McCahill has over 35 years of experience in the insurance industry. As a group, our executive officers have on average more than 30 years of experience in the property and casualty insurance industry, as well as long standing relationships with agents and insurance regulators in the State of Florida.

**Our Corporate Structure**

The chart below displays our corporate structure:




*Homeowners Choice, Inc.* We incorporated Homeowners Choice, Inc. or "HCI" to hold all of the capital stock of our three subsidiaries, Homeowners Choice Property & Casualty Insurance Company, Inc., Homeowners Choice Managers, Inc., and Southern Administration, Inc. HCI will also hold all of the capital stock of the Bermuda domiciled reinsurance subsidiary we intend to form. As a holding company for these subsidiaries, HCI is subject to regulation by the Florida OIR.

*Homeowners Choice Property & Casualty Insurance Company, Inc.* Homeowners Choice Property & Casualty Insurance Company, Inc., our insurance subsidiary, is a Florida insurance company that provides property and casualty insurance to individuals that own homes or condominiums in Florida and to certain individuals who rent property in Florida. Homeowners Choice Property & Casualty Insurance Company, Inc. markets homeowners', condominium-owners', and renters' insurance policies through over 1,500 independent agents. As our insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc. is subject to examination and comprehensive regulation by the Florida OIR.

*Homeowners Choice Managers, Inc.* Homeowners Choice Managers, Inc. serves as our management services subsidiary, known as a managing general agency. In its role as our management services subsidiary, Homeowners Choice Managers, Inc. is responsible for our marketing programs and other management services. It is this subsidiary that contracts with our independent agents for sales services and with Southern Administration Inc. for policy administration services. Homeowners Choice Managers, Inc. is licensed by and subject to the regulatory oversight of the Florida Department of Financial Services. In addition, as the managing general agency of our insurance subsidiary, Homeowners Choice Managers, Inc. is subject to examination and review by the Florida OIR.

*Southern Administration Inc.* Southern Administration Inc. serves as our administrative subsidiary. Pursuant to a service agreement between Southern Administration Inc. and Homeowners Choice Managers, Inc., Southern Administration Inc. provides policy administration services to the company. In exchange for its policy administration services, Southern Administration Inc. receives a fee per policy.

*Reinsurance Subsidiary.* We recently formed a reinsurance subsidiary, Claddaugh Casualty Insurance Company Ltd. If deemed appropriate by management, Homeowners Choice Property & Casualty Insurance Company, Inc. may use Claddaugh Casualty Insurance Company Ltd. to meet certain of its reinsurance needs. In the event that Homeowners Choice Property & Casualty Insurance Company, Inc. decides to purchase reinsurance from Claddaugh Casualty Insurance Company Ltd., the reinsurance contracts entered into between these two subsidiaries will contain terms and rates that are substantially similar to the terms and rates found in the reinsurance contracts between Homeowners Choice Property & Casualty Insurance Company, Inc. and other third party reinsurers. Any reinsurance contracts entered into between these two subsidiaries will be subject to review by the Florida OIR in an effort to ensure that they are substantially arms length transactions.

We believe that our holding company structure will give us greater flexibility to expand our operations and the products and services we offer—although presently there are no definitive plans or arrangements for expansion. We will be able to diversify our business through existing or newly formed subsidiaries or through the issuance of capital stock to make acquisitions or to obtain additional financing in the future. A portion of the net proceeds from this offering will be used to increase the surplus of Homeowners Choice Property & Casualty Insurance Company, Inc. We believe this increase in surplus will enhance policyholder protection and increase the amount of funds available to support both current operations and future growth.

**Our Market and Opportunity**

According to the OIR, June 2007 data shows that the market for homeowners' insurance, condominium-owners' insurance, and tenants' insurance (i.e., the insurance products offered by our insurance subsidiary) is 4.7 million policyholders representing annual premiums in excess of $8 billion. Citizens currently writes approximately 30% of these policies. Large, national insurance companies account for another 45% of these policies.

Historically, the Florida property and casualty insurance market has been dominated by large, national insurance companies, which began writing property and casualty insurance policies in Florida when rates were much lower than they are today. Following Hurricane Andrew, it became apparent that the historical rates charged by these insurance companies were not adequate to cover the risks they assumed. This problem resurfaced following Florida's unusual hurricane activity in 2004 and 2005. Insurance companies that continued to do business in Florida following these events requested rate increases from the OIR. The OIR is typically reluctant to implement large rate increases over a short period in an effort to ensure that property and casualty rates do not become cost prohibitive for Florida homeowners. As a result, many insurers have been unable to implement in a timely manner, rate increases that they believe are sufficient to offset the risks being assumed. Consequently, many insurers are continuing to decrease the number of property and casualty insurance policies written by them in Florida.

We believe that the significant decrease in the number of Florida property and casualty insurance policies written by various large, national insurance companies coupled with the Citizens take-out program provides smaller, domestic insurance companies, such as our insurance subsidiary, with greater access to and a unique opportunity for growth in the Florida property and casualty insurance market. Unlike many of the large national insurance companies that have found their rates are insufficient to offset the potential risk of loss, we have been able to selectively assume policies meeting our underwriting criteria at a rate that we believe is adequate.

Although the Florida property and casualty insurance market is particularly susceptible to risks due to hurricanes, the statistical likelihood of experiencing catastrophic hurricane-related losses is not as great as recent storm activity might suggest. Each year, forecasters predict the number of storms for the year and the number of storms likely to hit the United States. These forecasts refer to all manner of storms ranging from tropical storms to category 5 hurricanes. Moreover, these predictions do not anticipate the number of storms to impact a particular state, such as Florida.

The Saffir/Simpson hurricane scale classifies hurricanes into five categories according to intensity of sustained winds, central barometric pressure and storm surge. The scale is used primarily to measure the potential damage and flooding a hurricane will cause upon landfall. The U.S. National Hurricane Center classifies hurricanes of category 3 and above as "major hurricanes." Tropical storms and the lowest two categories, category 1 and category 2 hurricanes, have wind speeds of less than 110 mph and do not present a significant risk of loss. According to the National Hurricane Center, category 1 storms cause no significant damage to building structures, other than unanchored mobile homes. According to the same source, category 2 storms may cause damage to roofing material, poorly constructed doors and windows, and mobile homes. Consequently, we believe only category 3 and above hurricanes present a significant risk of property damage to our insureds.

A NOAA Technical Memorandum published by the National Weather Service—National Hurricane Center in April 2007 reveals that between 1951 and 2006 (a span of 55 years), only 11 “major” storms (a category 3 or greater) struck Florida, five of which occurred during the well-publicized 2004-2005 hurricane season. The following table contains a compilation of the information in the Technical Memorandum regarding the “major” storms that have struck Florida since 1952:

**FLORIDA HURRICANE HISTORY**

**Category 3 or Greater, 1952-2007**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1952 - | None | 1966 - | None | 1980 - | None | 1994 - | None |
| 1953 - | None | 1967 - | None | 1981 - | None | 1995 - | 1 |
| 1954 - | None | 1968 - | None | 1982 - | None | 1996 - | None |
| 1955 - | None | 1969 - | None | 1983 - | None | 1997 - | None |
| 1956 - | None | 1970 - | None | 1984 - | None | 1998 - | None |
| 1957 - | None | 1971 - | None | 1985 - | 1 | 1999 - | None |
| 1958 - | None | 1972 - | None | 1986 - | None | 2000 - | None |
| 1959 - | None | 1973 - | None | 1987 - | None | 2001 - | None |
| 1960 - | 1 | 1974 - | None | 1988 - | None | 2002 - | None |
| 1961 - | None | 1975 - | 1 | 1989 - | None | 2003 - | None |
| 1962 - | None | 1976 - | None | 1990 - | None | 2004 - | 3 |
| 1963 - | None | 1977 - | None | 1991 - | None | 2005 - | 2 |
| 1964 - | None | 1978 - | None | 1992 - | 1 | 2006 - | None |
| 1965 - | 1 | 1979 - | None | 1993 - | None | 2007 - | None |

The Technical Memorandum also reveals the following information for the period from 1851 through 2006 (a span of 156 years):

- In 156 years, only 96 “major” (category 3 or higher) storms struck the United States; and
- Only 37 of those 96 storms hit Florida.

For information regarding risks faced by our company due to weather-related incidents, see the risk factor on page 14 entitled “We have exposure to unpredictable catastrophes, which can materially and adversely affect our financial results.”

**Our Business**

We began operations in June of 2007 by participating in the Citizens take-out program. To date, we have assumed through our insurance subsidiary more than 23,000 property and casualty insurance policies from Citizens representing $66 million in annualized premiums. We reviewed the policies that we were eligible to assume and selected only those Citizens’ policies that met our selective underwriting criteria. Of these policies, approximately 85% are homeowners’ insurance policies, and the remaining 15% are a combination of condominium-owners’ and tenants’ insurance policies.

When we assume policies from Citizens under the take-out program, Citizens retains a percentage of the unearned premium for the assumed policies to service those policies during the period of time from the assumption date to the policy term expiration date. This retained percentage of unearned premium is referred to as the “ceding commission.” For insurers such as our insurance subsidiary who have assumed less than 60,000 policies from Citizens, the ceding commission is 16% of the unearned premium for the assumed policies.

With respect to policies that we assume from Citizens, we are required to have rates that are equivalent to or less than the rates charged by Citizens. If Citizens reduces its rates, we will be required to reduce our rates by the same amount; however, if Citizens increases its rates, we will not be permitted to automatically increase our rates. We must provide coverage to Citizens' policyholders that we assume in this manner for a period of three years, provided that we can cancel a policy in certain circumstances, including for fraud or misrepresentation and non-payment of premiums.

We must have the approval of the insurance agent in order to assume a policy written by such agent from Citizens. In some instances, we must also have the approval of the agent's affiliated insurance company. This typically applies when the agent is affiliated with a large, national insurance company. We currently assume policies from Citizens that have been written through the agents of the Florida subsidiaries of two large, national insurance companies, Allstate Floridian Insurance Company and State Farm Florida Insurance Company. We currently are eligible to assume approximately one-half of Citizens' policies. In an effort to increase the number of policies that we are eligible to assume from Citizens, we are in discussions with other agents and insurance companies to obtain similar approvals.

We enter into limited producer agreements with independent agents when we get their approval to assume policies written by them from Citizens. We currently have a network of over 1,500 independent agents that have entered into limited producer agreements with us. We have also begun writing insurance policies through these agents that are unrelated to the Citizens' take-out program, which we refer to as voluntary policies. As of March 31, 2008, approximately 99% of our policies were assumed from Citizens and approximately 1% of our policies were voluntary policies. Our independent agents typically represent several insurance companies in order to provide various insurance product lines. Because many large, national insurers have significantly decreased the number of homeowners' insurance policies they write in the State of Florida, we believe a significant opportunity exists to increase the number of voluntary policies that we write through their agents. In some cases, however, we must gain the approval of these larger insurers in order to provide an alternative source to their agents for writing homeowners' policies in Florida. We intend to seek additional voluntary business from top-producing agents and will seek approvals from their affiliated insurance companies when required.

**Competitive Strengths**

We believe the following are our key competitive strengths:

- *Our Relatively New Position in the Property & Casualty Insurance Market.* Unlike the larger, national insurance companies that have traditionally written homeowners' insurance policies in Florida, we have not had to struggle to maintain rates that we believe are commensurate with the amount of risk that we assume. The larger insurance companies that have been in business longer than we have began their operations in Florida at lower rates and have therefore had to consistently request rate increases from the Florida OIR. Because of our timing in entering the Florida insurance market, we began doing business with what we believe to be appropriate rates. Therefore, we have not experienced the delays associated with requesting regulatory approval of rate increases, which, during the waiting period exposes companies to risk that is disproportionate to their rates.
- *Our Capital Structure.* While other domestic insurance companies have relied upon debt to provide start-up and working capital, we have, since inception, been funded entirely by equity. Because we have not had to borrow money, we have been able to grow our business in a strategic and decisive manner—utilizing our selective underwriting criteria and maintaining our rates. We believe that the large amounts of debt incurred by some of our competitors as well as the associated carrying costs of such debt have generated pressure on these insurers to grow their businesses too rapidly in order to service debt. Because we are not burdened by such indebtedness, we are able to prudently and strategically grow our business.
- *Our Underwriting Criteria.* With the aid of our personalized policy rating and administration system, we are able to utilize highly refined and continually evolving underwriting criteria in accepting new insurance policies. We screen each potential policy to determine whether it meets our underwriting

criteria by specific zip code and review each policy in an effort to ensure that the policy premium is adequate in relation to our projected costs for policy administration and potential risk of loss. We further screen the policy for incremental demographic concentration risks relative to our existing policy coverage.

- *Our Relationships with Government Agencies.* Our Chief Executive Officer has over 35 years of experience in the insurance industry, 28 of which have been in the Florida insurance industry. Mr. McCahill and other members of our management team have long standing relationships with agents and insurance regulators in the State of Florida. Members of our management team work closely with the government agencies that regulate us to develop the products and services that we offer. Our relationships with these government agencies enable us to more effectively communicate with them regarding our ability to provide quality, cost-effective insurance products and services.
- *Our Ability to Attract Independent Agents.* Due to the industry experience and contacts of our management team, we believe that we can attract highly productive independent agents, who have the ability to direct potential policyholders to our company to fulfill their homeowners' insurance needs. We expect that these independent agents will play an important role in our future growth as we increase the number of voluntary policies we issue.
- *Our In-House Policy Administration System.* Rather than outsourcing our policy administration function, we service, renew, rate and administer all of our policies in-house which we believe allows us to maintain closer relationships with our agents and policyholders and improves our responsiveness to changes in our industry and local business.

**Our Strategies**

We believe that our underwriting approach has contributed significantly to our ability to become profitable in a short period of time and will reduce the impact of potential losses associated with our business. Our main goal is to continue to expand our property and casualty writings in the State of Florida. We believe that implementing the strategies discussed below will reduce the impact of property insurance losses and will result in continued improvement in our operating results. The following discussion describes the strategies we intend to employ to achieve our goal:

***Increase our Property and Casualty Insurance Offerings in the State of Florida by Increasing our Number of Voluntary Policies.*** Recently, we have begun to offer property and casualty insurance directly through our network of independent agents, which we refer to as voluntary policies. In recent years, many of the large, national insurance companies that historically wrote a large volume of the property and casualty insurance policies in Florida have significantly reduced their property and casualty writings in Florida. We believe this creates an opportunity to transition their property and casualty business in Florida to our company. We are in discussions with some of the large, national insurance companies to become an alternative insurance source for their agents to write homeowners' policies in Florida. We believe that we can also increase the number of voluntary policies we write by implementing a marketing program directed at better educating our network of independent agents about our insurance subsidiary and our products.

***Increase our Property and Casualty Insurance Offerings in the State of Florida Through Assumption of Policies Held by Citizens.*** Since inception, we have focused primarily on using our dynamic underwriting criteria to select and assume certain property and casualty insurance policies held by Citizens. Because Citizens is the largest property insurer in Florida, with 1.3 million active policies and coverage for more than $485 billion in property, we intend to continue selecting and assuming from Citizens, insurance policies that meet our selective underwriting criteria. In many cases, we must have the approval of the insurance agent in order to assume a policy from Citizens. Because the direct agents of some insurance companies can only sell company-approved products, we must also have the approval of the agent's affiliated insurance company. Currently, the Florida subsidiaries of two large, national insurance companies, Allstate Floridian Insurance Company and State Farm Florida Insurance Company, permit us to assume policies from Citizens that have been written through their agents. In order to gain access to additional policies held by Citizens, we are in the process of seeking approval

from other large, national insurance companies that have significantly reduced the number of homeowners' policies that they write in Florida. We will also continue to assume policies from Citizens written through our network of independent agents, who are not subject to the same corporate approval process.

***Attract and Retain High-Quality Agents.*** We believe that our insurance subsidiary is gaining a reputation for personal attention and prompt, efficient service to agents and insureds. This reputation allows us to grow and create relationships with many high volume agents. We intend to focus our marketing efforts on maintaining and improving our relationships with our current network of independent agents, as well as on attracting new high-quality agents in areas with a substantial potential for growth. We believe that these agents will play a key role in our efforts to increase the number of voluntary policies written by our insurance subsidiary.

***Reducing our Ratio of Expenses to Net Premiums Earned and Using Technology to Increase our Operating Efficiency.*** We are committed to improving our profitability by reducing expenses through the use of enhanced technology and by increasing the number of policies written through the strategic deployment of our capital. We consolidate all processing and administration of our policies for quality control and to realize operating synergies and better control our expenses. We use technology to automate much of our underwriting to facilitate policyholder communications on an efficient and cost-effective basis. We anticipate that an increase in policies written can be achieved without a commensurate increase in expenses, and will therefore help to reduce our expense ratio.

***Evaluate Appropriate Levels of Reinsurance and Utilize our Proposed Reinsurance Subsidiary.*** We will continue to evaluate our levels of reinsurance in an effort to strike an appropriate balance between the loss exposure retained by our insurance subsidiary on individual property and casualty risks and the cost of obtaining reinsurance. A portion of the proceeds of this offering will be available for contribution to our insurance subsidiary to cover losses. Therefore, this capital will enable us to increase maximum exposure amounts under our reinsurance agreements. A decrease in reinsurance would result in a decrease in ceded premiums and a corresponding increase in net premium income, but would increase our risk of loss. We will determine the appropriate increase in our maximum exposure level based on a number of factors, including our ability to incur multiple losses and the revised terms and limits that we establish with our reinsurers.

We have formed a new reinsurance subsidiary to meet certain of our insurance subsidiary's reinsurance needs. Although the terms and rates of any treaty with our reinsurance subsidiary would be substantially similar to the terms and rates found in our third party reinsurance treaties, any reinsurance premiums retained by our reinsurance subsidiary (i.e., not paid out due to a catastrophic event) would be recognized as a profit by that subsidiary, rather than by a third party reinsurer.

**Underwriting**

Based on a dynamic set of selective criteria, our underwriters evaluate and select those risks that they believe will enable our insurance subsidiary to achieve an underwriting profit. In order to achieve underwriting profitability on a consistent basis, our insurance subsidiary:

- Assesses and selects quality standard and preferred risks;
- Adheres to disciplined underwriting guidelines; and
- Utilizes various types of risk management and loss control services.

In evaluating each policy, we focus on (1) the suitability of the risk to be assumed, (2) the adequacy of the premium with regard to the risk to be assumed, and (3) the geographic distribution of existing policies. When considering the suitability of the risk to be assumed and the adequacy of the premium with regard to the risk to be assumed, our underwriters may consider factors such as the age of the home, the construction of the home, the location of the home, the value of the home, and the premiums to be received from insuring the home. New technological advances in computer generated geographical mapping afford us an enhanced perspective as to geographic concentrations of policyholders and proximity to flood prone areas. When considering the geographic distribution of existing policies, our underwriters may consider the number of other homes insured by the company within the same region, county, city, and zip code.

The factors (or underwriting criteria) that we consider evolve as we assume more policies. Specifically, our standards have become more geographically precise. For example, in our insurance subsidiary's first Citizens' policy take-out, we used broader underwriting criteria to evaluate policies at a statewide level; then, in our insurance subsidiary's second take-out, our underwriters used more narrowly tailored criteria to evaluate policies on a county-wide level; and, in our insurance subsidiary's most recent take-out, our underwriters used even more narrowly tailored criteria to evaluate policies at a zip code level. Our underwriting criteria will continue to evolve as our business grows and expands.

Our insurance subsidiary also reviews its existing policies and accounts to determine whether those risks continue to meet its underwriting guidelines. If a given policy or account no longer meets those underwriting guidelines, our insurance subsidiary will take appropriate action regarding that policy or account, including raising premium rates or not renewing the policy to the extent permitted by applicable law, provided that we can cancel policies assumed from Citizens only in limited circumstances for the first three years following assumption.

**Claims Administration**

Claims administration involves the handling of routine "non-catastrophic" claims as well as catastrophic (hurricane-related) claims. In the event of a hurricane, our claims volume would increase significantly due to hurricane-related damage. Rather than increase the size of our staff in anticipation of such an event, we believe that outsourcing claims administration improves our operational efficiency because an appropriately selected third party will have resources to administer the hurricane-related claims. Accordingly, we have outsourced our claims handling program to Johns Eastern Company, Inc. ("Johns Eastern"), a third party adjuster with over six decades of experience.

Under the terms of the service contract between our wholly-owned subsidiary, Homeowners Choice Managers, Inc., and Johns Eastern, Johns Eastern (as the adjuster) handles the actual claims administration for both catastrophic and non-catastrophic insurable events. In handling the claims administration, the adjustor reviews all claims and loss reports, and if warranted, investigates such claims and losses. Pending the investigation, the adjuster may then, subject to company guidance and oversight, either settle the claims or contest the claims. We maintain a claims fund for the disbursement of payments to our customers after insurable events, and make deposits into the claims fund as claims are made. The term of the agreement extends until December 31, 2009, with two automatic one-year renewals. For non-catastrophic claims, in which the dates of loss fall between January 1, 2008 and December 31, 2008, we will pay the adjuster a flat fee (payable quarterly) which covers the handling of 480 new exposures. If the number of exposures exceeds 480, we will pay the adjuster a fixed amount per exposure. If there are claims related to a catastrophic event, such as a hurricane, we pay the adjuster a percentage of our premiums earned during the time following the catastrophic event. Although we are ultimately responsible for paying the claims made by our policyholders, we believe that outsourcing our claims handling program while maintaining an oversight function is an efficient mechanism for handling individual matters, and helps mitigate the animosity that can occur between insured and insurer.

**Policy Administration**

We handle our own policy administration using software developed by the Chairman of our Board of Directors, Paresh Patel. Mr. Patel has extensive experience with large administrative systems having previously served as a consultant to global telecommunications companies on such systems. Mr. Patel designed the software to quickly and smoothly adapt to rate changes that are common in the property and casualty insurance industry, to handle the administration of an increasing number of policies as our company grows and expands, and to provide detailed information about our book of business to our internal underwriters so that they can dynamically adjust our underwriting criteria.

We license our policy administration software from Scorpio Systems, Inc., a company owned by Mr. Patel. Under the software license and maintenance agreement, we have an exclusive, perpetual, nontransferable, worldwide license to use the software in connection with policy administration services performed with regard to insurance policies issued by us or by any of our wholly-owned subsidiaries, including Homeowners Choice Property & Casualty Insurance Company, Inc. The software provides us with daily updates regarding the

insurance policies that we have issued. The system also allows us to provide renewal notices, late payment notices, cancellation notices, endorsements, and policies (new or renewal) to our policyholders in an efficient and timely fashion. We believe that by handling this process in-house, using technology developed by one of our directors, we can more effectively control policy administration costs and perform our policy administration in an efficient and timely manner.

**Technology**

Our insurance subsidiary's business depends upon the use, development and implementation of integrated technology systems. These systems enable our insurance subsidiary to provide a high level of service to agents and policyholders by processing business in a timely and efficient manner, communicating and sharing data with agents, providing a variety of methods for the payment of premiums and allowing for the accumulation and analysis of information for the management of our insurance subsidiary. We believe the availability and use of these technology systems has resulted in improved service to agents and customers and increased efficiencies in processing the business of our insurance subsidiary and resulted in lower operating costs.

We license our policy administration software from Scorpio Systems, Inc., a company owned by our Chairman of the Board. This license gives us an exclusive, perpetual, nontransferable, worldwide license to use the software in connection with policy administration services performed with regard to insurance policies issued by us or by any of our wholly-owned subsidiaries, including Homeowners Choice Property & Casualty Insurance Company, Inc.

With the exception of the policy administration software that we license from Scorpio Systems, we own all of the technology systems our insurance subsidiary uses. The technology systems consist primarily of an integrated central processing computer, a series of server-based computer networks, a back-up server, and various Internet-based communications systems that allow the home office of our insurance subsidiary and its branch offices to utilize the same systems for the processing of business. We have purposely designed our technology systems in a manner that ensures that they can be used from any location with minimal disruption to our insurance subsidiary's business and policyholders.

We back-up the data on our technology systems by:

- copying the information in our database on compact discs on a daily basis; and
- saving the information to a back-up computer on a daily basis.

In addition to these back-up methods, we also maintain backup copies of our data via backup facilities over the Internet such that data is stored securely off-site and can be recovered at any location that has access to the Internet.

**Reinsurance**

Our insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc., follows the industry practice of reinsuring a portion of its risk. When an insurance company purchases reinsurance, it transfers or "cedes" all or a portion of its exposure on insurance underwritten by it to another insurer—the "reinsurer." Although reinsurance is intended to reduce an insurance company's risk, the ceding of insurance does not legally discharge the insurance company from its primary liability for the full amount of its policies. If the reinsurer fails to meet its obligations under the reinsurance agreement, the ceding company is still required to pay the insured for the loss. The reinsurance agreements entered into by our insurance subsidiary are designed to coincide with the seasonality of Florida's hurricane season.

In accordance with OIR's minimum requirements, our amount of maximum reinsurance coverage is determined by subjecting our homeowner exposures to statistical forecasting models that are designed to quantify a catastrophic event in terms of our probable maximum loss from a storm of the severity that occurs once in every 100 years. Our amount of losses retained (our deductible) in connection with a catastrophic event is determined by market capacity, pricing conditions and surplus preservation. From year to year, both the availability of reinsurance and the costs associated with the acquisition of reinsurance will vary. These fluctuations are not subject to our control and may limit our insurance subsidiary's ability to purchase adequate coverage.

*Third Party Reinsurers*

Our insurance subsidiary uses several different reinsurers, all of which, consistent with the requirements of our insurance subsidiary, have an A.M. Best Rating of A- (Excellent) or better. The reinsurance companies and their respective A. M. Best rating are listed in the table as follows:

| Reinsurer | A.M. Best Rating |
|---|---|
| Motors Insurance Corporation, by GMAC Re Corporation | A– |
| QBE Reinsurance Corporation | A |
| Catlin Insurance Company Limited | A |
| Hannover Re (Bermuda) Limited | A |
| Harbor Point Reinsurance Limited | A |
| Renaissance Reinsurance Ltd | A+ |
| XL Re Limited | A |
| Ascot Underwriting Syndicate No. 1414 (RTH) | A |
| Hardy Underwriting & Others Syndicate No. 382 (PWH) | A |
| Hardy Underwriting Syndicate No. 3820 (HDU) | A |
| Novae Syndicate No. 2007 (NVA) | A |
| Talbot Underwriting Syndicate No. 1183 (TAL) | A |
| Wuerttembergische Versicherung Aktiengesellschaf | A– |
| Amlin Bermuda Limited | A |

Our insurance subsidiary is selective in choosing reinsurers and considers various factors, including, but not limited to, the financial stability of the reinsurers, the reinsurers' history of responding to claims, and their overall reputations.

The reinsurance companies and their respective participation in our insurance subsidiary's 2007-2008 hurricane season's program for the treaty year ending May 31, 2008 are noted in the table below:

| | First Event Participation | | |
|---|---|---|---|
| Reinsurer | 100% of $1.9 Million in Excess of $1.8 Million | 100% of $1.8 Million in Excess of $3.7 Million | 100% of $16.5 Million in Excess of $22.33 Million |
| Motors Insurance Corporation, by GMAC Re Corporation | 22.5% | 30.0% | 20.0% |
| QBE Reinsurance Corporation | 7.5% | 7.5% | 7.5% |
| Catlin Insurance Company Limited | 30.0% | — | — |
| Hannover Re (Bermuda) Limited | — | — | 14.75% |
| Harbor Point Reinsurance Limited | 25.0% | — | — |
| Renaissance Reinsurance Ltd | 10.0% | — | — |
| XL Re Limited | — | — | 7.5% |
| Ascot Underwriting Syndicate No. 1414 (RTH) | — | 20.0% | 18.75% |
| Hardy Underwriting & Others Syndicate No. 382 (PWH) | — | 7.5% | 3.0% |
| Hardy Underwriting Syndicate No. 3820 (HDU) | — | — | 3.0% |
| Novae Syndicate No. 2007 (NVA) | — | 7.5% | 7.5% |
| Talbot Underwriting Syndicate No. 1183 (TAL) | 5.0% | 10.0% | 3.0% |
| Wuerttembergische Versicherung Aktiengesellschaf | — | 7.5% | 7.5% |
| Amlin Bermuda Limited | — | 10.0% | 7.5% |

Our insurance subsidiary's overall reinsurance structure is currently divided into four major layers of financial impact in connection with any single catastrophic event. The first or bottom layer is considered the first $1.8 million of losses. The second layer is considered to be greater than $1.8 million and less than $3.7 million. The third layer is considered to be greater than $3.7 million and less than $22.3 million. The fourth layer is considered to be losses greater than $22.3 million and less than $38.8 million.

For the first and second catastrophic events equal to or less than $1.8 million (i.e., the bottom layer), our insurance subsidiary retained 100% of the risk associated with the $1.8 million per event. For the first and second catastrophic events with aggregate losses in excess of the first $1.8 million and less than $3.7 million, our insurance subsidiary acquired 100% reinsurance protection.

For the first catastrophic event where aggregate losses exceeded $3.7 million, but were less than $22.3 million, our insurance subsidiary acquired 100% reinsurance protection through a combination of private market reinsurers and the Florida Hurricane Catastrophe Fund ("FHCF") program. The private market reinsurers afforded coverage to insure our insurance subsidiary for $1.8 million against covered losses in excess of $3.7 million. The FHCF afforded coverage to insure our insurance subsidiary for 90% of losses greater than $3.7 million and less than $22.3 million. The private reinsurance treaties "wrapped around" the FHCF treaty afforded coverage, in aggregate, for losses in excess of $3.7 million but less than $22.3 million. The FHCF treaty was an aggregate "for the entire season" treaty while the private market treaties afforded respective per event coverage.

The estimated cost to our insurance subsidiary in connection with this reinsurance structure was approximately $5.6 million for the treaty year ending May 31, 2008. Ceded premium was approximately $2.5 million as of December 31, 2007 and was approximately $1.5 million as of March 31, 2008.

*Reinsurance Through Reinsurance Subsidiary*

We have formed a subsidiary, Claddaugh Casualty Insurance Company Ltd., which we may use in the future to meet certain of our insurance subsidiary's reinsurance needs. For instance, our insurance subsidiary may determine that it no longer wishes to retain the risk for the first $1.8 million in losses in the event of a catastrophic event and may therefore cede that risk to our reinsurance subsidiary. Although the terms and rates of any such reinsurance treaty would be substantially similar to the terms and rates found in our third party reinsurance treaties, any reinsurance premiums retained by our reinsurance subsidiary (i.e., not paid out due to a catastrophic event) would be recognized as a profit by that subsidiary, rather than by a third party reinsurer.

**Investments**

We have tailored our investment policy to minimize risk in the current financial market. Although applicable laws and regulations permit investments (within specified limits and subject to certain qualifications) in federal, state and municipal obligations, corporate bonds, preferred and common equity securities and real estate mortgages, our current investment policy is aimed at avoiding the risk inherent in some of these markets at this point in time by requiring that all of our cash balances are to be held in money market accounts or in bank deposits (i.e., CDs) that mature in no more than thirteen months. With the exception of large national banks, such as Bank of America and Wachovia Bank, it is our current policy not to deposit more than an aggregate of $5.5 million in any one bank at any time. In addition, in an effort to minimize risk in the current financial market, our current investment policy does not permit us to invest in, or to authorize our subsidiaries to invest in, sub-prime mortgages. In accordance with this policy, neither we nor any of our subsidiaries has invested in sub-prime mortgages during the past year.

As of March 31, 2008, our subsidiaries held approximately 99.2% of our combined cash balances and short-term investments. Of that 99.2%, approximately 99.1% was held by Homeowners Choice Property & Casualty Insurance Company, Inc., approximately 0.1% was held by Homeowners Choice Managers, Inc., and

approximately 0.0% was held by Southern Administration Inc. The cash balances and short-term investments held by our subsidiaries may be invested in securities in compliance with Florida insurance regulations, which investments are also subject to pre-approval by our Investment Committee and the performance of such investments must be reported to our Board of Directors quarterly.

Our investment policy is approved by our Investment Committee and is reviewed on a regular basis in order to ensure that our investment policy evolves in response to changes in the financial market. Our investment policy is designed to maximize investment income within specified guidelines, with a strong emphasis on protection of principal.

**Competition**

We operate in highly competitive markets and face competition from national, regional and residual market insurance companies, many of whom are larger and have greater financial and other resources and offer more diversified insurance coverage. Our competitors include companies which market their products through agents, as well as companies which sell insurance directly to their customers. Large national writers may have certain competitive advantages over agency writers, including increased name recognition, increased loyalty of their customer base and reduced policy acquisition costs. Additionally, as described in greater deal below in “Government Regulation—Recent Developments—New Florida Legislation,” last year the Florida legislature passed a new law authorizing Citizens to reduce its premium rates and begin competing against private insurers in the residential property insurance market and expanding the authority of Citizens to write commercial insurance. We are not aware, however, of any instance where Citizens has taken advantage of this legislation to compete with private insurers. We may also face competition from new or temporary entrants in our niche markets. In some cases, such entrants may, because of inexperience, desire for new business or other reasons, price their insurance below ours. Although our pricing is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our best interest to compete solely on price. We compete on the basis of underwriting criteria, our distribution network and superior service to our agents and insureds.

In Florida, more than 200 companies are authorized to underwrite homeowners’ insurance. National and regional companies which compete with us in the homeowners’ market include Allstate Floridian Insurance Company, State Farm Florida Insurance Company, and Nationwide Insurance Company of Florida. We also compete with several Florida domestic property and casualty companies such as Universal Insurance Company of North America, Coral Insurance Company, Royal Palm Insurance Company, American Strategic Insurance Corp., Homewise Preferred, American Integrity Insurance Group, United Property & Casualty Insurance Corp., and Olympus Insurance Group. Competition could have a material adverse effect on our business, results of operations and financial condition.

**Ratings**

As a new insurance company that has been in business for less than five years, our insurance subsidiary is not currently eligible to be rated by A.M. Best. However, it is eligible to be rated by another third-party rating agency, Demotech, Inc. (“Demotech”). Demotech’s rating process provides an objective baseline for assessing the solvency of an insurer which in turn provides insight into changes in an insurer’s financial stability. Our insurance subsidiary has received a Demotech Financial Stability Rating of “A” for Exceptional financial stability. This is the third highest Financial Stability Rating of the six Financial Stability Ratings (A’’ – Unsurpassed; A’ – Unsurpassed; A – Exceptional; S – Substantial; M – Moderate; L – Licensed) utilized by Demotech. (Demotech may also categorize an insurer as N/A – Ineligible.) The Financial Stability Ratings given by Demotech serve to summarize Demotech’s opinion as to the relative ability of insurers to survive a downturn in general economic conditions as well as a downturn in the underwriting cycle and should not be interpreted as (and are not intended to serve as) an assessment of an insurer’s securities or a recommendation to buy, sell, or hold an insurer’s securities.

## Government Regulation

### *Recent Developments*

During an emergency session in January 2007, the Florida legislature passed and the Governor signed into law a bill known as "CS/HB-1A." This law makes fundamental changes to the property and casualty insurance business in Florida and undertakes a multi-pronged approach to address the cost of residential property insurance in Florida. First, the new law requires insurance companies to lower their Florida premium rates for residential property insurance. The new law also authorizes the state-owned insurance company, Citizens, which is free of many of the restraints on private carriers such as surplus, ratios, income taxes and reinsurance expense, to reduce its premium rates and begin competing against private insurers in the residential property insurance market and expands the authority of Citizens to write commercial insurance. Previously, Citizens was the insurer of last resort for residential property insurance because its required premium rates were higher than those generally available in the market place from private insurers. The law also empowers the State of Florida to assess Citizens' underwriting losses against many lines of property and casualty insurance written for Florida residents. The combination of CS/HB-1A and an order entered by the Florida OIR essentially prevented insurance companies from non-renewing residential property insurance policies until after the 2007 hurricane season while they were required to file rate decreases resulting from the new law.

*General*

We are subject to the laws and regulations in Florida, and the regulations of any other states in which we seek to conduct business in the future. The regulations cover all aspects of our business and are generally designed to protect the interests of insurance policyholders, as opposed to the interests of shareholders. Such regulations relate to authorized lines of business, capital and surplus requirements, allowable rates and forms, investment parameters, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, market conduct, maximum amount allowable for premium financing service charges and a variety of other financial and non-financial components of our business. Our failure to comply with certain provisions of applicable insurance laws and regulations could have a material adverse effect on our business, results of operations or financial condition. In addition, any changes in such laws and regulations, including the adoption of consumer initiatives regarding rates charged for coverage, could materially and adversely affect our operations or our ability to expand. A recent example of such consumer initiatives may be found with Florida's property insurers' operating under a new emergency rule which required existing premium rates as of January 25, 2007, to remain in effect until a rate filing reflecting the provisions as provided in Florida's newly enacted property insurance legislation. The legislation, among other things, reduces anticipated reinsurance costs and expands the role of Citizens. Other provisions contained in the emergency rule prevent non-renewals and cancellation (except for material misrepresentation and non-payment of premium) until the new rate filing is made and new restrictions on coverage are prohibited. We are unaware of any other consumer initiatives which could have a material adverse effect on our business, results of operations or financial condition.

Many states, including Florida, have also enacted laws which restrict an insurer's underwriting discretion, such as the ability to terminate policies, terminate agents or reject insurance coverage applications, and many state regulators have the power to reduce, or to disallow increases, in premium rates. These laws may adversely affect the ability of an insurer to earn a profit on its underwriting operations.

Certain states have recently adopted laws or are considering proposed legislation which, among other things, limit the ability of insurance companies to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies. As discussed above, the recent consumer initiatives with Florida's property insurers demonstrate the state's ability to adopt such laws or to effectuate these policies through interpretations of existing laws. Also, the Florida legislature may adopt additional laws of this type in the future, which may adversely affect our business. In most years, the Florida legislature considers bills affecting the residential property insurance market in Florida. Property insurance legislation passed in 2008 increases penalties on insurers for noncompliance with the insurance code, establishes a private cause of action relating to insurers' claims payment practices, and extends the notice period applicable to insurers' nonrenewals of certain residential policies. A new law also specifies that the next base rate filing for Citizens cannot take effect prior to January 1,

2010. The legislature also revised procedures governing insurers' rate filings. The effect of these and other 2008 law changes on the property insurance market generally, and on our company specifically, is unclear at this time.

Most states, including Florida, require licensure and regulatory approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company's business plan, solvency, reinsurance, character of its officers and directors, rates, forms and other financial and non-financial aspects of a company. The regulatory authorities may not allow entry into a new market by not granting a license or by withholding approval. In addition, regulatory authorities may preclude or delay our entry into markets by disapproving or withholding approval of our product filings. As a new insurance company, we will also be subject to examination every year for our first three years of operations.

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. In accordance with the National Association of Insurance Commissioners ("NAIC") the Florida OIR intends to comply with recent initiatives recommending that all insurance companies under the same insurance holding company registration statement, be subjected to concurrent triennial examinations.

States routinely require deposits of assets for the protection of policyholders either in those states or for all policyholders. As an example, the Florida OIR requires Homeowners Choice Property & Casualty Insurance Company, Inc. to have securities with a fair value of $300,000. As of April 1, 2008, Homeowners Choice Property & Casualty Insurance Company, Inc. held investment securities with a fair value of approximately $300,000 as a deposit with the State of Florida.

***Restrictions on Payments of Dividends by Domestic Insurance Companies***

Under the agreement by which our insurance subsidiary became authorized to transact insurance business in Florida, the insurance subsidiary is precluded from paying dividends for a three-year period that began March 30, 2007. Thereafter, under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its shareholders except out of that part of its available and accumulated capital surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to shareholders without prior approval of the Florida OIR if the dividend or distribution would exceed the largest of:

(i) the lesser of:

  (a) 10.0% of its capital surplus or

  (b) net income, not including realized capital gains, plus a two-year carryforward;

(ii) 10.0% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains; or

(iii) the lesser of:

  (a) 10.0% of capital surplus or

  (b) net investment income plus a three-year carryforward with dividends payable constrained to unassigned funds minus 25.0% of unrealized capital gains.

Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida OIR if:

(i) the dividend is equal to or less than the greater of:

  (a) 10.0% of the insurer's capital surplus as regards policyholders derived from realized net operating profits on its business and net realized capital gains or

  (b) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year;

(ii) the insurer will have policy holder capital surplus equal to or exceeding 115.0% of the minimum required statutory capital surplus after the dividend or distribution;

(iii) the insurer files a notice of the dividend or distribution with the Florida OIR at least ten business days prior to the dividend payment or distribution; and

(iv) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115% of required statutory capital surplus as to policyholders.

Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (i) subject to prior approval by the Florida OIR or (ii) 30 days after the Florida OIR has received notice of such dividend or distribution and has not disapproved it within such time.

Under these laws and requirements, Homeowners Choice Property & Casualty Insurance Company, Inc. has not paid any dividends and is not permitted to pay dividends until April 2010. Although we believe that amounts required to meet our financial and operating obligations will be available from sources other than dividends from our insurance subsidiary, there can be no assurance in this regard. Further, there can be no assurance that when the current dividend prohibition expires, the Florida OIR if requested will allow any dividends in excess of the amount available, to be paid by Homeowners Choice Property & Casualty Insurance Company, Inc. to us in the future. The maximum dividends permitted by state law are not necessarily indicative of an insurer's actual ability to pay dividends or other distributions to a parent company, which also may be constrained by business and regulatory considerations, such as the impact of dividends on capital surplus, which could affect an insurer's competitive position, the amount of premiums that can be written and the ability to pay future dividends. Further, state insurance laws and regulations require that the statutory capital surplus of an insurance company following any dividend or distribution by it be reasonable in relation to its outstanding liabilities and adequate for its financial needs.

While the non-insurance company subsidiaries (Homeowners Choice Managers, Inc., Southern Administration Inc., and any other affiliate) are not subject directly to the dividend and other distribution limitations, insurance holding company regulations govern the amount that any affiliate within the holding company system may charge any of the insurance companies for service (e.g., management fees and commissions).

*NAIC Risk Based Capital Requirements*

In order to enhance the regulation of insurer solvency, the NAIC established risk-based capital requirements for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. These requirements measure three major areas of risk facing property and casualty insurers: (i) underwriting risks, which encompass the risk of adverse loss developments and inadequate pricing; (ii) declines in asset values arising from credit risk; and (iii) other business risks from investments. Insurers having less statutory surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. The Florida OIR, which follows these requirements, could require Homeowners Choice Property & Casualty Insurance Company, Inc. to cease operations in the event it fails to maintain the required statutory capital.

Based upon the 2007 statutory financial statements for Homeowners Choice Property & Casualty Insurance Company, Inc., statutory surplus exceeded all regulatory action levels established by the NAIC's risk-based capital requirements.

Based on Risk Based Capital requirements, the extent of regulatory intervention and action increases as the ratio of an insurer's statutory surplus to its Authorized Control Level ("ACL"), as calculated under the NAIC's requirements, decreases. The first action level, the Company Action Level, requires an insurer to submit a plan of corrective actions to the insurance regulators if statutory surplus falls below 200.0% of the ACL amount. The second action level, the Regulatory Action Level, requires an insurer to submit a plan containing corrective actions and permits the insurance regulators to perform an examination or other analysis and issue a corrective

order if statutory surplus falls below 150.0% of the ACL amount. The third action level, ACL, allows the regulators to rehabilitate or liquidate an insurer in addition to the aforementioned actions if statutory surplus falls below the ACL amount. The fourth action level is the Mandatory Control Level, which requires the regulators to rehabilitate or liquidate the insurer if statutory surplus falls below 70.0% of the ACL amount. Homeowners Choice Property & Casualty Insurance Company, Inc.'s ratio of annual statutory surplus to its ACL was 550.3% at December 31, 2007.

*NAIC Insurance Regulatory Information Systems Ratios*

The NAIC has also developed Insurance Regulatory Information Systems ("IRIS") ratios to assist state insurance departments in identifying companies which may be developing performance or solvency problems, as signaled by significant changes in the companies' operations. Such changes may not necessarily result from any problems with an insurance company, but may merely indicate changes in certain ratios outside the ranges defined as normal by the NAIC. When an insurance company has four or more ratios falling outside "usual ranges," state regulators may investigate to determine the reasons for the variance and whether corrective action is warranted. The OIR is able to calculate and review some IRIS ratios based on the annual statement of Homeowners Choice Property & Casualty Insurance Company following its first year of operation. However, some of the IRIS ratios are based on year-to-year comparisons, meaning that the Florida OIR will not be able to calculate those IRIS ratios for Homeowners Choice Property & Casualty Insurance Company, Inc. until after its second full year of operation. Due in part to the limited operating history and financial results, the Florida OIR typically conducts a financial examination of each new insurer following each of its first three years of operation.

*Insurance Holding Company Regulation*

We are subject to laws governing insurance holding companies in Florida where Homeowners Choice Property & Casualty Insurance Company, Inc. is domiciled. These laws, among other things, (i) require us to file periodic information with the Florida OIR, including information concerning our capital structure, ownership, financial condition and general business operations, (ii) regulate certain transactions between us and our affiliates, including the amount of dividends and other distributions and the terms of surplus notes and (iii) restrict the ability of any one person to acquire certain levels of our voting securities without prior regulatory approval. Any purchaser of 10% or more of the outstanding shares of our common stock will be deemed to have acquired a controlling interest in Homeowners Choice Property & Casualty Insurance Company, Inc. and will be required to file an acquisition statement with the Florida OIR for review and regulatory approval. Any purchaser of 5% or more of the outstanding shares of our common stock will be required to notify the Florida OIR of the acquisition; any such acquiring party then will be required to file an acquisition statement with the Florida OIR unless the purchaser acquires less than 10% of the outstanding shares of our common stock and files a statement disclaiming control of our insurance subsidiary in a format promulgated by the OIR.

*Financial Services Modernized*

The Gramm-Leach-Bliley Act was signed into law by President Clinton on November 12, 1999. The principal focus of the act is to facilitate affiliations among banks, securities firms and insurance companies. The ability of banks and securities firms to affiliate with insurers may increase the number, size and financial strength of our potential competitors. In addition, current federal proposals to further modernize regulation of the insurance industry might result in additional or alternative forms of regulation. The effects on our business of any further regulatory modernization of this type are unknown at this time.

*Privacy*

As mandated by the Gramm-Leach-Bliley Act, states continue to promulgate and refine laws and regulations that require financial institutions, including insurance companies, to take steps to protect the privacy of certain consumer and customer information relating to products or services primarily for personal, family or household

purposes. An NAIC initiative that affected the insurance industry was the adoption in 2000 of the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Many states, including Florida, have now adopted similar provisions regarding the safeguarding of customer information. Although our insurance subsidiary is not required to begin documenting its privacy control and access limitation procedures until December 2008, it has already implemented procedures to comply with the Gramm-Leach-Bliley Act's privacy requirements.

*Legislation*

From time to time, new regulations and legislation are proposed to bring the industry under regulation by the federal government, to control premiums, policy terminations and other policy terms and to impose new taxes and assessments. It is not possible to predict whether, in what form or in what jurisdictions, any of these proposals might be adopted, or the effect, if any, on us.

**Employees**

As of May 31, 2008, we had 17 employees, all of whom are full time employees, including two executive officers. We are not a party to any collective bargaining agreement and have not experienced any work stoppages or strikes as a result of labor disputes. We consider relations with our employees to be satisfactory.

**Facilities**

We lease approximately 3,000 square feet of office space in Port St. Lucie, Florida. The lease for the office space expires in October 2008. The annual rent for the office space is approximately $54,800, which is payable in equal monthly installments.

We also lease 2,000 square feet of office space in St. Petersburg, Florida. The lease for the office space expires on September 15, 2008. The annual rent for the office space is approximately $24,000, which is payable in equal monthly installments.

We have entered into a lease for 6,000 square feet of office space and 1,498 square feet of common area in Clearwater, Florida. The lease for the office space and common area was executed on April 8, 2008 and we intend to move into the space in June or July of 2008. The initial term of the lease commences on the date on which the certificate of occupancy is received, unless the landlord has not substantially completed the improvements listed in Exhibit B to the lease on or before the date the certificate of occupancy is received, in which case the lease commences on the date the landlord substantially completes the improvements. The initial term of the lease expires five years after the date on which the lease commences. We, at our option, may renew the initial term of the lease for three additional periods of five years each by providing written notice of renewal at least six calendar months before the end of the initial five year term. The annual rent for the office space during the initial five year term of the lease will be approximately $120,000, which is payable in equal monthly installments. The annual rent for the common area during the initial five year term of the lease will be approximately $30,000, which is payable in equal monthly installments. If we renew the lease, the annual rent for the 6,000 square feet of office space and 1,498 square feet of common area will increase by approximately 15% in each successive five year renewal period. In June or July 2008, we plan to move all of our operations from Port St. Lucie and St. Petersburg to the office in Clearwater, Florida. We believe that this new office space will be adequate to meet our needs as we grow and expand our business in the coming years.

**Legal Proceedings**

We are subject to routine legal proceedings in the ordinary course of business. We believe that the ultimate resolution of these matters will not have a material adverse effect on our business, financial condition or results of operations.

# MANAGEMENT

## Executive Officers and Directors

The following table provides information with respect to our directors and executive officers as of May 31, 2008:

| Name | Age | Position |
|---|---|---|
| Francis McCahill, III | 60 | President, Chief Executive Officer, and Director |
| Richard R. Allen | 61 | Chief Financial Officer |
| Paresh Patel | 45 | Chairman of the Board of Directors |
| Martin A. Traber | 62 | Director |
| George Apostolou | 57 | Director |
| Sanjay Madhu | 41 | Director |
| Krishna Persaud | 46 | Director |
| Gregory Politis | 56 | Director |
| Anthony Saravanos | 37 | Director |
| Garth A. Vernon | 46 | Director |

## Executive Officers

*Francis McCahill, III.* Francis McCahill, III has served as our President and Chief Executive Officer and as a director of our company since November 2006. He also currently serves as the President and as a director of our three subsidiaries, Homeowners Choice Property & Casualty Insurance Company, Inc., Homeowners Choice Managers, Inc., and Southern Administration, Inc. Mr. McCahill's insurance career began in 1971. His experience includes senior level positions with major insurance brokerage firms including Frank B. Hall and Johnson & Higgins. From 1977 to 1988, he managed the worldwide Risk Management Programs of New York City-based Bristol-Myers Squibb Corp., Norton Simon, Inc. and Florida-based Harris Corporation. In 1991, after managing Johnson & Higgins' Central Florida Region, Mr. McCahill founded Braishfield of Florida, Inc. and Pollution Liability United States, Inc. As founder/president of those organizations, he established both entities as major insurance service providers throughout Florida. Mr. McCahill also founded Cypress Underwriters, Inc. of Port St. Lucie, Florida where he served as President from 1999 to 2006 and was Tribunalized at Lloyd's of London. Mr. McCahill attended the United States Merchant Marine Academy, earned his Bachelor's Degree from St. John's University (College of Insurance), and attended Concord University School of Law. He received a number of Certificates in finance and risk management from the Wharton School of Business and the University of Florida.

*Richard R. Allen.* Richard R. Allen has served as the Chief Financial Officer of our company since November 2006. Mr. Allen has over thirty years of experience in property/casualty insurance finance and management. He has extensive financial experience in Home Operations, including agency/broker relations, reinsurance and financial controls and reporting and third party administration. He has held various positions with several insurance companies as Chief Financial Officer, Controller and Senior Accounting Manager. From 1999 to 2005, Mr. Allen served as the Internal Auditor of Anthem Blue Cross and Blue Shield. From 1996 to 1998, Mr. Allen served as the Controller of Symons International Group. From 1994 to 1996, Mr. Allen served as the Controller/Treasurer of Coronet Insurance. In addition, Mr. Allen served as the Budget/Cost Manager of Bankers Life and Casualty from 1982 to 1990, and as the Controller of Bankers Standard Insurance Company, an affiliate of CIGNA, from 1969 to 1981. He has experience in forensic accounting and has participated, as a consultant, in numerous projects with state insurance departments. Mr. Allen earned his B.S. from Quincy University in Quincy, Illinois.

**Directors**

*Paresh Patel.* Paresh Patel has been a director of our company since November 2006 and has served as the Chairman of our Board since May 2007. His analytical and technology skills were developed through experience with international financial, telecommunications and consulting positions. As a private investor from 2000 to 2006, Mr. Patel used statistical and probability techniques to develop and implement a system for managing money as a business to generate cash flow. Prior to that, Mr. Patel was director of customer care and billing with Global Crossing from 1998 to 2000. In that position, Mr. Patel defined business processes and systems, hired and trained department staff and led the merger of the customer care and billing systems with those of the company's acquisitions. As an independent consultant from 1991 to 1998, Mr. Patel worked with large international telephone companies. Mr. Patel received his bachelor's and master's degrees in Electronic Engineering from Cambridge University, England. He also serves as a director of NorthStar Bank and was one of its founders.

*Martin A. Traber.* Martin A. Traber has been a director of our company since November 2006. Mr. Traber is currently, and since 1994 has been, a shareholder/partner of Foley & Lardner LLP, in Tampa, Florida representing clients in securities and corporate law transactions. Mr. Traber earned a B.A. and J.D. from Indiana University. He currently serves as a Director of Powerlinx Corporation. Powerlinx engages in the development, licensing, manufacture and marketing of products and applications to transmit voice, video, audio and data either individually or in combination. Mr. Traber is also a founder and a member of the Board of Directors of Northstar Bank, Tampa, Florida.

*George Apostolou.* George Apostolou has been a director of our company since May 2007. Born in Erithri-Attikis, Greece, Mr. Apostolou moved to the United States in 1971 and earned his State of Florida Contractors License in 1983. In 1987, he established George Apostolou Construction Corporation and has since built more than 200 commercial buildings, including government services buildings, churches, office buildings and retail centers. In addition to contracting, Mr. Apostolou has been involved in the development and investment of many commercial projects and now owns more than 20 properties in the Tampa Bay area.

*Sanjay Madhu.* Sanjay Madhu has been a director of our company since May 2007. In February 2008, he was named our director of investor relations. As an owner and manager of commercial properties, Mr. Madhu has been president of 5th Avenue Group LC since 2002 and president of Forrest Terrace LC since 1999; and is an investor in banking and health maintenance organizations. He has also been president of The Mortgage Corporation Network (correspondent lenders) since 1996. Prior to that, Mr. Madhu was vice president, mortgage division, First Trust Mortgage & Finance, from 1994 to 1996; vice president, residential first mortgage division, Continental Management Associates Limited, Inc., from 1993 to 1994; and president, S&S Development, Inc. from 1991 to 1993. He attended Northwest Missouri State University, where he studied marketing and management.

*Krishna Persaud.* Krishna Persaud has been a director of our company since May 2007. Since its inception in 2002, Mr. Persaud has served as president of KPC Properties, LLC, a real estate investment firm he founded, in which position he leverages his knowledge and experience to identify opportunities to add value to real properties in the state of Florida. Prior to his career in real estate investing, Mr. Persaud was an asset manager. Previously he worked with several consulting firms and municipalities, providing design and construction management services for a wide variety of building systems and public works projects. Mr. Persaud earned his bachelor of science degree in Mechanical Engineering and a master's degree in Civil Engineering from City College of City University of New York. He is certified and licensed as a Professional Engineer in Florida, New York and California.

*Gregory Politis.* Gregory Politis has been a director of our company since November 2006. Mr. Politis is president of Xenia Management LLC, a real estate portfolio management company he established in 1988, and has interests in 29 real estate developments in the Miami-Dade County, Orlando, Greater Tampa Bay and Montreal, Canada areas. During his career, Mr. Politis has developed and retained ownership of retail centers and

commercial office space, with a primary focus on buildings housing federal and state government agencies. He was a founding member of Hellenic American Board of Entrepreneurs and a recipient of the Building Owners and Managers Association (BOMA) Building of the Year Award. Mr. Politis is a director of NorthStar Bank and formerly served as a director of Florida Bank.

*Anthony Saravanos.* Anthony Saravanos has been a director of our company since May 2007. Mr. Saravanos is vice president of The Boardwalk Company, a full-service real estate company, a position he has held since 2003; and managing partner of Karystos Corporation, a commercial property group with 14 properties in Florida and New York, since 2001. From 1997 to 2001, he served as district manager, marketing and sales, for DaimlerChrysler Motors Corporation, Malvern, Pa. A graduate of Ursinus College, Collegeville, Pa., with a double major in Economics and Spanish, Mr. Saravanos received a master's degree in Business Administration from Villanova University, with an emphasis in marketing. He also attended Quanaouac Institute, Cuernavaca, Mexico, for intensive Spanish studies and a cultural immersion program. A licensed real estate broker, Mr. Saravanos is a candidate for Certified Commercial Investment Member.

*Garth A. Vernon.* Garth Vernon has been a director of our company since April 2008. Mr. Vernon has been a shareholder of Vernon & Vernon, Certified Public Accountants, P.A. since September 1, 2002. In this position, Mr. Vernon provides a broad range of services for his clients including SEC reporting services, tax research, compliance and accounting work for publicly traded companies, compilation and review accounting services, business consulting and individual, trust and estate, corporate and partnership taxation services. From September 1, 1995 to September 1, 2002, Mr. Vernon worked for KPMG, LLP as a Senior Manager (July 1, 1998 to September 1, 2002), a Manager (July 1, 1996 to June 30, 1998), and a Supervising Senior (September 1, 1995 to June 30, 1996). At KPMG, LLP, Mr. Vernon's responsibilities included, among other things, determining the tax consequences for various corporate transactions and performing managerial/supervisory duties. Mr. Vernon received his Bachelor degree in Business Administration from Baylor University and his Master of Professional Accounting degree from the University of Texas.

**Board of Directors**

Currently, our board of directors consists of nine members – Mr. Francis McCahill, III, Mr. Martin A. Traber, Mr. George Apostolou, Mr. Sanjay Madhu, Mr. Krishna Persaud, Mr. Gregory Politis, Mr. Anthony Sarvanos, Mr. Paresh Patel, and Mr. Garth A. Vernon. Our board is divided into three classes, with three directors in each class. The Class A Directors, Martin Traber, Garth Vernon, and Francis McCahill, will serve until the 2009 annual meeting of shareholders. The Class B Directors, Paresh Patel, Gregory Politis, and George Apostolou, will serve until the 2010 annual meeting of shareholders. The Class C Directors, Anthony Saravanos, Sanjay Madhu, and Krishna Persaud, will serve until the 2011 annual meeting of shareholders. Beginning with the election of Class A Directors at the 2009 annual meeting of shareholders, each director class will serve for a three year term.

Our board of directors has determined that there are "independent directors" as defined under the rules of the NASDAQ Stock Market and Rule 10A-3(b)(i) under the Securities Exchange Act of 1934 (the "Exchange Act"). These five members are Garth Vernon, Krishna Persaud, George Apostolou, Anthony Saravanos, and Martin Traber. Upon election to the board, each member serves for a three-year term and until his or her successor is elected and qualified or upon the earlier of resignation or removal.

**Committees of the Board of Directors**

Our board of directors has an audit committee, a compensation committee, and a nominating and corporate governance committee. All members of the audit committee are independent directors, as defined in the NASDAQ Stock Market qualification standards. We have relied on NASDAQ Marketplace Rule 4350(a)(5) in appointing Mr. Patel, a non-independent director, to the compensation committee and Mr. Politis, a non-independent director, to the nominating and corporate governance committee.

***Audit Committee***. Our audit committee consists of three members – Garth Vernon, Krishna Persaud, and George Apostolou. Each of these individuals meets all independence requirements for audit committee members set forth in applicable SEC rules and regulations and the Nasdaq listing standards. Garth Vernon serves as chairman of the audit committee and qualifies as an "audit committee financial expert" as that term is defined in the rules and regulations established by the SEC. The audit committee has adopted, and our board of directors has ratified, a charter for the audit committee. The audit committee's responsibilities include, but are not limited to, the following:

- assisting our board of directors in its oversight of the quality and integrity of our accounting, auditing, and reporting practices;
- overseeing the work of our internal accounting and auditing processes;
- discussing with management our processes to manage business and financial risk,
- making appointment, compensation, and retention decisions regarding, and overseeing the independent auditor engaged to prepare or issue audit reports on our financial statements;
- establishing and reviewing the adequacy of procedures for the receipt, retention and treatment of complaints received by our company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- reviewing and discussing with management and the independent auditors our annual and quarterly financial statements and related disclosures; and
- conducting an appropriate review and approval of all related party transactions for potential conflict of interest situations on an ongoing basis.

***Compensation Committee***. Our compensation committee currently consists of three members – Paresh Patel, Krishna Persaud, and Martin Traber. Paresh Patel serves as chairman of the compensation committee. The compensation committee's responsibilities include, but are not limited to, the following:

- reviewing and approving the compensation programs applicable to our executive officers;
- recommending to the board and periodically reviewing policies for the administration of the executive compensation programs;
- reviewing and approving the corporate goals and objectives relevant to the compensation of the Chief Executive Officer, evaluating the performance of the Chief Executive Officer in light of those goals, objectives and strategies, and, either alone or with the other independent members of the board, setting the Chief Executive Officer's compensation level based on this evaluation;
- reviewing on a periodic basis the operation of our executive compensation programs to determine whether they are properly coordinated and achieving their intended purposes;
- making recommendations to the board with respect to our non-Chief Executive Officer compensation, incentive compensation plans, and equity-based plans; and
- reviewing and approving compensation to outside directors.

***Nominating and Corporate Governance Committee***. Our nominating and corporate governance committee is composed of three members—Gregory Politis, Anthony Saravanos, and Martin Traber. Martin Traber serves as the chairman of the nominating and corporate governance committee. On May 29, 2008, the nominating and corporate governance committee authorized and adopted a Code of Business Conduct and Ethics, which was ratified by our board of directors. The functions of this committee include, among other things:

- establishing criteria for selection of potential directors, taking into account all factors it considers appropriate;

- identifying and selecting individuals believed to be qualified as candidates to serve on the board and recommending to the board candidates to stand for election as directors at the annual meeting of shareholders or, if applicable, at a special meeting of the shareholders;
- recommending members of the board to serve on the committees of the board;
- evaluating and ensuring the independence of each member of each committee of the board required to be composed of independent directors;
- developing and recommending to the board a set of corporate governance principles appropriate for our company and consistent with the applicable laws, regulations, and listing requirements;
- developing and recommending to the board a code of conduct for our company's directors, officers, and employees;
- ensuring that we make all appropriate disclosures regarding the process for nominating candidates for election to the board, including any process for shareholder nominations, the criteria established by the committee for candidates for nomination for election to the board, and any other disclosures required by applicable laws, regulations, or listing standards; and
- reporting regularly to the board (i) regarding meetings of the committee, (ii) with respect to such other matters as are relevant to the committee's discharge of its responsibilities, and (iii) with respect to such recommendations as the committee may deem appropriate.

**Summary Compensation Table**

The following table sets forth certain information with respect to compensation earned for service rendered to us in all capacities during the fiscal years ended December 31, 2007 by our President, our Chief Financial Officer, and our Vice President during 2007. The officers listed below will be collectively referred to as the "named executive officers" in this prospectus.

| Name and Principal Position | Year | Salary | Bonus | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Nonqualified Deferred Compensation Earnings | All Other Compensation | Total |
|---|---|---|---|---|---|---|---|---|---|
| Francis McCahill, III<br>President and Chief Executive Officer (PEO) | 2007 | $133,333 | — | — | 54,268[2] | — | — | 62,500[3] | 250,101 |
| Richard R. Allen<br>Chief Financial Officer (PFO) | 2007 | $ 83,333 | — | — | 7,873[2] | — | — | 25,000[4] | 116,206 |
| Ronald E. Chapman<br>Chief Operating Officer[1] | 2007 | $111,654 | — | — | — | — | — | 62,500[5] | 174,154 |

(1) Ronald E. Chapman resigned from his position as Chief Operating Officer on December 19, 2007.
(2) Amount calculated utilizing the provisions of SFAS 123(R). The assumption used in calculating these amounts are incorporated herein by reference to Note 11 of the Consolidated Financial Statements which may be found in this Registration Statement.
(3) We paid Francis McCahill, III $62,500 for consultant services that Mr. McCahill provided to us prior to our commencement of operations.
(4) We paid Richard R. Allen $25,000 for consultant services that Mr. Allen provided to us prior to our commencement of operations.
(5) We paid Ronald E. Chapman $62,500 for consultant services that Mr. Chapman provided to us prior to our commencement of operations.

**Employment Agreements**

Certain executives' compensation and other arrangements are set forth in employment agreements. These employment agreements are described below.

*Francis X. McCahill, III.* On May 1, 2007, we entered into an employment agreement with Mr. Francis X. McCahill, our President and Chief Executive Officer. The agreement shall continue until Mr. McCahill's death or disability. Under the terms of the agreement, Mr. McCahill is entitled to a base salary of $200,000. He is also eligible to receive an annual bonus, which may be granted at the sole discretion of the Board of Directors. Mr. McCahill is also entitled to participate in all the pension, life insurance, health insurance, disability insurance and other benefit plans on the same basis as the other employee officers of our company. The agreement provides that, if we terminate Mr. McCahill's employment without cause then he will be entitled to severance compensation in the amount of his base salary and his health and welfare benefits for the 6-month period following the date of termination. The agreement provides, if Mr. McCahill's employment is terminated due to death or disability, he will be entitled to any unpaid base salary owing to him up through and including the date of termination. If we terminate Mr. McCahill's employment for cause, he will only be entitled to the unpaid base salary owing to him up through and including the date of termination. If Mr. McCahill chooses to terminate his employment, he will only be entitled to the unpaid base salary owing to him up through and including the date of termination. The agreement provides that during the time of his employment and ending two years from the termination of the agreement, he may not solicit customers and will not engage in or own any business that is competitive with us.

*Richard R. Allen*. On May 1, 2007, we entered into an employment agreement with Mr. Richard R. Allen, our Chief Financial Officer. The agreement shall continue until Mr. Allen's death or disability. Under the terms of the agreement, Mr. Allen is entitled to a base salary of $125,000. Effective January 1, 2008, Mr. Allen's base salary was increased to $145,000. He is also eligible to receive an annual bonus, which may be granted at the sole discretion of the Board of Directors. Mr. Allen is also entitled to participate in all the pension, life insurance, health insurance, disability insurance and other benefit plans on the same basis as the other employee officers of our company. The agreement provides that, if we terminate Mr. Allen's employment without cause then he will be entitled to severance compensation in the amount of his base salary and his health and welfare benefits for the 6-month period following the date of termination. The agreement provides, if Mr. Allen's employment is terminated due to death or disability, he will be entitled to any unpaid base salary owing to him up through and including the date of termination. If we terminate Mr. Allen's employment for cause, he will only be entitled to the unpaid base salary owing to him up through and including the date of termination. If Mr. Allen chooses to terminate his employment, he will only be entitled to the unpaid base salary owing to him up through and including the date of termination. The agreement provides that during the time of his employment and ending two years from the termination of the agreement, he may not solicit customers and will not engage in or own any business that is competitive with us.

*Ronald E. Chapman*. On May 1, 2007, we entered into an employment agreement with Mr. Ronald E. Chapman, our (now former) Vice President, Secretary and Chief Operating Officer. Under the terms of the agreement, Mr. Chapman was entitled to a base salary of $170,000 and was also eligible to receive an annual bonus, which could be granted at the sole discretion of the Board of Directors. Mr. Chapman was also entitled to participate in all the pension, life insurance, health insurance, disability insurance and other benefit plans on the same basis as the other employee officers of our company. The agreement provided that, if we terminated Mr. Chapman's employment without cause then he would be entitled to severance compensation in the amount of his base salary and his health and welfare benefits for the 6-month period following the date of termination. If we had terminated Mr. Chapman's employment for cause, he would only have been entitled to the unpaid base salary owing to him up through and including the date of termination. If Mr. Chapman chose to terminate his employment, he would only have been entitled to the unpaid base salary owing to him up through and including the date of termination.

On December 19, 2007, we entered into a separation agreement and general release with Mr. Chapman. On December 19, 2007, Mr. Chapman tendered his resignation of employment to us, and pursuant to the separation agreement Mr. Chapman released us from any and all claims that he had or may have. Mr. Chapman also resigned from our board of directors. Under the terms of the agreement, we paid Mr. Chapman a severance payment equal to $85,000 on January 1, 2008, less taxes and withholding. This severance payment was the sole consideration that Mr. Chapman received. The agreement also provides that vested options terminated as of January 18, 2008. Because Mr. Chapman did not choose to exercise his options within thirty days, his options have terminated. As a result of the agreement and his resignation, Mr. Chapman is no longer eligible to participate in our health insurance plan. Pursuant to the agreement, Mr. Chapman may not solicit our customers or solicit our employees for a period of two years after his resignation.

**Outstanding Equity Awards at 2007 Fiscal Year-End**

The following table sets forth information regarding outstanding option awards held by our named executive officers at December 31, 2007, inclusive of the 1:2.50 stock split effective as of June 16, 2008, including the number of shares underlying both exercisable and unexercisable portions of each option as well as the exercise price and expiration date of each outstanding option.

| | Option Awards | | | | |
|---|---|---|---|---|---|
| Name | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) | Option Exercise Price ($) | Option Expiration Date |
| (a) | (b) | (c) | (d) | (e) | (f) |
| Francis McCahill, III | 26,000 | 124,000 | 0 | $ 2.50 | 06/01/2017 |
| Richard R. Allen | 4,000 | 16,000 | 0 | $ 2.50 | 06/01/2017 |
| Ronald E. Chapman[1] | 26,000 | 124,000 | 0 | $ 2.50 | N/A |

(1) Ronald E. Chapman resigned from his position as Vice President on December 19, 2007, and did not exercise his options before they were terminated on January 18, 2008, pursuant to the separation agreement entered into between us and Mr. Chapman.

**Potential Payments Upon Termination or Change-in-Control**

Mr. McCahill and Mr. Allen are the only named executive officers due compensation in the event of the termination of employment. The amount of compensation payable to such named executive officers upon voluntary termination, involuntary termination without cause, termination with cause and termination in the event of permanent disability or death of the executive is set forth in the section of this prospectus entitled “Employment Agreements.”

### Director Compensation

The following table sets forth information with respect to compensation earned by each of our directors during the fiscal year ended December 31, 2007.

| Name | Fees Earned or Paid in Cash | Stock Awards | Option Awards[1] | Non-Equity Incentive Plan Compensation | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation | Total |
|---|---|---|---|---|---|---|---|
| Paresh Patel | $ 6,000 | — | $50,750(3) | — | — | $ 165,000(2)(3) | $221,750 |
| Martin A. Traber | $ 6,000 | — | $50,750(4) | — | — | | $ 56,750 |
| Gregory Politis | $ 6,000 | — | $50,750(5) | — | — | | $ 56,750 |
| George Apostolou | $ 6,000 | — | $ 7,000(6) | — | — | | $ 13,000 |
| Sanjay Madhu | $ 6,000 | — | $ 7,000(7) | — | — | | $ 13,000 |
| Krishna Persaud | $ 6,000 | — | $ 7,000(8) | — | — | | $ 13,000 |
| Anthony Saravanos | $ 6,000 | — | $ 7,000(9) | — | — | | $ 13,000 |

Upon election to our board of directors, a non-employee director receives an initial equity grant of 30,000 options that vest over three years. Non-employee directors also receive an annual cash retainer of $8,000.

(1) Amount calculated utilizing the provisions of SFAS 123(R). The assumption used in calculating these amounts are incorporated herein by reference to Note 11 of the Consolidated Financial Statements included in this Registration Statement.

(2) Includes $84,000 in cash consulting fees paid to Scorpio Systems, Inc., a company owned and operated by Mr. Patel. For additional information, see “Related Party Transactions–Consulting Agreement.” Also includes $81,000 in stock options granted to Mr. Patel on September 6, 2007 as compensation for implementing our in-house policy administration function. The $81,000 value of the 60,000 options granted on September 6, 2007 was calculated utilizing the provisions of SFAS 123(R). The assumptions utilized in calculating this amount are incorporated by reference to Note 11 of the Consolidated Financial Statements included in this Registration Statement. The 60,000 options granted to Mr. Patel on September 6, 2007 will not be exercisable until the fair market value of our common stock is $7.50 per share.

(3) Mr. Patel had 250,000 options outstanding as of December 31, 2007.

(4) Mr. Traber had 190,000 options outstanding as of December 31, 2007.

(5) Mr. Politis had 190,000 options outstanding as of December 31, 2007.

(6) Mr. Apostolou had 30,000 options outstanding as of December 31, 2007.

(7) Mr. Madhu had 30,000 options outstanding as of December 31, 2007.

(8) Mr. Persaud had 30,000 options outstanding as of December 31, 2007.

(9) Mr. Saravanos had 30,000 options outstanding as of December 31, 2007.

### Employee Benefit Plans

The Homeowners Choice, Inc. 2007 Stock Option and Incentive Plan, referred to herein as the “2007 Plan,” was adopted and approved by our board of directors and our stockholders in April 2007. The 2007 Plan authorizes the granting of stock-based awards to our officers, directors, employees, consultants and advisors. However, under the 2007 Plan, awards of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended) may be made only to our employees or to the employees of our subsidiaries. Following the 1:2.50 stock split effected June 16, 2008, we have reserved an aggregate of 6,000,000 shares of common stock for issuance under the 2007 Plan, of which we may issue 6,000,000 shares of common stock upon the exercise of incentive stock options. The board of directors currently administers the 2007 Plan, and it has the power to determine when and to whom awards will be granted, to determine the amount of each award and to establish the terms and conditions of each award.

The types of awards that may be granted under the 2007 Plan include options, stock appreciation rights, performance shares, performance units, restricted stock, restricted stock units, and convertible stock. Our board of directors or our compensation committee may amend, alter, suspend, discontinue or terminate the 2007 Plan at any time. In addition, subject to certain exceptions, the board of directors may modify, amend or cancel any award or waive any restrictions or conditions applicable to any award or the exercise of any award; provided that, any modification or amendment that materially diminishes the rights of a participant in the 2007 Plan, or the cancellation of any award, shall be effective only if agreed to by the participant or any other person that may then have an interest in the award.

As of May 31, 2008, we had granted options to purchase a total of 1,150,000 shares of our common stock under the 2007 Plan at an exercise price of $2.50 per share, of which options to purchase 478,000 shares are vested.

## RELATED PARTY TRANSACTIONS

### Transactions with Related Persons

*Lease of St. Petersburg Office*

We lease our St. Petersburg office from 5th Avenue Group LC, a company owned and operated by Sanjay Madhu, one of our directors and our Director of Investor Relations. The term of the lease commenced as of September 15, 2007 and will expire on September 15, 2008. The rent under the lease is $24,000 per annum payable in equal monthly installments.

*Lease of Clearwater Office*

On April 8, 2008, we entered into a lease with 2340 Drew St, LLC, a company owned and operated by Gregory Politis, one of our directors. The lease is for 6,000 square feet of office space and 1,498 square feet of common area in Clearwater, Florida. We intend to move into the Clearwater office in June or July of 2008 and we plan to use the Clearwater office as our headquarters. The initial term of the lease will commence as of the date on which the certificate of occupancy is received, unless the landlord has not substantially completed the improvements listed in Exhibit B to the lease on or before the date the certificate of occupancy is received, in which case the lease will commence on the date the landlord substantially completes the improvements. The initial term of the lease will expire five years after the date the lease commences. We, at our option, may renew the initial term of the lease for three additional periods of five years each by providing written notice of renewal at least six calendar months before the end of the initial five year term. The annual rent for the 6,000 square feet of office space during the initial five year term of the lease will be approximately $120,000, and will be payable in equal monthly installments. The annual rent for the 1,498 square feet of common area during the initial five year term of the lease will be approximately $29,960, and is payable in equal monthly installments. If we renew the lease, the annual rent for the 6,000 square feet of office space and 1,498 square feet of common area will increase by approximately 15% in each successive five year renewal period.

*Software License Agreement*

We license our policy administration software from Scorpio Systems, Inc., a company owned and operated by Paresh Patel, the Chairman of our Board of Directors. The Software License and Maintenance Agreement (the “License Agreement”) was effective as of November 1, 2007. The License Agreement is perpetual until terminated. The License Agreement may be terminated by either party upon six months’ written notice or by Scorpio Systems, Inc. upon thirty days’ written notice to us within three months following the occurrence of a change in control of our company. Under the terms of the License Agreement, Scorpio Systems, Inc. grants us an exclusive, perpetual, nontransferable, worldwide license to use the software in connection with policy administration services performed with regard to insurance policies issued by our company or any of our wholly-owned subsidiaries. In exchange for the license, we have agreed to pay to Scorpio Systems, Inc. a license fee of one dollar per policy generated as a new policy issued or a paid renewal policy. The license fees are to be paid on a quarterly basis with the first payment due March 31, 2008. Based on the number of policies written by Homeowners Choice Property & Casualty Insurance Company, Inc., one of our wholly-owned subsidiaries, as of March 31, 2008, we will pay Scorpio Systems, Inc. approximately $15,000 per year, although we made no payments to Scorpio Systems, Inc. in 2007. The amount to be paid under the License Agreement will increase as the number of new policies and paid renewal policies increases. In addition, as compensation for implementing our in-house policy administration function, we granted Mr. Patel an option to purchase 60,000 shares of our common stock at an exercise price of $2.50 per share, which options are not exercisable until the fair market value of our common stock is $7.50 per share.

*Consulting Agreement*

On June 1, 2007, we entered into a Consulting Agreement with Scorpio Systems, Inc., a company owned and operated by Paresh Patel, the Chairman of our Board of Directors (the “Consulting Agreement”). The Consulting Agreement may be terminated by either party at any time upon fifteen days’ written notice to the other party. Upon such a termination of the Consulting Agreement by us, Scorpio Systems, Inc. shall be entitled

to receive any unpaid consulting fees owing to it up through and including the date of termination. We may terminate the Consulting Agreement immediately in the event that Mr. Patel no longer owns a controlling interest in Scorpio Systems, Inc., or in the event of Mr. Patel's death or incapacity.

Under the terms of the Consulting Agreement, Scorpio Systems, Inc. provides us with business advice, information and consultation regarding the insurance industry. In consideration for these services, we pay a monthly fee of $12,000 to Scorpio Systems, Inc. and reimburse Scorpio Systems, Inc. for its reasonable and customary business expenses incurred in the performance of its services. We paid Scorpio Systems, Inc. $84,000 for these services in 2007 and $60,000 for these services as of May 31, 2008. Pursuant to the agreement, Scorpio Systems, Inc. will not disclose confidential information related to our company, and Scorpio Systems, Inc. may not solicit customers for a period of one year after the agreement's termination.

*Legal Services*

One of our directors, Martin Traber, is a partner at the law firm of Foley & Lardner LLP, and since our inception in 2007, the firm has provided legal representation to us on certain matters, including the preparation of our organizational documents, our April 2007 private placement, and the preparation of this offering. As of March 31, 2008, Foley & Lardner LLP has billed us $199,139 for legal services rendered since our inception. This amount represents less than 1% of the firm's fee revenue. These services were provided on an arm's-length basis, and paid for at fair market value. We believe that such services were effected on terms no less favorable to us than those that would have been realized in transactions with unaffiliated entities or individuals.

*Private Placement*

In April 2007, we issued and sold 5,182,000 shares of our common stock at a price of $2.50 per share to a group of accredited investors for an aggregate purchase price of $12,955,000. Of the 5,182,000 shares sold, an aggregate of 1,560,000 shares were purchased by our directors, executive officers, and their immediate family members. The following table includes a description of the shares purchased by these individuals in the private placement, reflecting a 1:2.50 stock split effected by us as of June 16, 2008.

| Name of Related Person | Relationship to Company | Number of Shares Purchased | Dollar Value of Transaction |
|---|---|---|---|
| Paresh Patel | Chairman of the Board | 280,000 | $ 700,000 |
| Dhimant & Chhaya Patel | Brother-in-Law and Sister of Paresh Patel | 100,000 | $ 250,000 |
| Martin Traber | Director | 120,000 | $ 300,000 |
| George Apostolou | Director | 100,000 | $ 250,000 |
| Pete Apostolou | Son of George Apostolou | 40,000 | $ 100,000 |
| Demetrios Detsis | Brother-in-Law of George Apostolou | 20,000 | $ 50,000 |
| Evangelia Collins | Sister-in-Law of George Apostolou | 40,000 | $ 100,000 |
| Krishna Persaud | Director | 400,000 | $ 1,000,000 |
| Garth Vernon | Director | 60,000 | $ 150,000 |
| Anthony Saravanos | Director | 80,000 | $ 200,000 |
| Sanjay Madhu | Director | 80,000 | $ 200,000 |
| Gregory Politis | Director | 200,000 | $ 500,000 |
| Panayote Politis | Brother of Gregory Politis | 40,000 | $ 100,000 |

## PRINCIPAL SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of May 31, 2008 by:

- each person who is known by us to beneficially own more than 5% of our outstanding common stock,
- each of our directors and named executive officers, and
- all directors and named executive officers as a group.

The number and percentage of shares beneficially owned before the offering are based on 5,182,000 shares of common stock outstanding as of May 31, 2008. Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of more than 5% of our common stock. Beneficial ownership is determined in accordance with the rules of the SEC and generally requires that such person have voting or investment power with respect to securities. In computing the number of shares beneficially owned by a person listed below and the percentage ownership of such person, shares of common stock underlying options, warrants or convertible securities held by each such person that are exercisable or convertible within 60 days of May 31, 2008 are deemed outstanding, but are not deemed outstanding for computing the percentage ownership of any other person. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all persons listed have sole voting and investment power for all shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is in care of Homeowner's Choice, Inc., 145 N.W. Central Park Plaza, Suite 115, Port St. Lucie, Florida 34986. All share information in the table below has been restated to reflect a 1-for-2.50 stock split effected as of June 16, 2008.

| | Beneficially Owned Before the Offering | | Beneficially Owned Before the Offering | | | |
|---|---|---|---|---|---|---|
| | | | Assuming Minimum | | Assuming Maximum | |
| Name and Address of Beneficial Owners | Number of Shares | Percent | Number of Shares | Percent | Number of Shares | Percent |
| **5% Shareholders:** | | | | | | |
| Mark Berset[1] | 280,000 | 5.32% | 280,000 | 4.25% | 280,000 | 4.04% |
| **Named Executive Officers and Directors:** | | | | | | |
| Francis McCahill, III[2] | 50,800 | * | 50,800 | * | 50,800 | * |
| Richard R. Allen[3] | 7,200 | * | 7,200 | * | 7,200 | * |
| Martin A. Traber[4] | 200,000 | 3.80% | 200,000 | 3.03% | 200,000 | 2.89% |
| George Apostolou[5] | 110,000 | 2.12% | 110,000 | 1.69% | 110,000 | 1.60% |
| Sanjay Madhu[6] | 90,000 | 1.73% | 90,000 | 1.38% | 90,000 | 1.31% |
| Krishna Persaud[7] | 410,000 | 7.90% | 410,000 | 6.29% | 410,000 | 5.98% |
| Gregory Politis[8] | 280,000 | 5.32% | 280,000 | 4.25% | 280,000 | 4.04% |
| Anthony Sarvanos[9] | 90,000 | 1.73% | 90,000 | 1.38% | 90,000 | 1.31% |
| Garth A. Vernon[10] | 60,000 | 1.16% | 60,000 | * | 60,000 | * |
| Paresh Patel[11] | 360,000 | 6.84% | 360,000 | 5.46% | 360,000 | 5.20% |
| **All Named Executive Officers and Directors as a Group (10 persons)** | 1,658,000 | 31.71% | 1,658,000 | 24.33% | 1,658,000 | 23.21% |

* Less than 1.0%

(1) Includes 80,000 shares of common stock issuable pursuant to options that are currently exercisable, 146,000 shares held by Mark & Linda Berset and 54,000 shares held by Pershing, LLC as custodian FBO Mark Berset IRA.

(2) Includes 50,800 shares of common stock issuable pursuant to options that are currently exercisable.

(3) Includes 7,200 shares of common stock issuable pursuant to options that are currently exercisable.

(4) Includes 80,000 shares of common stock issuable pursuant to options that are currently exercisable.

(5) Includes 10,000 shares of common stock issuable pursuant to options that are currently exercisable and 100,000 shares held by George & Poppe Apostolou.
(6) Includes 10,000 shares of common stock issuable pursuant to options that are currently exercisable and 80,000 shares held by Universal Finance & Investments, LLC, voting and investment power over which is held by Mr. Madhu.
(7) Includes 10,000 shares of common stock issuable pursuant to options that are currently exercisable and 320,000 shares held by Windsor Related Holdings LLC, voting and investment power over which is held by Mr. Persaud, and 80,000 shares held by Pershing, LLC FBO Krishna Persaud Roth IRA.
(8) Includes 80,000 shares of common stock issuable pursuant to options that are currently exercisable and 200,000 shares held by Gregory & Rena Politis.
(9) Includes 10,000 shares of common stock issuable pursuant to options that are currently exercisable and 80,000 shares held by HC Investment LLC, voting and investment power over which is held by Mr. Sarvanos.
(10) Includes 60,000 shares held by Garth & Monica Vernon.
(11) Includes 80,000 shares of common stock issuable pursuant to options that are currently exercisable and 280,000 shares held by Paresh & Neha Patel. Does not include 60,000 shares of common stock issuable pursuant to options that are exercisable upon our fair market value reaching $7.50 per share on a post-stock split basis.

## DESCRIPTION OF CAPITAL STOCK

### General

We are authorized to issue up to 40,000,000 shares of common stock, no par value and 20,000,000 shares of preferred stock, no par value. As of May 31, 2008, there were 5,182,000 shares of common stock issued and outstanding. As of May 31, 2008, we did not have any shares of preferred stock issued and outstanding.

### Units

Each unit consists of one share of common stock and one warrant. Two warrants are exercisable to purchase one share of common stock. The common stock and warrants will begin trading separately immediately upon commencement of trading.

### Common Stock

Holders of our common stock are entitled to one vote per share on all matters to be voted upon by shareholders. In accordance with Florida law, the affirmative vote of a majority of the shares represented and voting at a duly held meeting at which a quorum is present (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders.

Shares of our common stock have no preemptive rights, no redemption or sinking fund provisions, and are not liable for further call or assessment. The holders of such common stock are entitled to receive dividends when and as declared by our board of directors out of funds legally available for dividends. Our board of directors does not currently anticipate paying any cash dividends in the foreseeable future.

Upon a liquidation of our company, our creditors and any holders of our preferred stock with preferential liquidation rights will be paid before any distribution to holders of common stock. The holders of common stock would be entitled to receive a pro rata distribution per share of any excess amount. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which we may designate and issue in the future.

### Preferred Stock

Our articles of incorporation empower our board of directors to issue up to 20,000,000 shares of preferred stock. Any preferred stock terms selected by our board of directors and approved by a majority of our shareholders could decrease the amount of earnings and assets available for distribution to holders of our common stock or adversely affect the rights and power of the holders of our common stock. The rights of holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued by us in the future. The issuance of preferred stock could also have the effect of delaying or preventing a change in control of our company or make removal of management more difficult.

### Warrants

Each unit purchased includes one warrant. Two warrants may be exercised to purchase an additional share of common stock from us at a purchase price of $7.97 per share (130% of the assumed public offering price of $6.13 per share). The warrants can be exercised at any time until the final calendar day of the month following the fifth anniversary of the effective date of the registration statement covering the offering. The warrants are exercised by surrendering to us a warrant certificate evidencing the warrants to be exercised, with the exercise form included therein duly completed and executed, and paying to us the exercise price per share in cash or check payable to us. Except for those warrants issued to the placement agent, the warrants may not be exercised on a cashless or net basis. Stock certificates with respect to shares purchased through the exercise of warrants will be issued as soon thereafter as practicable.

As long as any warrants remain outstanding, stock to be issued upon the exercise of warrants will be adjusted in the event of one or more stock splits, readjustments or reclassifications. In the event of the foregoing, the remaining number of shares of common stock still subject to the warrants shall be increased or decreased to reflect proportionately the increase or decrease in the number of shares of common stock outstanding and the exercise price per share shall be decreased or increased as the case may be, in the same proportion.

We have reserved a sufficient number of shares of common stock for issuance upon exercise of the warrants and such shares, when issued in accordance with the terms of the warrants, will be fully paid and non-assessable. The shares so reserved are included in the Registration Statement of which this prospectus is a part. We are required to use our best efforts to maintain an effective registration statement and current prospectus relating to these shares of common stock at all times when the market price of the common stock exceeds the exercise price of the warrants until the warrants expire. We intend to use this registration statement and prospectus to cover the warrant exercises. We plan to file all post-effective amendments to the registration statement and supplements to the prospectus required to be filed under the Securities Act. However, we cannot assure you that an effective registration statement or current prospectus will be available at the time you desire to exercise your warrants.

Fractional shares will not be issued upon the exercise of warrants, and no payment will be made with respect to any fractional share of common stock to which any warrant holder might otherwise be entitled upon exercise of warrants. No adjustments as to previously declared or paid cash dividends, if any, will be made upon any exercise of warrants.

The holders of the warrants as such are not entitled to vote, receive dividends or to exercise any of the rights of holders of shares of common stock for any purpose until such warrants shall have been duly exercised and payment of the purchase price shall have been made. There is currently no market for the warrants and there is no assurance that any such market will ever develop.

For the life of the warrants, the warrant holders are given the opportunity to profit from the rise in market value of our common stock, if any, at the expense of the common stock holders and we might be deprived of favorable opportunities to secure additional equity capital, if it should then be needed, for the purpose of its business. A warrant holder may be expected to exercise the warrants at a time when, we, in all likelihood, would be able to obtain equity capital, if we needed capital then, by a public sale of a new offering on terms more favorable than those provided in the warrants.

If upon exercise of the warrants the exercise price is less than the book value per share, the exercise will have a dilutive effect upon the warrant holder’s investment.

After the six (6) month anniversary of the closing of the offering, if for at least ten (10) trading days within any period of twenty (20) consecutive trading days, including the last trading day of the period, the closing price per share of our common stock exceeds 125% of the warrant’s exercise price, we may cancel any warrants remaining outstanding and unexercised. The date upon which we may cancel such warrants must be a date which is more than thirty (30) calendar days, but less than sixty (60) calendar days, after a notice is mailed by first class mail to all registered holders of the warrants following the satisfaction of the conditions described above, or such longer time as may be required by regulatory authorities.

The warrants issued to the placement agent are described in the section of this prospectus entitled “Plan of Distribution.”

**Voting Agreement**

During 2007, we entered into a Voting Agreement with seven of our shareholders. These shareholders agreed, pursuant to the Voting Agreement, to vote their shares to ensure that our board of directors at all times consists of the following directors: Paresh Patel, Martin Traber, Gregory Politis, George Apostolou, Sanjay Madhu, Krishna Persaud, and Anthony Saravanos. Under the terms of the Voting Agreement, these directors may

be removed from our board only upon the vote or written consent of the shareholders entitled to designate such directors. In addition, the parties to the Voting Agreement also agreed that, in the event that the CEO, COO, or CFO is no longer serving our company in such capacity, they will immediately take such action as is necessary to remove that officer from the board. The Voting Agreement, as amended, will terminate upon the closing of this offering.

**Indemnification of Directors and Executive Officers and Limitation of Liability**

Our Bylaws provide for indemnification of our officers and directors to the fullest extent permitted by Florida law.

There is no pending litigation or proceeding involving any of our directors, officers, employees or other agents as to which indemnification is being sought, nor are we aware of any pending or threatened litigation that may result in claims for indemnification by any director, officer, employee or other agent.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

**Anti-Takeover Provisions**

Our Bylaws contain certain provisions that are intended to enhance the likelihood of continuity and stability in the composition of our Board of Directors and in the policies formulated by the Board of Directors. In addition, certain provisions of Florida law may hinder or delay an attempted takeover of us other than through negotiation with our Board of Directors. These provisions could have the effect of discouraging certain attempts to acquire us or remove incumbent management even if some or a majority of our shareholders were to deem such an attempt to be in their best interest, including attempts that might result in the shareholders' receiving a premium over the market price for the shares of our common stock held by shareholders.

**Limitations on Shareholder Action by Written Consent**

***Bylaws***

Our Bylaws provide that any action required or permitted to be taken at a shareholders' meeting may be taken without a meeting, without prior notice and without a vote, if the action is taken by persons who would be entitled to vote at a meeting and who hold shares having a majority of outstanding stock.

***Provisions of Florida Law***

We are governed by two Florida Statutes that may deter or frustrate takeovers of Florida corporations. The Florida Control Share Act generally provides that shares acquired in excess of certain specified thresholds, without first obtaining the approval of our Board of Directors, will not possess any voting rights unless such voting rights are approved by a majority of a corporation's disinterested shareholders. The Florida Affiliated Transactions Act generally requires supermajority approval by disinterested shareholders of certain specified transactions between a public corporation and holders of more than 10% of the outstanding voting shares of the corporation (or their affiliates). Florida law also authorizes us to indemnify our directors, officers, employees and agents under certain circumstances and to limit the personal liability of corporate directors for monetary damages, except where the directors (i) breach their fiduciary duties and (ii) such breach constitutes or includes certain violations of criminal law, a transaction from which the directors derived an improver personal benefit, certain unlawful distributions or certain other reckless, wanton or willful acts or misconduct.

### NASDAQ Trading

We have applied to have our units, warrants and common stock listed on The NASDAQ Global Market under the symbol “HCIIU,” “HCIIW,” and “HCII,” respectively.

### Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company. The transfer agent’s address is 59 Maiden Lane, New York, NY 10038, and its telephone number is 1-800-937-5449.

## SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there was no market for our securities. We cannot predict the effect, if any, that the sale of our units, common stock or warrants or the availability of our units, common stock or warrants for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of our units, common stock or warrants in the public market following the offering could adversely affect the market price of such securities and adversely affect our ability to raise capital at a time and on terms favorable to us.

### Sale of Restricted Shares

Upon completion of this offering, assuming we sell the minimum number of units, we will have 6,515,334 shares of common stock outstanding. Of these shares of common stock, 1,333,334 shares of common stock being sold in this offering, plus any shares sold upon exercise of the warrants being sold in this offering, will be freely tradable without restriction under the Securities Act, except for any such shares which may be held or acquired by an “affiliate” of ours, as that term is defined in Rule 144 under the Securities Act, which shares will be subject to the volume limitations and other restrictions of Rule 144 described below. If we sell the maximum number of units, we will have 6,848,668 shares of common stock outstanding. Of these shares of common stock, 1,666,668 shares of common stock being sold in this offering, plus any shares sold upon exercise of the warrants being sold in this offering, will be freely tradable without restriction under the Securities Act, except for any such shares which may be held or acquired by an “affiliate” of ours, as that term is defined in Rule 144 under the Securities Act, which shares will be subject to the volume limitations and other restrictions of Rule 144 described below. The remaining shares of common stock held by our existing shareholders upon completion of the offering will be “restricted securities,” as that phrase is defined in Rule 144, and may not be resold in the absence of registration under the Securities Act or pursuant to an exemption from such registration, including among others, the exemptions provided by Rule 144, 144(k) or 701 under the Securities Act, which rules are summarized below.

### Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, a person (or persons whose shares are aggregated) who is deemed to be an affiliate of ours at the time of sale, or at any time during the preceding three months, and who has beneficially owned restricted shares for at least six months, would be entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares or the average weekly trading volume of shares during the four calendar weeks preceding such sale. Sales under Rule 144 are subject to certain manner of sale provisions, notice requirements and the availability of current public information about us. A person who has not been our affiliate at any time during the three months preceding a sale, and who has beneficially owned his shares for at least six months, would be entitled under Rule 144 to sell such shares without regard to any manner of sale, notice provisions or volume limitations described above. Any such sales must comply with the public information provision of Rule 144 until our common stock has been held for one year.

### Rule 701

Securities issued in reliance on Rule 701 are also restricted and may be sold by shareholders other than affiliates of ours subject only to the manner of sale provisions of Rule 144 and by affiliates under Rule 144 without compliance with its six-month holding period requirement.

### Registration on Form S-8

We intend to file a registration statement on Form S-8 under the Securities Act as soon as practicable after the closing of this offering to register 6,000,000 shares of common stock subject to outstanding stock options or

reserved for issuance under our stock plans. This registration will permit the resale of these shares by nonaffiliates in the public market without restriction under the Securities Act, upon completion of the lock-up period described below. Shares registered under the Form S-8 registration statement held by affiliates will be subject to Rule 144 volume limitations.

**Lock-up Arrangements**

Each of our executive officers and directors, as well as those individuals who on the effective date of the registration statement covering the offering are the beneficial owners of more than 5% of our common stock, have agreed (1) not to sell or otherwise dispose of any shares of common stock for a period of 90 days after the date of this prospectus and (2) not to sell or otherwise dispose of more than one percent (1%) of our issued and outstanding shares of common stock for the following 90 days. Upon the expiration of these lock-up agreements, additional shares will be available for sale in the public market.

## PLAN OF DISTRIBUTION

Anderson & Strudwick, Incorporated and GunnAllen Financial, Inc. and_____ are acting as placement agents for this offering (the "Placement Agents"). Subject to the terms and conditions described in a placement agreement between the Placement Agents and our company, the Placement Agents have agreed to place a minimum of 1,333,334 and a maximum of 1,666,668 units, each unit comprised of one share of our common stock and one warrant to purchase on a "best-efforts, minimum/maximum" basis.

While the Placement Agents will use their best efforts to sell the units, they will be under no obligation to sell any or all of the units and will not be obligated to purchase any of the units.

We are offering the units subject to prior sale, withdrawal, cancellation or modification of the offer, including its structure, terms and conditions, without notice. We are offering the units to the public at the public offering price set forth on the cover page of this prospectus. The Placement Agents may also offer the units to selected dealers at the public offering price, less a concession not in excess of $ per unit. The Placement Agents reserve the right, in their sole discretion, to reject in whole or in part any offer to purchase the units.

The placement agreement provides that we will pay as compensation to the Placement Agents a placement fee equal to 7.0% of the public offering price of the units sold in this offering. Any purchases of units made by persons affiliated with our company for the explicit purpose of satisfying the minimum offering size of this offering will be made for investment purposes only, and not with a view toward redistribution. The following table summarizes the placement agent's discounts and commissions that we will pay to the Placement Agents.

| | Per unit | Minimum offering | Maximum offering |
|---|---|---|---|
| **Public offering price** | | | |
| **Placement agent discount** | | | |
| **Proceeds to us, before expenses** | | | |

We will be responsible for the expenses of issuance and distribution of the units, including registration fees, legal and accounting fees and printing expenses, which we estimate will total approximately $700,000. In addition to the placement agent discount, we will pay the Placement Agents at the closing of the offering an accountable expense allotment not to exceed 1.0% of the public offering price of the units sold.

In addition, we will issue to the Placement Agents warrants to purchase a number of shares of our common stock equal to 10% of the number of units sold. The Placement Agents shall pay us $0.001 per warrant. Each warrant will be exercisable to purchase one share of our common stock at an exercise price of $7.97 per share (130% of the assumed offering price of $6.13 per share) and will have a term of five years. The warrants will also be exercisable on a cashless or "net exercise" basis. Pursuant to NASD Rule 2710(g)(1), the warrants to be acquired by the Placement Agents may not (except to certain affiliates of the Placement Agents) be sold, transferred, assigned, pledged or hypothecated, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the commencement of this offering. The anti-dilution provisions of the warrants to be issued to the Placement Agents comply with NASD Rule 2710(f)(2)(H)(vi) and (vii).

The units, shares of common stock and warrants to be issued are new securities with no established trading market. We have applied to list the units and the underlying shares of common stock and warrants on the Nasdaq Global Market. We have been advised by the Placement Agents that they intend to make a market in these securities, however, they are not obligated to make a market in such securities and they can discontinue market making at any time without notice. Neither we nor the Placement Agents can provide any assurance that an active and liquid market will develop or, if developed, that the market will continue. The offering price of the units and the placement agent discount have been determined by negotiations among us and the Placement Agents, and the offering price of the units may not be indicative of the market price following the offering. The exercise price of

the warrants has been determined by negotiations between us and the Placement Agents based on the prevailing market conditions, our financial information, our historical performance and our future prospects.

The Placement Agents have agreed in accordance with the provisions of SEC Rule 15c2-4 to cause all funds received from the sale of the units to be promptly deposited in an escrow account maintained by SunTrust Bank, N.A. as escrow agent for the investors in the offering upon the receipt of funds by the Placement Agents by or before noon of the next business day following the sale of the units, i.e. the date of closing.

Payment for the units may be made (i) by check, bank draft or money order made payable to “SunTrust Bank” and delivered to the Placement Agents no less than four business days before the date of closing, or (ii) by authorization of withdrawal from securities accounts maintained with either of the Placement Agents. If payment is made by authorization of withdrawal from securities accounts, the funds authorized to be withdrawn from a securities account will continue to accrue interest, if any interest is to accrue on such amounts, at the contractual rates until closing or termination of the offering, but a hold will be placed on such funds, thereby making them unavailable to the purchaser until closing or termination of the offering. If a purchaser authorizes either Placement Agent to withdraw the amount of the purchase price from a securities account, such Placement Agent will do so as of the date of closing. The Placement Agents will inform prospective purchasers of the anticipated date of closing.

If we have not received subscriptions for a minimum of 1,333,334 units by September 30, 2008, we will return to the subscribers all funds placed in the escrow account without interest or deduction for expense. If the minimum number of subscriptions for the units is attained, the offering will close, and the escrow agent will release all funds to us.

In the placement agreement, the obligations of the Placement Agents are subject to approval of certain legal matters by its counsel and to various other conditions. The placement agreement also provides that we will indemnify the Placement Agents against certain liabilities, including liabilities under the Securities Act, or contribute to payments the Placement Agents may be required to make in respect of any such liabilities.

## LEGAL MATTERS

The validity of the shares of common stock issued in this offering will be passed upon for us by the law firm of Foley & Lardner LLP, Tampa, Florida. Certain legal matters in connection with this offering will be passed upon for the placement agents by the law firm of Kaufman & Canoles P.C., Richmond, Virginia.

## EXPERTS

The consolidated financial statements included in this prospectus have been audited by Hacker, Johnson & Smith, P.A., independent auditors, as stated in their report appearing herein and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## INTERESTS OF NAMED EXPERTS AND COUNSEL

Attorneys with Foley & Lardner LLP representing HCI with respect to this offering beneficially owned approximately 120,000 shares of common stock of HCI and owned options to purchase 190,000 shares of common stock of HCI as of the date of this prospectus, 80,000 of which are currently exercisable. Of the remaining options to purchase 110,000 shares of common stock, the option to purchase 90,000 shares vests at a rate of 5,000 shares per month, and the option to purchase the remaining 20,000 shares vests annually at a rate of 10,000 shares.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement (of which this prospectus is a part) under the Securities Act of 1933, as amended, relating to the common stock we are offering. This prospectus does not contain all the information that is in the registration statement. Certain portions of the registration statement have been omitted as allowed by the rules and regulations of the SEC. Statements in this prospectus which summarize documents are not necessarily complete, and in each case you should refer to the copy of the document filed as an exhibit to the registration statement. For further information regarding our company and our common stock, please see the registration statement and its exhibits and schedules. You may examine the registration statement free of charge at the public reference facilities maintained by the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549. Copies of the registration statement may also be obtained from the public reference facilities of the Commission at 100 F Street N.E., Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330, at prescribed rates. In addition, the registration statement and other public filings can be obtained from the SEC's Internet website at *www.sec.gov*.

Upon completion of this offering, we will become subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934 and, in accordance therewith, will file periodic reports, proxy statements, and other information with the Commission. Such periodic reports, proxy statements, and other information will be available for inspection and copying at the Commission's public reference rooms and the Internet site of the Commission referred to above. Our Internet site address is www.hcpci.com. Information on our Internet site does not constitute a part of this prospectus.

## Index to Financial Statements

## HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

## Independent Auditors' Report

Homeowners Choice, Inc.
Port St. Lucie, Florida:

We have audited the accompanying consolidated balance sheets of Homeowners Choice, Inc. and Subsidiaries (the "Company") as of March 31, 2008 and December 31, 2007, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the three month period ended March 31, 2008, for the year ended December 31, 2007 and for the period from November 30, 2006 (inception) to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the Company at March 31, 2008 and December 31, 2007, and the results of its operations and its cash flows for the three month period ended March 31, 2008, for the year ended December 31, 2007 and for the period from November 30, 2006 (inception) to December 31, 2006, in conformity with U.S. generally accepted accounting principles.

HACKER, JOHNSON & SMITH PA
Tampa, Florida
June 16, 2008

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**
**(Dollars in thousands)**

| | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $19,285 | 15,729 |
| Short-term investments | 25,075 | 17,055 |
| Accrued interest and dividends | 100 | 60 |
| Premiums receivable | 6,358 | 3,256 |
| Assumed reinsurance balances receivable | 349 | — |
| Deferred acquisition costs | 4,686 | 3,163 |
| Office equipment, net | 33 | 36 |
| Deferred income taxes | 855 | 653 |
| Other assets | 342 | 41 |
| Total assets | $57,083 | 39,993 |
| **Liabilities and Stockholders' Equity** | | |
| Losses and loss adjustment expenses | 2,848 | 1,688 |
| Unearned premiums | 29,405 | 19,814 |
| Ceded reinsurance balances payable | 2,095 | 1,060 |
| Assumed reinsurance balances payable | — | 833 |
| Accrued expenses | 1,408 | 832 |
| Income taxes payable | 2,582 | 1,266 |
| Other liabilities | 375 | 162 |
| Total liabilities | 38,713 | 25,655 |
| Commitments and contingencies (Notes 1, 4, 7, 9 and 13) | | |
| Stockholders' equity: | | |
| Preferred stock (no par value 20,000,000 shares authorized, no shares issued or outstanding) | | |
| Common stock, (no par value, 40,000,000 shares authorized, 5,182,000 shares issued and outstanding) | | |
| Additional paid-in capital | 13,491 | 13,383 |
| Retained earnings | 4,879 | 955 |
| Total stockholders' equity | 18,370 | 14,338 |
| Total liabilities and stockholders' equity | $57,083 | 39,993 |

See accompanying Notes to Consolidated Financial Statements.

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Consolidated Statements of Operations**
**(Dollars in thousands, except per share amounts)**

| | Three Month Period Ended March 31, | | Year Ended December 31, | Period from November 30, 2006 (Inception) to December 31, |
|---|---|---|---|---|
| | 2008 | 2007 (Unaudited) | 2007 | 2006 |
| **Revenue** | | | | |
| Net premiums earned | $10,441 | — | 7,034 | — |
| Net investment income | 346 | | 602 | — |
| Other | 119 | — | 24 | — |
| Total revenue | 10,906 | — | 7,660 | — |
| **Expenses** | | | | |
| Losses and loss adjustment expenses | 2,274 | — | 2,742 | — |
| Policy acquisition and other underwriting expenses | 2,316 | — | 2,868 | — |
| Preopening expenses | — | 79 | 419 | 62 |
| Total expenses | 4,590 | 79 | 6,029 | 62 |
| Income (loss) before income taxes | 6,316 | (79) | 1,631 | (62) |
| Income taxes | 2,392 | — | 614 | — |
| Net income (loss) | $ 3,924 | (79) | 1,017 | (62) |
| Net earnings per basic share | $ .76 | — | .29 | — |
| Net earnings per diluted share | $ .76 | — | .29 | — |

See accompanying Notes to Consolidated Financial Statements.

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Consolidated Statements of Stockholders' Equity**

**Three Month Period Ended March 31, 2008 and**
**For the Year Ended December 31, 2007 and For the Period from**
**November 30, 2006 (Inception) to December 31, 2006**
**(Dollars in thousands)**

| | Shares | Amount | Paid-In Capital | Retained Earnings (Accumulated Deficit) | Total |
|---|---|---|---|---|---|
| Balance at November 30, 2006 (inception) | — | $ — | — | — | — |
| Net loss | — | — | — | (62) | (62) |
| Balance at December 31, 2006 | — | — | — | (62) | (62) |
| Proceeds from sale of common stock | 5,182,000 | — | 12,955 | — | 12,955 |
| Net income | — | — | — | 1,017 | 1,017 |
| Stock-based compensation | — | — | 428 | — | 428 |
| Balance at December 31, 2007 | 5,182,000 | — | 13,383 | 955 | 14,338 |
| Net income | — | — | — | 3,924 | 3,924 |
| Stock-based compensation | — | — | 108 | — | 108 |
| Balance at March 31, 2008 | 5,182,000 | $ — | 13,491 | 4,879 | 18,370 |

See accompanying Notes to Consolidated Financial Statements.

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**
**(Dollars in thousands)**

| | Three Month Period Ended March 31, | | Year Ended December 31, 2007 | Period from November 30, 2006 (Inception) to December 31, 2006 |
|---|---|---|---|---|
| | 2008 | 2007 (Unaudited) | | |
| Cash flows from operating activities: | | | | |
| Net income (loss) | $ 3,924 | (79) | 1,017 | (62) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Stock-based compensation | 108 | — | 428 | — |
| Deferred income tax benefit | (202) | — | (653) | — |
| Changes in operating assets and liabilities: | | | | |
| Premiums receivable | (3,102) | — | (3,256) | — |
| Reinsurance balances receivable | (349) | — | — | — |
| Accrued interest and dividends receivable | (40) | — | (60) | — |
| Other assets | (301) | — | (41) | — |
| Reinsurance balances payable | 202 | — | 1,893 | — |
| Deferred acquisition costs | (1,523) | — | (3,163) | — |
| Losses and loss adjustment expenses | 1,160 | — | 1,688 | — |
| Unearned premiums | 9,591 | — | 19,814 | — |
| Income taxes payable | 1,316 | — | 1,266 | — |
| Accrued expenses and other liabilities | 789 | 84 | 931 | 63 |
| Net cash provided by operating activities | 11,573 | 5 | 19,864 | 1 |
| Cash flows from investing activities: | | | | |
| Purchase of office equipment, net | 3 | — | (36) | — |
| Purchase of short-term investments, net | (8,020) | — | (17,055) | — |
| Net cash used in investing activities | (8,017) | — | (17,091) | — |
| Cash flows from financing activity- | | | | |
| Proceeds from sale of common stock | — | — | 12,955 | — |
| Net increase in cash and cash equivalents | 3,556 | 5 | 15,728 | 1 |
| Cash and cash equivalents at beginning of period | 15,729 | 1 | 1 | — |
| Cash and cash equivalents at end of period | $19,285 | 6 | 15,729 | 1 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for income taxes | $ 1,278 | — | — | — |
| Cash paid for interest | $ — | — | — | — |

See accompanying Notes to Consolidated Financial Statements.

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**March 31, 2008 and December 31, 2007 and For the Three Month Periods Ended March 31, 2008 and 2007 (Unaudited), the Year Ended December 31, 2007 and For the Period from November 30, 2006 (Inception) to December 31, 2006**

## (1) Summary of Significant Accounting Policies

***Organization and Business.*** The accompanying consolidated financial statements include the accounts of Homeowners Choice, Inc. and its wholly-owned subsidiaries (collectively the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Homeowners Choice, Inc. is an insurance holding company, which through its subsidiaries and contractual relationships with independent agents controls substantially all aspects of the insurance underwriting, distribution and claims process. The Company is authorized to underwrite homeowners' property and casualty insurance in the State of Florida through its wholly owned subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc (HCPC). HCPC commenced operations on June 18, 2007.

Homeowners Choice Managers, Inc. (HCM), a wholly-owned subsidiary, acts as HCPC's exclusive managing general agent in the State of Florida. HCM currently provides underwriting policy administration, marketing, accounting and financial services to HCPC, and participates in the negotiation of reinsurance contracts. Southern Administration, Inc. a wholly-owned subsidiary, provides policy administration services.

All of the Company's customers have been obtained as a result of participation in a "takeout program" with Citizens Property Insurance Corporation ("Citizens"), a Florida state supported insurer. The customers were obtained in separate assumption transactions in July 2007, November 2007, and February 2008. The Company is required to offer renewals on the policies acquired for a period of three years subsequent to the initial expiration of the assumed policies. Such renewals are required to have rates that are equivalent to or less than rates charged by Citizens.

***Unaudited Information.*** The accompanying consolidated financial statements for the three months ended March 31, 2007 are unaudited. However, in the opinion of management, all adjustments necessary for the fair presentation of the consolidated financial statements have been included.

***Use of Estimates.*** The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from these estimates. Material estimates that are particularly susceptible to significant change in the near term are related to loss and loss adjustment expenses.

***Cash and Cash Equivalents.*** The Company considers all short term highly liquid investments with original maturities of less than three months to be cash and cash equivalents. At March 31, 2008 and December 31, 2007, cash and cash equivalents consists of cash on deposit with financial institutions and overnight repurchase agreements.

***Short-Term Investments.*** Short-term investments consist of certificates of deposit with maturities less than one year.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(1) Summary of Significant Accounting Policies, Continued**

***Deferred Acquisition Costs.*** Deferred Acquisition Costs ("DAC") primarily represent commissions paid to Citizens or outside agents at the time of collection of the policy premium, salaries and premium taxes and are amortized over the life of the related policy in relation to the amount of premiums earned. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value, which gives effect to the premium earned, related investment income, unpaid loss and loss adjustment expenses ("LAE") and certain other costs expected to be incurred as the premium is earned.

DAC is reviewed to determine if it is recoverable from future income, including investment income. If such costs are determined to be unrecoverable, they are expensed at the time of determination. Although recoverability of DAC is not assured, the Company believes it is more likely than not that all of these costs will be recovered. The amount of DAC considered recoverable, however, could be reduced in the near term if the estimates of total revenues discussed above are reduced or permanently impaired as a result of the disposition of a line of business. The amount of amortization of DAC could be revised in the near term if any of the estimates discussed above are revised.

***Office Equipment.*** Office equipment is stated at cost less accumulated depreciation. Depreciation expense is calculated on a straight line basis over the estimated useful lives.

***Losses and Loss Adjustment Expenses.*** Reserves for losses and loss adjustment expenses ("LAE") are determined by establishing liabilities in amounts estimated to cover incurred losses and LAE. Such reserves are determined based on the assessment of claims reported and the development of pending claims. These reserves are based on individual case estimates for the reported losses and LAE and estimates of such amounts that are incurred but not reported. Changes in the estimated liability are charged or credited to operations as the losses and LAE are settled.

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

***Reinsurance.*** In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income. At March 31, 2008 and December 31, 2007, there are no amounts applicable to reserves ceded for unearned premium reserves and loss and loss adjustment expenses.

***Premium Revenue.*** Premium revenue is earned on a pro-rata basis over the term of the policies. Unearned premiums represent the portion of the premium related to the unexpired policy term.

***Policy Fees.*** Policy fees represent nonrefundable application fees for insurance coverage, which are intended to reimburse a portion of the costs incurred to underwrite the policy. The fees and related costs are recognized when the policy is written.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(1) Summary of Significant Accounting Policies, continued**

***Income Taxes.*** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized in income or expense in the period that includes the enactment date. Valuation allowances are provided against assets that are not likely to be realized. The Company has elected to classify interest and penalties determined under Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), as income tax expense as permitted by FIN 48.

***Preopening and Organizational Costs.*** Preopening and organizational costs incurred prior to the June 18, 2007 commencement of insurance operations totaled $481,000 and were expensed as incurred.

***Fair Value of Financial Instruments.*** The carrying amounts for the following financial instruments approximate their fair values at March 31, 2008 and December 31, 2007 because of their short term nature: cash and cash equivalents, short-term investments, premiums receivable, assumed and ceded reinsurance balances payable, other liabilities and accrued expenses.

***Comprehensive Income.*** There were no components of comprehensive income other than net income (loss) for the periods ended March 31, 2008 and 2007 (unaudited) and December 31, 2007 and 2006.

***Segment Reporting.*** Statement of Financial Accounting Standard ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information,* establishes standards for reporting information about operating segments. The Company does not have any operations that require separate disclosure as operating segments.

***Stock-Based Compensation.*** The Company accounts for its stock option plans in accordance with SFAS No. 123-R, *Share-Based Payment* ("SFAS 123(R)"). SFAS 123(R) requires the measurement and recognition of compensation for all stock-based awards made to employees and directors including stock options and restricted stock issuances based on estimated fair values. Under the fair value recognition provisions of SFAS 123(R), the Company recognizes stock-based compensation in the consolidated statements of operations on a straight-line basis over the vesting period.

***Earnings Per Share.*** Basic earnings per share is computed on the basis of the weighted-average number of common shares outstanding. Diluted earnings per share is computed based on the weighted-average number of shares outstanding plus the effect of outstanding stock options, computed using the treasury stock method. Loss per share was not applicable in 2006 or for the three month period ended March 31, 2007 as no common stock had been issued during or prior to these periods.

***Recent Accounting Pronouncements.*** In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS 157 had no impact on the Company's consolidated financial condition or results of operations.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(1) Summary of Significant Accounting Policies, continued**

***Recent Accounting Pronouncements, continued***

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of SFAS No. 115 ("SFAS No. 159")," which permits an entity to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions. SFAS No. 159 amends previous guidance to extend the use of the fair value option to available-for-sale and held-to-maturity securities and also establishes presentation and disclosure requirements to help financial statement users understand the effect of the election. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company did not apply the fair value option to any existing financial assets or liabilities as of January 1, 2008. Consequently, the adoption of SFAS No. 159 had no impact on the Company's consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and early implementation is not permitted. SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. Management is in the process of evaluating the impact of SFAS 141(R) and does not anticipate it will have a material impact on the Company's consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No.160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 requires the Company to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. Management is in the process of evaluating the impact of SFAS 160 and does not anticipate it will have a material effect on the Company's consolidated financial condition or results of operations.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

## (2) Investment Income and Concentrations

Investment income is summarized as follows (dollars in thousands):

| | Three Month Period Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| Short-term investments | $ 224 | 201 |
| Cash and cash equivalents | 122 | 401 |
| | $ 346 | 602 |

At March 31, 2008 and December 31, 2007, the following short-term investments exceeded 10% of consolidated stockholders' equity (dollars in thousands):

| Name of Financial Institution | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| First National Bank of Central Florida | $ 5,059 | 5,000 |
| Total Bank | 4,048 | 4,000 |
| Regions Bank | 5,025 | 2,000 |
| First State Bank | 2,041 | — |
| Central Bank | 3,902 | — |
| U.S. Ameribank | 5,000 | 2,000 |
| | $ 25,075 | 13,000 |

## (3) Reinsurance

The Company cedes homeowners insurance to other entities under catastrophe excess of loss reinsurance treaties. The Company remains contingently liable with respect to homeowners insurance in the event that any of the reinsurers are unable to meet their obligations under the reinsurance agreements. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurer to minimize its exposure to significant losses from reinsurer insolvencies.

The impact of the catastrophe excess of loss reinsurance treaties on premiums written and earned is as follows (dollars in thousands):

| | Three Month Period Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| Premiums Written | | |
| Direct | $ 8,629 | 5,535 |
| Assumed | 12,924 | 23,825 |
| Gross written | 21,553 | 29,360 |
| Ceded | (1,521) | (2,512) |
| | $ 20,032 | 26,848 |

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(3) Reinsurance, continued**

| | Three Month Period Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| Premiums Earned | | |
| Direct | 1,141 | 298 |
| Assumed | 10,821 | 9,248 |
| Gross earned | 11,962 | 9,546 |
| Ceded | (1,521) | (2,512) |
| Net premiums earned | $ 10,441 | 7,034 |

There were no reinsurance recoverables on incurred losses and LAE as of March 31, 2008 or December 31, 2007 and there were no recoveries related to reinsurance contracts during the three month period ended March 31, 2008 or for the year ended December 31, 2007. At March 31, 2008, assumed reinsurance balances receivable included $349,000 due from Citizens. At December 31, 2007, there were no amounts applicable to reinsurance receivables or prepaid reinsurance premiums. As a result, as of December 31, 2007, there are no concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance.

**(4) Losses and LAE**

The liability for losses and LAE is determined on an individual case basis for all claims reported. The liability also includes amounts for unallocated expenses, anticipated future claim development and losses incurred, but not reported.

Activity in the liability for unpaid losses and LAE is summarized as follows (dollars in thousands):

| | Three Month Period Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| Balance—beginning of period | $ 1,688 | — |
| Incurred related to: | | |
| Current period | 2,821 | 2,742 |
| Prior period | (547) | — |
| Total incurred | 2,274 | 2,742 |
| Paid related to: | | |
| Current period | (556) | (1,054) |
| Prior period | (558) | — |
| Total paid | (1,114) | (1,054) |
| Net balance at end of period | $ 2,848 | 1,688 |

The Company writes insurance in the State of Florida, which could be exposed to hurricanes or other natural catastrophes. Although the occurrences of a major catastrophe could have a significant effect on our monthly or quarterly results, the Company believes that such an event would not be so material as to disrupt the overall normal operations of the Company. However, the Company is unable to predict the frequency or severity of any such events that may occur in the near term or thereafter.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

## (5) Income Taxes

A summary of income taxes is as follows (dollars in thousands):

| | Three Month Period Ended March 31, | | Year Ended December 31, | Period from November 30, 2006 (Inception) to December 31, |
|---|---|---|---|---|
| | 2008 | 2007 (Unaudited) | 2007 | 2006 |
| Federal: | | | | |
| Current | $2,216 | — | 1,082 | — |
| Deferred | (173) | — | (558) | — |
| Federal income taxes | 2,043 | — | 524 | — |
| State: | | | | |
| Current | 378 | — | 185 | — |
| Deferred | (29) | — | (95) | — |
| State income taxes | 349 | — | 90 | — |
| Income taxes | $2,392 | — | 614 | — |

The reasons for the differences between the statutory Federal income tax rate and the effective tax rate are summarized as follows (dollars in thousands):

| | Three Month Periods Ended March 31, | | | | Period Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2007 | | 2007 | | 2006 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | | | (Unaudited) | | | | | |
| Income taxes at statutory rate | $2,147 | 34.0% | $ (27) | (34.0)% | $ 555 | 34.0% | $ (21) | (34.0)% |
| Increase (decrease) in income taxes resulting from: | | | | | | | | |
| State income taxes, net of Federal tax benefit | 231 | 3.7 | (3) | (4.0) | 61 | 3.7 | (2) | (3.2) |
| Stock-based compensation | 3 | — | — | — | 21 | 1.3 | — | — |
| Other | 11 | .2 | — | — | — | — | — | — |
| Change in valuation allowance | — | — | 30 | 38.0 | (23) | (1.4) | 23 | 37.2 |
| Income taxes | $2,392 | 37.9% | $ — | — % | $ 614 | 37.6% | $ — | — % |

The Company has no uncertain tax positions or unrecognized tax benefits that, if recognized, would impact the effective income tax rate. The tax year ending December 31, 2007 remains subject to examination by our major taxing jurisdictions. There have been no interest or penalties recognized for the periods ended December 31, 2007 and 2006 or March 31, 2008 and 2007 (unaudited).

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(5) Income Taxes, continued**

Significant components of our net deferred income tax asset are as follows (dollars in thousands):

| | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| Deferred income tax assets: | | |
| Unearned premiums | $ 2,213 | 1,491 |
| Losses and loss adjustment expenses | 70 | 41 |
| Organizational costs | 160 | 173 |
| Stock-based compensation | 175 | 138 |
| Deferred tax assets | 2,618 | 1,843 |
| Deferred tax liability-Deferred policy acquisition costs | (1,763) | (1,190) |
| Valuation allowance | — | — |
| Net deferred income tax asset | $ 855 | 653 |

The valuation allowance was reversed subsequent to the commencement of insurance underwriting operations in 2007 as, in the opinion of management, it was more likely than not it will be realized.

**(6) Regulatory Requirements and Restrictions**

The Florida Insurance Code (the “Code”) requires HCPC to maintain capital and surplus equal to the greater of 10% of their liabilities or a statutory minimum as defined in the Code. At March 31, 2008 and December 31, 2007, HCPC is required to maintain a minimum capital and surplus of $4.0 million. At March 31, 2008 and December 31, 2007, HCPC’s statutory capital and surplus was $13.1 million and $10.4 million, respectively. HCPC’s statutory net profit was $3.1 million for the three month period ended March 31, 2008 compared to the statutory net loss of $1.4 million for the period from June 18, 2007 (commencement of insurance operations) to December 31, 2007. Statutory surplus differs from stockholders’ equity reported in accordance with generally accepted accounting principles primarily because policy acquisition costs are expensed when incurred. In addition, the recognition of deferred tax assets is based on different recoverability assumptions.

As of March 31, 2008 and December 31, 2007, HCPC had a cash deposit with the Insurance Commissioner of the State of Florida, in the amount of $300,000, to meet regulatory requirements. At March 31, 2008 and December 31, 2007, there were no material permitted statutory accounting practices utilized by HCPC.

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its stockholders except out of that part of its available and accumulated capital and surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to stockholders without prior approval of the Florida Office of Insurance Regulation (OIR) if the dividend or distribution would exceed the larger of (1) the lesser of (a) 10.0% of its capital surplus or (b) net income, not including realized capital gains, plus a two year carry forward, (2) 10.0% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains or (3) the lesser of (a) 10.0% of capital surplus or (b) net investment income plus a three year carry forward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains. At March 31, 2008 and December 31, 2007, no dividends are available to be paid by HCPC.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(7) Commitments and Contingencies**

The Company may be party to other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position, or liquidity.

As a direct premium writer in the State of Florida, the Company is required to participate in certain insurer pools and associations under Florida statutes 631.57(3) (A). Participation in these pools is based on written premium by line of business to total premiums written statewide by all insurers. Participation may result in assessments against the Company. For the three months ended March 31, 2008 and year ended December 31, 2007, HCPC collected and paid assessments to the Florida Hurricane Catastrophe Fund (FHCF) and Citizens amounting to $55,000 and $400 and $77,000 and $600, respectively. These assessments are recorded as a surcharge in premium billings to insureds. The surcharges are 1.0% of premium for the FHCF and 1.4% for Citizens.

HCPC received approval as a Limited Apportionment Company in April of 2008. This designation allows the Company to pay assessments from regulatory agencies as assessments from insureds are recouped rather than paying the assessment and then recouping from the insureds/ policyholders.

**(8) Net Earnings Per Share**

A summary of the numerator and denominator of the basic and fully diluted net earnings per share is presented below (dollars in thousands, except per share amounts):

| | Three Month Period Ended March 31, 2008 | | | Year Ended December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Income | Weighted-Average Shares Outstanding | Per Share Amount | Income | Weighted-Average Shares Outstanding | Per Share Amount |
| Basic EPS: | | | | | | |
| Income available to common stockholders | $3,924 | 5,182,000 | $ .76 | $1,017 | 3,454,667 | $ .29 |
| Effect of dilutive securities: | | | | | | |
| Options | — | — | — | — | — | — |
| Diluted EPS: | | | | | | |
| Income available to common stockholders after assumed conversions | $3,924 | 5,182,000 | $ .76 | $1,017 | 3,454,667 | $ .29 |

**(9) Lease Commitments**

The Company has leases for office space located in Port St. Lucie, Florida. These leases expire in October, 2008. The Company also has a lease for office space located in St. Petersburg, Florida. This lease is on a monthly basis. Rent expense under all leases was approximately $24,000 and $32,000 for the three months ended March 31, 2008 and the year ended December 31, 2007, respectively. On April 9, 2008, the Company entered into a lease arrangement with one director for office space located in Clearwater, Florida, for a five-year term commencing August 1, 2008. Such lease requires the Company to make monthly lease payments of approximately $12,500. This lease contains options for three additional five year periods.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(9) Lease Commitments, continued**

Lease commitments at March 31, 2008 are as follows:

| Year Ended March 31, | Amount (in thousands) |
|---|---|
| 2009 | $ 133 |
| 2010 | 150 |
| 2011 | 150 |
| 2012 | 150 |
| 2013 | 150 |
| Total: | $ 733 |

**(10) Related Party Transactions**

One of the Company's directors owns the property located in St. Petersburg, Florida that is currently leased by the Company. Lease payments on this property for the three month period ended March 31, 2008 and for the year ended December 31, 2007 totaled $7,000 and $4,000, respectively. There were no such payments during the periods ended March 31, 2007 (unaudited) or December 31, 2006.

One of the Company's directors receives a consulting fee and software license fees for development and use of premium administration application software. Under this arrangement, the Company incurred $40,000 and $84,000 for the three month period ended March 31, 2008 and for the year ended December 31, 2007, respectively. There were no such payments during the periods ended March 31, 2007 (unaudited) or December 31, 2006.

One of the Company's directors is a partner at a law firm that manages certain of the Company's corporate legal matters. Fees incurred with respect to this law firm for the three month period ended March 31, 2008 and year ended December 31, 2007 amounted to $188,000 and $21,000, respectively. There were no such payments during the periods ended March 31, 2007 (unaudited) or December 31, 2006.

As discussed in Note 9, the Company entered into a lease in April 2008 for office space under an operating lease agreement with one director. The lease requires annual rental payments of $150,000.

**(11) Stock-Based Compensation**

The Company accounts for stock-based compensation under the fair value recognition provisions of SFAS 123(R).

The Company has a stock option plan for directors and employees of the Company. Under the plan, the total number of options which may be granted to purchase common stock is 6,000,000. At March 31, 2008 and December 31, 2007, there were 4,850,000 options remaining and available for grant under the plan. The options vest over periods ranging from immediately vested to five years and are exercisable over the contractual term of ten years.

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(11) Stock-Based Compensation, continued**

A summary of the activity in the Company's stock option plan is as follows (dollars in thousands, except per share amounts):

| | Number of Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2007 | — | $ — | | |
| Granted | 1,300,000 | 2.50 | | |
| Forfeited | (150,000) | 2.50 | | |
| Outstanding at December 31, 2007 and March 31, 2008 | 1,150,000 | $ 2.50 | 9.2 years | $ — |
| Exercisable at March 31, 2008 | 420,000 | $ 2.50 | 9.2 years | $ — |

At March 31, 2008 and December 31, 2007, there was approximately $913,000 and $1,021,000, respectively, of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the plan. At March 31, 2008, the unrecognized compensation expense of $913,000 is expected to be recognized over a weighted-average period of forty-nine months. No options were granted during the three months ended March 31, 2008. The total fair value of shares vesting and recognized as compensation expense was approximately $108,000 and $428,000, respectively for the three month period ended March 31, 2008 and for the year ended December 31, 2007 and the associated income tax benefit recognized was $37,000 and $138,000, respectively.

As part of its implementation of SFAS 123(R), the Company had no historical pattern of option exercises. Therefore, the Company could not identify any patterns in the exercise of options. As such, the Company used the guidance in Staff Accounting Bulletin No. 107 issued by the Securities and Exchange Commission to determine the estimated life of options issued. Expected volatility is based on historical volatility of the similar sized insurance company's stock. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield assumption is based on the Company's historical and expectation of dividend payments.

No options were granted during the three months ended March 31, 2008. The fair value of options granted in 2007 was estimated on the date of grant using the following assumptions and the Black-Scholes option pricing model:

| | Year Ended December 31, 2007 |
|---|---|
| Dividend yield | 0.0% |
| Expected volatility | 48.0% |
| Risk-free interest rate | 3.63% to 4.75% |
| Expected life (in years) | 5.5 to 6.5 |
| Weighted-average fair value of options granted | $1.26 |

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(12) Deferred Acquisition Costs**

Deferred acquisition costs incurred and amortized are as follows (dollars in thousands):

| | Three Month Period Ended March 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|
| Balance, beginning of period | $ 3,163 | — |
| Costs, deferred during the year | 3,435 | 4,689 |
| Amortization charged to expense | (1,912) | (1,526) |
| Balance, end of period | $ 4,686 | 3,163 |

**(13) Subsequent Event**

Effective May 30, 2008, the Company completed the process of incorporating Claddaugh Casualty Insurance Company, Ltd ("Claddaugh") as a Bermuda domiciled reinsurance company. Claddaugh's incorporation required a minimum capital and surplus of $2.0 million, which the Company funded with a $120,000 cash deposit and a $1,880,000 letter of credit. The Company pledged a certificate of deposit, with a $1,880,000 face amount, as collateral for the letter of credit. The Company may enter into a reinsurance treaty with Claddaugh. However, any such treaties may be subject to review and approval of the Florida Office of Insurance Regulation.

On May 29, 2008, the Company's stockholders authorized an increase in authorized common stock to 100,000,000 shares and also approved a 1 for 2.50 reverse common stock split (see Note 15).

**(14) Condensed Financial Information of Homeowners Choice, Inc.**

Condensed financial information of Homeowners Choice, Inc., is as follows (dollars in thousands):

**Balance Sheets**

| | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 374 | 823 |
| Investment in subsidiaries | 17,752 | 13,558 |
| Deferred income taxes | 175 | 138 |
| Other assets | 560 | 218 |
| Total assets | $ 18,861 | 14,737 |

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(14) Condensed Financial Information of Homeowners Choice, Inc., continued**

| | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| **Liabilities and Stockholders' Equity** | | |
| Accrued expenses and other liabilities | 491 | 144 |
| Due to related party | — | 255 |
| Total liabilities | 491 | 399 |
| Stockholders' equity: | | |
| Common stock | — | — |
| Additional paid-in capital | 13,491 | 13,383 |
| Retained earnings | 4,879 | 955 |
| Total stockholders' equity | 18,370 | 14,338 |
| Total liabilities and stockholders' equity | $ 18,861 | 14,737 |

**Statements of Operations**

| | Three Month Period Ended March 31, | | Year Ended December 31, | Period from November 30, 2006 (Inception) to December 31, |
|---|---|---|---|---|
| | 2008 | 2007 (Unaudited) | 2007 | 2006 |
| Investment income | $ 2 | — | 16 | — |
| Preopening expenses | — | (79) | (48) | (62) |
| Other operating expenses | (437) | — | (835) | — |
| Loss before income tax benefit and equity in earnings of subsidiaries | (435) | (79) | (867) | (62) |
| Income tax benefit | 165 | — | 326 | — |
| Net loss before equity in earnings of subsidiaries | $ (270) | (79) | (541) | (62) |
| Equity in earnings of subsidiaries | $4,194 | — | 1,558 | — |
| Net income (loss) | $3,924 | (79) | 1,017 | (62) |

(continued)

**HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(14) Condensed Financial Information of Homeowners Choice, Inc., continued**

**Statements of Cash Flows**

| | Three Month Period Ended March 31, | | Year Ended December 31, 2007 | Period from November 30, 2006 (Inception) to December 31, 2006 |
|---|---|---|---|---|
| | 2008 | 2007 (Unaudited) | | |
| Cash flows from operating activities: | | | | |
| Net income (loss) | $ 3,924 | (79) | 1,017 | (62) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | | |
| Stock-based compensation | 108 | — | 428 | — |
| Equity in earnings of subsidiaries | (4,194) | — | (1,558) | — |
| Deferred income tax benefit | (37) | — | (138) | — |
| Increase in other assets | (342) | — | (218) | — |
| Increase in accrued expense and other liabilities | 347 | 84 | 106 | — |
| Decrease (increase) in due to related parties | (255) | — | 230 | 25 |
| Net cash (used in) provided by operating activities | (449) | 5 | (133) | 1 |
| Cash flows from investing activity- | | | | |
| Investment in subsidiary | — | — | (12,000) | — |
| Cash flows from financing activity- | | | | |
| Proceeds from sale of common stock | — | — | 12,955 | — |
| Net (decrease ) increase in cash and cash equivalents | (449) | 5 | 822 | 1 |
| Cash and cash equivalents at beginning of period | 823 | 1 | 1 | — |
| Cash and cash equivalents at end of period | $ 374 | 6 | 823 | 1 |

**(15) Reverse Common Stock Split**

On May 29, 2008 the shareholders approved, and on June 16, 2008, the Company effected, a 1 for 2.50 reverse split of its issued and outstanding Common Stock. The accompanying consolidated financial statements, notes and other references to share and per share data have been retroactively restated to reflect the reverse stock split for all periods presented.

**(16) Private Placement—Common Stock**

In April 2007, the Company sold 5,182,000 shares of common stock to certain accredited investors at a price of $2.50 per share for an aggregate purchase price of $12,955,000.

**You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**

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**Dealer Prospectus Delivery Obligation**

Until _____, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

HCI

HOMEOWNERS CHOICE

*Insurance for Floridians by Floridians*

**Maximum of 1,666,668 Units**

**Minimum of 1,333,334 Units**

**Each Unit Consisting of One Share of Common Stock and One Warrant**

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**Prospectus**

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**Anderson & Strudwick, Incorporated**

**GunnAllen Financial, Inc.**

## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

### Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses, other than placement agent fees and expenses, payable by the registrant in connection with this offering. All amounts are estimates, except for the Securities and Exchange Commission registration fee and the FINRA filing fee. All of these costs and expenses will be borne by the registrant.

| | |
|---|---|
| Securities and Exchange Commission filing fee | $ 629(1) |
| FINRA filing fee | 1,500 |
| NASDAQ Global Market | 100,000 |
| Transfer agent, warrant agent and Registrar expenses and fees | 1,000 |
| Printing and engraving expenses | 125,000 |
| Accountants' fees and expenses | 50,000 |
| Legal fees and expenses | 350,000 |
| Miscellaneous | 71,871 |
| **Total** | $700,000 |

(1) Rounded up to nearest whole number.

### Item 14. Indemnification of Directors and Officers.

The Florida Business Corporation Act, or FBCA, permits a Florida corporation to indemnify any person who may be a party to any third party proceeding by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, against liability incurred in connection with such proceeding (including any appeal thereof) if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

The FBCA permits a Florida corporation to indemnify any person who may be a party to a derivative action if such person acted in any of the capacities set forth in the preceding paragraph, against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expenses of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding (including appeals), provided that the person acted under the standards set forth in the preceding paragraph. However, no indemnification shall be made for any claim, issue, or matter for which such person is found to be liable unless, and only to the extent that, the court determines that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnification for such expenses which the court deems proper.

The FBCA provides that any indemnification made under the above provisions, unless pursuant to a court determination, may be made only after a determination that the person to be indemnified has met the standard of conduct described above. This determination is to be made by a majority vote of a quorum consisting of the disinterested directors of the board of directors, by duly selected independent legal counsel, or by a majority vote of the disinterested stockholders. The board of directors also may designate a special committee of disinterested directors to make this determination. Notwithstanding, the FBCA provides that a Florida corporation must indemnify any director, or officer, employee or agent of a corporation who has been successful in the defense of any proceeding referred to above.

Notwithstanding the foregoing, the FBCA provides, in general, that no director shall be personally liable for monetary damages to our company or any other person for any statement, vote, decision, or failure to act, regarding corporate management or policy, unless: (a) the director breached or failed to perform his duties as a director; and (b) the director's breach of, or failure to perform, those duties constitutes (i) a violation of criminal law, unless the director had reasonable cause to believe his conduct was lawful or had no reasonable cause to believe his conduct was unlawful, (ii) a transaction from which the director derived an improper personal benefit, either directly or indirectly, (iii) unlawful distributions, (iv) with respect to a proceeding by or in the right of the company to procure a judgment in its favor or by or in the right of a stockholder, conscious disregard for the best interest of the company, or willful misconduct, or (v) with respect to a proceeding by or in the right of someone other than the company or a stockholder, recklessness or an act or omission which was committed in bad faith or with malicious purpose or in a manner exhibiting wanton and willful disregard of human rights, safety, or property. The term "recklessness," as used above, means the action, or omission to act, in conscious disregard of a risk: (a) known, or so obvious that it should have been known, to the directors; and (b) known to the director, or so obvious that it should have been known, to be so great as to make it highly probable that harm would follow from such action or omission.

The FBCA further provides that the indemnification and advancement of payment provisions contained therein are not exclusive and it specifically empowers a corporation to make any other further indemnification or advancement of expenses under any bylaw, agreement, vote of stockholders, or disinterested directors or otherwise, both for actions taken in an official capacity and for actions taken in other capacities while holding an office. However, a corporation cannot indemnify or advance expenses if a judgment or other final adjudication establishes that the actions of the director or officer were material to the adjudicated cause of action and the director or officer (a) violated criminal law, unless the director or officer had reasonable cause to believe his conduct was unlawful, (b) derived an improper personal benefit from a transaction, (c) was or is a director in a circumstance where the liability for unlawful distributions applies, or (d) engages in willful misconduct or conscious disregard for the best interests of the corporation in a proceeding by or in right of the corporation to procure a judgment in its favor or in a proceeding by or in right of a stockholder.

We have adopted provisions in our bylaws providing that our directors, officers, employees, and agents shall be indemnified to the fullest extent permitted by Florida law. Accordingly, we have acquired D & O insurance coverage for our officers and directors.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to our directors or officers pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities Exchange Commission, this indemnification is against public policy as expressed in the Securities Act of 1933, and is therefore unenforceable.

There is no pending litigation or proceeding involving any of our directors, officers, employees, or other agents as to which indemnification is being sought, nor are we aware of any pending or threatened litigation that may result in claims for indemnification by any director, officer, employee or other agent.

**Item 15. Recent Sales of Unregistered Securities**

Since our incorporation in November 2006, we have issued the following securities which were not registered under the Securities Act of 1933.

1. In April 2007, we issued and sold 12,955,000 shares of our common stock at a price of $1.00 per share to a group of accredited investors for an aggregate purchase price of $12,955,000. After the 1-for-2.50 split of our common stock, these accredited investors own 5,182,000 shares of our common stock.

2. On June 1, 2007, we issued options to purchase 2,875,000 shares of common stock employees, officers, directors and consultants under our 2007 Stock Option and Incentive Plan, with a weighted average exercise price of $1.00 per share. After the 1-for-2.50 split of our common stock, there are now 1,150,000 shares of common stock subject to these options, with a weighted exercise price of $2.50 per share.

3. On June 1, 2007, we issued to Anil Patel an option to purchase 50,000 shares of common stock at an exercise price of $1.00 per share. After the 1-for-2.50 split of our common stock, there are now 20,000 shares of common stock subject to the option, with an exercise price of $2.50 per share.

4. On June 1, 2007, we issued to Mark Berset an option to purchase 475,000 shares of common stock at an exercise price of $1.00 per share. After the 1-for-2.50 split of our common stock, there are now 190,000 shares of common stock subject to the option, with an exercise price of $2.50 per share. We issued the option to Mr. Berset for his consultative services and advice regarding industry trends and practices rendered to the Company during its initial formation. Of the 190,000 shares subject to the option, 80,000 shares are currently exercisable. Of the remaining options to purchase 110,000 shares of common stock, the option to purchase 90,000 shares vests at a rate of 5,000 shares per month, and the option to purchase the remaining 20,000 shares vests annually at a rate of 10,000 shares per year. Upon vesting, the option will be fully exercisable.

5. On June 1, 2007, we issued to Jay Burmer an option to purchase 50,000 shares of common stock at an exercise price of $1.00 per share. After the 1-for-2.50 split of our common stock, there are now 20,000 shares of common stock subject to the option, with an exercise price of $2.50 per share.

6. On September 6, 2007, we issued to Paresh Patel an option to purchase 150,000 shares of common stock at an exercise price of $1.00 per share. After the 1-for-2.50 split of our common stock, there are now 60,000 shares of common stock subject to the option, with an exercise price of $2.50 per share. These options were granted to Mr. Patel as compensation for implementing our in-house policy administration function. These options are not exercisable until the fair market value of our common stock is $7.50 per share.

We claimed exemption from registration under the Securities Act for the sales and issuances of securities in the transactions described in paragraphs 1-6 by virtue of Section 4(2) of the Securities Act and by virtue of Rule 506 of Regulation D. Such sales and issuances did not involve any public offering, were made without general solicitation or advertising and each purchaser was an accredited investor with access to all relevant information necessary to evaluate the investment and represented to us that the shares were being acquired for investment.

We claimed exemption from registration under the Securities Act for the sales and issuances of securities in the transactions described in paragraph 2 by virtue of Section 4(2) of the Securities Act and by virtue of Rule 701 promulgated under the Securities Act, in that they were offered and sold either pursuant to written compensatory plans or pursuant to a written contract relating to compensation, as provided by Rule 701. Such sales and issuances did not involve any public offering, were made without general solicitation or advertising, and each purchaser represented its intention to acquire the securities for investment only and not with view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and instruments issued in such transactions. All recipients had adequate access, through their relationships with us, to information about us.

No underwriters were employed in any of the above transactions.

**Item 16. Exhibits and Financial Statement Schedules.**

(a) *Exhibits*. See Exhibit Index.

(b) *Financial Statement Schedules.* Schedules are omitted for the reason that they are not applicable, not required or included in the Consolidated Financial Statements and the related Notes to Consolidated Financial Statements of Homeowners Choice Insurance, Inc. and its subsidiaries.

**Item 17. Undertakings.**

The undersigned registrant hereby undertakes to provide to the placement agents at the closing specified in the placement agent agreement certificates in such denominations and registered in such names as required by the placement agents to permit prompt deliver to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of HCI pursuant to the foregoing provisions, or otherwise, HCI has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against

public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by HCI of expenses incurred or paid by a director, officer or controlling person of HCI in the successful defense of any action, suit, or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, HCI will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Port St. Lucie, State of Florida, on the 8th day of July, 2008.

**HOMEOWNERS CHOICE, INC.**

By: /s/ Francis McCahill, III
**Francis McCahill, III**
**President and Chief Executive Officer**
**(Principal Executive Officer)**

| Signature | Title | Date |
|---|---|---|
| /s/ Francis McCahill, III<br>**Francis McCahill, III** | President, Chief Executive Officer, and Director<br>(Principal Executive Officer) | July 8, 2008 |
| /s/ Richard R. Allen<br>**Richard R. Allen** | Chief Financial Officer<br>(Principal Accounting Officer and Principal Financial Officer) | July 8, 2008 |
| /s/ Paresh Patel<br>**Paresh Patel** | Chairman of the Board of Directors | July 8, 2008 |
| *<br>**Martin A. Traber** | Director | July 8, 2008 |
| *<br>**George Apostolou** | Director | July 8, 2008 |
| *<br>**Sanjay Madhu** | Director | July 8, 2008 |
| *<br>**Krishna Persaud** | Director | July 8, 2008 |
| *<br>**Gregory Politis** | Director | July 8, 2008 |
| *<br>**Anthony Saravanos** | Director | July 8, 2008 |
| *<br>**Garth A. Vernon** | Director | July 8, 2008 |

*By: /s/ Paresh Patel
**Paresh Patel**
**Attorney-in-Fact**

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## EXHIBIT INDEX

| Exhibit Number | Document Description |
|---|---|
| 1.1** | Form of Placement Agent Agreement between Homeowners Choice, Inc. and Anderson & Strudwick, Incorporated. |
| 3.1† | Articles of Incorporation for Homeowners Choice, Inc., as amended. |
| 3.2** | Bylaws of Homeowners Choice, Inc., as amended. |
| 4.1* | Specimen Common Stock Certificate. |
| 4.2** | Form of Warrant Agreement between Homeowners Choice, Inc. and American Stock Transfer & Trust Company. |
| 4.3** | Specimen Warrant Certificate. |
| 4.4** | Form of Warrant Agreement between Homeowners Choice, Inc. and Anderson & Strudwick, Incorporated. |
| 4.5** | Form of Warrant Certificate to be issued to Anderson & Strudwick, Incorporated as placement agent. |
| 5.1** | Opinion of Foley & Lardner LLP. |
| 10.1† | Executive Agreement, dated May 1, 2007, by and between Homeowners Choice, Inc. and Francis X. McCahill, III. |
| 10.2† | Executive Agreement, dated May 1, 2007, by and between Homeowners Choice, Inc. and Richard R. Allen. |
| 10.3† | Executive Agreement, dated May 1, 2007, by and between Homeowners Choice, Inc. and Ronald E. Chapman. |
| 10.4† | Separation Agreement and General Release, dated November 29, 2007, between Homeowners Choice, Inc. and Ronald E. Chapman. |
| 10.5† | Consulting Agreement, dated June 1, 2007, by and between Homeowners Choice, Inc. and Scorpio Systems, Inc. |
| 10.6† | 2007 Stock Option and Incentive Plan. |
| 10.7† | Form of Incentive Stock Option Agreement and Incentive Stock Option Agreement – Incorporated Terms and Conditions. |
| 10.8† | ISO Master Agreement – Property/Casualty Insurer, dated November 1, 2007, between Insurance Services Office, Inc. and Homeowners Choice, Inc., as supplemented. |
| 10.9† | Software License and Maintenance Agreement, dated April 8, 2008, by and between Homeowners Choice, Inc. and Scorpio Systems, Inc. |
| 10.10† | PLA Non-Bonus Assumption Agreement, dated June 19, 2007, by and between Homeowners Choice Property and Casualty Insurance Company and Citizens Property Insurance Corporation. |
| 10.11† | Service Contract for Homeowners Claims Handling, dated May 30, 2007, by and between Homeowners Choice Managers, Inc. and Johns Eastern Company, Inc. |
| 10.12† | Policy Administration Agreement between Homeowners Choice Managers, Inc. and Southern Administration, Inc., dated September 15, 2007. |
| 10.13† | Excess Catastrophe Reinsurance Contract, effective July 1, 2007, issued to Homeowners Choice Property and Casualty Insurance Company by the Subscribing Reinsurers executing the Interests and Liabilities Agreements attached thereto. |
| 10.14† | Addendum No. 1 to the Excess Catastrophe Reinsurance Contract, effective July 1, 2007, issued to Homeowners Choice Property and Casualty Insurance Company and Addendum No. 1 to the Interests and Liabilities Agreements executed by the Subscribing Reinsurers. |

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| Exhibit Number | Document Description |
|---|---|
| 10.15† | Excess Per Risk Reinsurance Contract, effective January 1, 2008, issued to Homeowners Choice Property and Casualty Insurance Company by the Subscribing Reinsurers executing the Interests and Liabilities Agreements attached thereto. |
| 10.16† | Managing General Agency Agreement, dated March 30, 2007, between Homeowners Choice Managers, Inc. and Homeowners Choice Property and Casualty Insurance Company, Inc. |
| 10.17† | Assignment of Lease to Homeowners Choice, Inc. by Cypress Underwriters, Inc., dated July 31, 2007 (original Master Lease attached). |
| 10.18† | Lease Agreement between Homeowners Choice, Inc., and 2340 Drew St, LLC, dated April 8, 2008. |
| 10.19** | Voting Agreement between Homeowners Choice, Inc. and the shareholders executing a counterpart signature page to the Voting Agreement, as amended. |
| 10.20** | Form of Escrow Agreement between Anderson & Strudwick, Incorporated, Homeowners Choice, Inc., and SunTrust Bank, N.A. |
| 21.1† | Subsidiaries of the Registrant. |
| 23.1** | Consent of Hacker, Johnson & Smith PA. |
| 23.2** | Consent of Foley & Lardner LLP (contained in Exhibit 5.1). |
| 24.1† | Power of Attorney *(included on signature pages hereto)*. |

* To be filed by amendment
** Filed herewith
† Previously filed

**Exhibit 1.1**

**HOMEOWNERS CHOICE, INC.**

**Public Offering of Units Constituting Common Stock**
**and Warrants to Purchase Common Stock**

**Maximum: 1,666,668 Units**
**Minimum: 1,333,334 Units**

**PLACEMENT AGREEMENT**

, 2008

Anderson & Strudwick, Incorporated, as representative
of the placement agents listed on Schedule I hereto (the "Placement Agents")
707 East Main Street, 20th Floor
Richmond, Virginia 23219

Ladies and Gentlemen:

The undersigned, Homeowners Choice, Inc., a Florida corporation (the "Company"), hereby confirms its agreement with you (unless otherwise defined herein, the term "you" shall collectively refer to the Placement Agents) as follows:

1. **Introduction**. This Agreement sets forth the understandings and agreements between the Company and you whereby, subject to the terms and conditions herein contained, you will offer to sell, on a "best efforts basis" on behalf of the Company (the "Offering"), a minimum of 1,333,334, and maximum of 1,666,668 Units (the "Units") each Unit being comprised of one share of the Company's common stock, without par value per share, and one warrant to purchase common stock (the "Warrants"). Two Warrants can be exercised to acquire one share of common stock at an exercise price of $ per share. The Warrants can be exercised at any time after the closing of the Offering and ending at the end of the month following the fifth anniversary of the closing of the Offering, provided that such Warrants have not been canceled pursuant to their terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Prospectus prepared by the Company and dated , 2008 (the "Prospectus").

2. **Representations and Warranties of the Company**. The Company makes the following representations and warranties to you:

(a) Registration Statement and Prospectus. The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (File No. 333-150513) (as defined below, the "Registration Statement") conforming to the requirements of the Securities Act of 1933, as amended (the "1933 Act"), and the applicable rules and regulations (the "Rules and Regulations") of the Commission. Such amendments to such Registration Statement as may have been required prior to the date hereof

have been filed with the Commission, and such amendments have been similarly prepared. Copies of the Registration Statement, any and all amendments thereto prepared and filed with the Commission, and each related Preliminary Prospectus, and the exhibits, financial statements and schedules, as finally amended and revised, have been delivered to you for review. The term "Registration Statement" as used in this Agreement shall mean the Company's Registration Statement on Form S-1, including the Prospectus, any documents incorporated by reference therein, and all financial schedules and exhibits thereto, as amended on the date that the Registration Statement becomes effective, and any registration statement related to the Offering that is filed pursuant to Rule 462(b) of the 1933 Act. The term "Prospectus" as used in this Agreement shall mean the prospectus relating to the Units in the form in which it was filed with the Commission pursuant to Rule 424(b) of the 1933 Act or, if no filing pursuant to Rule 424(b) of the 1993 Act is required, shall mean the form of the final prospectus included in the Registration Statement when the Registration Statement becomes effective. The term "Preliminary Prospectus" shall mean any prospectus included in the Registration Statement before it becomes effective. The terms "effective date" and "effective" refer to the date the Commission declares the Registration Statement effective pursuant to Section 8 of the 1933 Act.

(b) Adequacy of Disclosure. The Preliminary Prospectus, dated , 2008 (the "Preliminary Prospectus"), at the time of filing thereof, conformed in all material respects to the requirements of the 1933 Act and the Rules and Regulations, and did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by you expressly for use in the Registration Statement. The Registration Statement, any post-effective amendment to the Registration Statement, the Prospectus, and any supplement to the Prospectus, as of the applicable effective date and on the Closing Date (as hereinafter defined) as to the Registration Statement, as of the applicable effective date as to any post-effective amendment to the Registration Statement, and as of the applicable filing date with the Commission as to the Prospectus and any supplement thereto (i) will conform in all material respects with the applicable requirements of the 1933 Act and the Rules and Regulations, and (ii) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by you expressly for use in the Registration Statement.

(c) No Stop Order. The Commission has not issued any order preventing or suspending the use of the Preliminary Prospectus with respect to the Units, and no proceedings for that purpose have been instituted or, to the Company's knowledge, threatened by the Commission or the state securities or blue sky authority of any jurisdiction.

(d) Company; Organization and Qualification. The Company has been duly incorporated and is validly existing and of active status as a corporation under the laws of the State of Florida with all requisite corporate power and authority to enter into this Agreement, to

conduct its business, and to own and operate its properties, investments and assets, as described in the Registration Statement and Prospectus. The Company is not in violation of any provision of its Articles of Incorporation, Bylaws or other governing documents and is not in default under or in breach of, and does not know of the occurrence of any event that with the giving of notice or the lapse of time or both would constitute a default under or breach of, any term or condition of any agreement or instrument to which it is a party or by which any of its properties, investments or assets is bound, except as disclosed in the Registration Statement and Prospectus or except as would not, individually or in the aggregate, result in any material adverse effect on the business, financial position, shareholders' equity or results of operations of the Company (a "Material Adverse Effect"). Except as noted in the Prospectus, the Company does not own or control, directly or indirectly, any other corporation, association, or other entity. The Company has furnished to you copies of its Articles of Incorporation and Bylaws, as amended, and all such copies are true, correct and complete and contain all amendments thereto through the Closing Date.

(e) Validity of Units. The Units and the securities underlying the Units have been duly and validly authorized by the Company and upon issuance against payment therefor as provided herein, will be validly issued, fully paid and non-assessable, and will conform to the description thereof contained in the Prospectus. The preferences, rights and limitations of the Units and the securities underlying the Units are set forth in the Prospectus under the caption "Description of Capital Stock." No party has any preemptive rights with respect to any of the Units or the securities underlying the Units or any right of participation or first refusal with respect to the sale of the Units or the securities underlying the Units by the Company. No person or entity holds a right to require or participate in the registration under the 1933 Act of the Units or the securities underlying the Units pursuant to the Registration Statement. Except as set forth in the Prospectus, no person holds a right to require registration under the 1933 Act of any security of the Company at any other time. The form of certificates evidencing the securities underlying the Units comply with all applicable requirements of Florida law.

(f) Capitalization. The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" (subject to the exercise of existing stock options and warrants disclosed as outstanding in the Registration Statement and the grant of securities under existing equity incentive plans described in the Registration Statement). All shares of the issued and outstanding common stock of the Company have been duly authorized, validly issued, fully paid and non-assessable. Except as disclosed in the Registration Statement, there is no outstanding option, warrant or other right calling for the issuance of capital stock of the Company.

(g) Full Power; Company. The Company has full legal right, power, and authority to enter into this Agreement and the Escrow Agreement among the Company, SunTrust Bank, N.A. (the "Escrow Agent") and you (the "Escrow Agreement"), to issue and deliver the Units and the securities underlying the Units as provided herein and in the Prospectus and to consummate the transactions contemplated herein and in the Prospectus. Each of this Agreement and the Escrow Agreement have been duly authorized, executed, and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable in accordance with its terms, except to the extent that enforceability may be limited by (i) bankruptcy, insolvency,

moratorium, liquidation, reorganization, or similar laws affecting creditors' rights generally, regardless of whether such enforceability is considered in equity or at law, (ii) general equity principles, and (iii) limitations imposed by federal and state securities laws or the public policy underlying such laws regarding the enforceability of indemnification or contribution provisions.

(h) Disclosed Agreements. All agreements between or among the Company and third parties expressly referenced in the Prospectus are legal, valid, and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except to the extent enforceability may be limited by (i) bankruptcy, insolvency, moratorium, liquidation, reorganization, or similar laws affecting creditors' rights generally, regardless of whether such enforceability is considered in equity or at law, (ii) general equity principles and (iii) limitations imposed by federal or state securities laws or the public policy underlying such laws regarding the enforceability of indemnification or contribution provisions.

(i) Consents. Provided that no person or entity acquires 5% or more of the ownership or control of the Company in this Offering, except as disclosed in the Registration Statement and Prospectus, each consent, approval, authorization, order, license, certificate, permit, registration, designation or filing by or with any governmental agency or body or any other third party necessary for the valid authorization, issuance, sale and delivery of the Units and the securities underlying the Units, the execution, delivery and performance of this Agreement and the consummation by the Company of the transactions contemplated hereby and by the Registration Statement and Prospectus, except such as may be required under the 1933 Act, the Securities Exchange Act of 1934, as amended (the "1934 Act"), or under state securities laws has been made or obtained and is in full force and effect.

(j) Litigation. There is not pending or, to the knowledge of the Company, threatened or contemplated, any action, suit, proceeding, inquiry, or investigation before or by any court or any governmental authority or agency to which the Company may be a party, or to which any of the properties or rights of the Company may be subject, that is not described in the Registration Statement and Prospectus and (i) that may reasonably be expected to result in a Material Adverse Effect or (ii) that may reasonably be expected to adversely affect the consummation of the transactions contemplated by this Agreement.

(k) Financial Statements. The financial statements of the Company together with related schedules and notes included in the Registration Statement and Prospectus fairly present in all material respects the consolidated financial position of the Company as of the dates indicated and the consolidated results of operations and cash flows for the periods specified. Such financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("US GAAP") applied on a consistent basis during the periods involved. The unaudited financial information (including the related notes) incorporated by reference into the Prospectus or the Preliminary Prospectus, if any, complies as to form in all material respects to the applicable accounting requirements of the 1933 Act and the Rules and Regulations, and management of the Company believes that the assumptions underlying any adjustments are reasonable. Such adjustments have been properly applied to the historical amounts in the compilation of the information and such information fairly presents in all material respects with respect to the Company the financial position, results of operations and other

information purported to be shown therein at the respective dates and for the respective periods specified.

(l) Independent Accountants. Hacker Johnson & Smith, P.A., who have audited certain financial statements of the Company and its subsidiaries, are independent public accountants as required by the 1933 Act and the Rules and Regulations.

(m) Disclosed Liabilities. The Company has not sustained, since December 31, 2007, any material loss or interference with its business from fire, explosion, flood, hurricane, accident, or other calamity, whether or not covered by insurance, or from any labor dispute or arbitrators' or court or governmental action, order, or decree, otherwise than as set forth or contemplated in the Registration Statement and Prospectus. Since the respective dates as of which information is given in the Registration Statement and Prospectus, and except as otherwise stated in the Registration Statement and Prospectus, there has not been (i) any material change in the capital stock of the Company, (ii) any material adverse change, or any development that could reasonably be expected to result in a prospective material adverse change in the business, properties, assets, results of operations or condition (financial or other) of the Company, (iii) any liability or obligation, direct or contingent, incurred or undertaken by the Company that is material to the business or financial condition of the Company, except for liabilities or obligations incurred in the ordinary course of business, (iv) any declaration or payment of any dividend or distribution of any kind on or with respect to the capital stock of the Company, or (v) any transaction that is material to the Company, except transactions in the ordinary course of business or as otherwise disclosed in the Registration Statement and Prospectus.

(n) Required Licenses and Permits. Except as disclosed in the Prospectus, the Company owns, possesses, has obtained or in the ordinary course of business will obtain, and has made available for your review, all permits, licenses, franchises, certificates, consents, orders, approvals, and other authorizations of governmental or regulatory authorities as are necessary to own or lease, as the case may be, and to operate its properties and to carry on its business as presently conducted, or as contemplated in the Prospectus to be conducted (the "Permits"), except for such permits, licenses, franchises, certificates, consents, orders, approvals, and other authorizations, the failure of which to have or maintain would not, individually or in the aggregate, have a Material Adverse Effect, and the Company has not received any notice of proceedings relating to revocation or modification of any such Permits, except where such revocation or modification would not have a Material Adverse Effect.

(o) Internal Accounting Measures. The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-14 and 15d-14 under the Exchange Act), which are designed to ensure that material information relating to the Company is made known to the Company's principal executive officer and its principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Upon the effectiveness of the Registration Statement, the Company will be in compliance in all material respects with all provisions of the Sarbanes-Oxley Act of 2002 that are effective and applicable to the Company as of such date as an "issuer" as defined under the Sarbanes-Oxley Act of 2002.

(p) Taxes. The Company has filed all tax returns required to be filed by the Company and has timely paid all material taxes shown as due thereon, other than those being contested in good faith. There are no ongoing audits of any federal, state or local tax return of the Company. The Company has made appropriate provisions in the financial statements included in the Prospectus for all tax liabilities of the Company that have not been determined as of such date, except to the extent it would not have a Material Adverse Effect.

(q) Compliance with Instruments. The execution, delivery and performance of this Agreement and the Escrow Agreement, the compliance with the terms and provisions hereof and the consummation of the transactions contemplated herein, therein and in the Registration Statement and Prospectus by the Company, do not and will not violate or constitute a breach of, or default under (i) the Articles of Incorporation or Bylaws of the Company; (ii) any of the terms, provisions, or conditions of any material instrument, agreement, or indenture to which the Company is a party or by which it is bound or by which its business, assets, investments or properties may be affected; or (iii) any order, statute, rule, or regulation applicable to the Company, or any of its business, investments, assets or properties, of any court or (to the knowledge of the Company) any governmental authority or agency having jurisdiction over the Company, or any of its business, investments, properties or assets; and to the knowledge of the Company do not and will not result in the creation or imposition of any lien, charge, claim, or encumbrance upon any property or asset of the Company.

(r) Insurance. The Company maintains insurance (issued by insurers of recognized financial responsibility) of the types and in the amounts generally deemed adequate for its business and, to the knowledge of the Company, consistent with insurance coverage maintained by similar companies and similar businesses, all of which insurance is in full force and effect.

(s) Work Force. To the knowledge of the Company, no general labor problem exists or is imminent with the employees of the Company.

(t) Securities Matters. The Company and its officers, directors, or affiliates have not taken and will not take, directly or indirectly, any action designed to, or that might reasonably be expected to, cause or result in or constitute the stabilization or manipulation of any security of the Company or to facilitate the sale or resale of the Units.

(u) Payment of Commissions and Fees. Except as stated in or contemplated by the Prospectus, neither the Company nor any affiliate of the Company has paid or awarded, nor will any such person pay or award, directly or indirectly, any commission or other compensation to any person engaged to render investment advice to a potential purchaser of Units as an inducement to advise the purchase of Units.

(v) Company Intellectual Property. Except as disclosed in the Registration Statement and Prospectus:

(i) the Company owns, possesses, licenses or has other rights to use the patents and patent applications, copyrights, trademarks, service marks, trade names, technology, know-how (including trade secrets and other unpatented and/or unpatentable proprietary rights) and other intellectual property (or could acquire such intellectual property upon commercially reasonable terms) necessary to conduct its business in the manner in which it is being conducted (collectively, the "Company Intellectual Property");

(ii) to the Company's knowledge, none of the patents owned or licensed by the Company, if any, is unenforceable or invalid, and, to the Company's knowledge, none of the patent applications owned or licensed by the Company would be unenforceable or invalid if issued as patents;

(iii) the Company is not obligated to pay a royalty, grant a license, or provide other consideration to any third party in connection with the Company Intellectual Property other than as disclosed in the Prospectus and other than for in-bound "shrink-wrap" end-user licenses and similar generally available commercial end-user licenses;

(iv) the Company has not received any notice of violation or conflict with rights of others with respect to the Company Intellectual Property;

(v) there are no pending or, to the Company's knowledge, threatened actions, suits, proceedings or claims by others that the Company is infringing any patent, trade secret, trade mark, service mark, copyright or other intellectual property or proprietary right; and

(vi) the products or processes of the Company referenced in the Prospectus do not, to the knowledge of the Company, violate or conflict with any intellectual property or proprietary right of any third person.

(w) Forward Looking Statement. No forward-looking statement (within the meaning of Section 27A of the Act and Section 21E of the Exchange Act) contained in the Registration Statement, the Preliminary Prospectus or the Prospectus has been made or reaffirmed without a reasonable basis or has been disclosed other than in good faith.

(x) Industry and Market Statistics. The industry-related and market-related statistics obtained from independent industry publications and reports and included in the Registration Statement and the Prospectus agree with the sources from which they are derived. The Company has provided copies of all such sources to you.

(y) Company/Director Relationships. No relationship exists between or among the Company and any director, officer, stockholder or affiliate of the Company which is required by the 1933 Act and the Rules and Regulations to be described in the Registration Statement or the Prospectus which is not so described and described as required in material compliance with such requirement. There are no outstanding loans, advances (except advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the

Company to or for the benefit of any of the officers or directors of the Company or any of their respective family members.

3. **Representations and Warranties of Placement Agent** Each of you represents and warrants to the Company that:

(a) FINRA Membership. You are a member in good standing of the Financial Industry Regulatory Authority ("FINRA") and are duly registered as a broker-dealer under the 1934 Act, and under the laws of each state in which you propose to offer the Units, except where such registration would not be required by law.

(b) Full Power. This Agreement has been duly authorized, executed and delivered by you and is a valid and binding agreement of you, enforceable in accordance with its terms, except to the extent that enforceability may be limited by (i) bankruptcy, insolvency, moratorium, liquidation, reorganization, or similar laws affecting creditors' rights generally, regardless of whether such enforceability is considered in equity or at law, (ii) general equity principles, and (iii) limitations imposed by federal and state securities laws or the public policy underlying such laws regarding the enforceability of indemnification or contribution provisions.

(c) Compliance with Instruments. The consummation of the transactions contemplated by the Prospectus relating to the Offering will not violate or constitute a breach of, or default under, your articles of incorporation or bylaws, or any material instrument, agreement, or indenture to which you are a party, or violate any order, statute, rule or regulation applicable to you of any court, federal or state regulatory body or administrative agency having jurisdiction over you or your property.

(d) Offering. You have not distributed and will not distribute, prior to the time of purchase, any "issuer free writing prospectus" as defined in Rule 433 of the 1933 Act. Assuming compliance by the Company with all relevant provisions of the 1933 Act in connection with the Prospectus, you will conduct all offers and sales of the Units in compliance with the relevant provisions of the Act and various state securities laws and regulations.

4. **Sale of Units**.

(a) Exclusive Agency. Upon the basis of the representations and warranties of the Company and the Placement Agent set forth in this Agreement, the Company engages you and you agree to act as the Company's exclusive agents, on a best efforts basis, in connection with the offer and sale by the Company during the Offering Period (as defined in Section 4.(c)), a minimum of 1,333,334 Units and a maximum of 1,666,668 Units. During the Offering Period, the Company will not sell or agree to sell any debt or equity securities otherwise than through you. Subject to your commitment to the sell the Units on a "best efforts basis" as provided herein, nothing in this Agreement shall prevent you from entering into an agency agreement, underwriting agreement, or other similar agreement governing the offer and sale of securities with any other issuer of securities, and nothing contained herein shall be construed in any way as precluding or restricting your right to sell or offer for sale securities issued by any other person, including securities similar to, or competing with, the Units. It is understood between the parties

that there is no firm commitment by you to purchase any or all of the Units and you shall have no authority to bind the Company in respect of the sale of any Units. You may retain other brokers or dealers to act as subagents on your behalf in connection with the offering and sale of the Units; provided, however, that the Company will only be obligated to pay you for services rendered hereunder.

(b) Obligation to Offer Units. Your obligation to offer the Units is subject to receipt by you of written advice from the Commission that the Registration Statement is effective, is subject to the Units being qualified for offering under applicable laws in the states as may be reasonably designated by you, is subject to the absence of any prohibitory action by any governmental body, agency, or official, and is subject to the terms and conditions contained in this Agreement and in the Registration Statement.

(c) Offering Termination Date. The "Offering Period" shall commence on the day that the Prospectus is first made available to prospective investors in connection with the offering for sale of the Units and shall continue until the "Offering Termination Date," which shall be the earliest of (i) the date the maximum number of Units (1,666,668) offered have been sold, (ii) September 30, 2008**,** or (iii) such other date mutually agreeable to the parties hereto. The Company and you agree that unless the minimum number of Units (1,333,334) offered are sold on or before the Offering Termination Date, the agency between the Company and you will terminate, and the full proceeds that have been paid for the Units will be returned to the purchasers.

(d) Escrow Agent. Prior to the sale of all of the Units, all funds received from purchasers of the Units shall be placed in an escrow account (the "Escrow Account") with the Escrow Agent pursuant to the Escrow Agreement, the form of which is attached as an exhibit to the Registration Statement, and all payments of, from or on account of such funds shall be made pursuant to the Escrow Agreement. In the event that the minimum number of Units are not sold on or before the Offering Termination Date, all funds then held in the Escrow Account shall be returned promptly to the respective purchasers as provided in the Escrow Agreement.

(e) Closing Date. As and when the closing of the Offering is effected, which shall be on or before the Offering Termination Date, and proceeds from the Units sold are received and accepted, on such date (the "Closing Date") and at such time and place as determined by you (which determination shall be subject to the satisfaction on such date of the conditions contained herein), the funds received from purchasers will be delivered by the Escrow Agent to the Company, by wire transfer of immediately available funds, on the Closing Date pursuant to the provisions of Section 4.(f) of this Agreement.

(f) Selling Commissions. In consideration for your execution of this Agreement and for the performance of your obligations hereunder, the Company agrees to pay Anderson & Strudwick, Incorporated, as provided in Section 4.(e) of this Agreement, by wire transfer of immediately available funds on the Closing Date, if any, a Selling Commission computed at the rate of seven percent (7%) of the public offering price of the Units sold in the Offering. Anderson & Strudwick, Incorporated will allocate such fee among the Placement Agents in accordance with the terms of the agreements among the Placement Agents. In

addition, on the Closing Date, the Company will sell to Anderson & Strudwick, Incorporated a warrant to purchase that number of shares of the Company's common stock equal to ten percent (10%) of the number of Units placed in the Offering. The warrant will be substantially in the form of Exhibit A attached to this Agreement. The purchase price of the warrant shall be calculated by multiplying $0.001 by the number of shares of the Company's common stock underlying the warrant.

(g) Finder's Fees. Except as set forth in the Registration Statement or Prospectus, neither you nor the Company, directly or indirectly, shall pay or award any finder's fee, commission, or other compensation to any person engaged by a potential purchaser for investment advice as an inducement to such advisor to advise the purchaser of the Units or for any other purpose.

(h) Delivery of Units. Delivery of the Units and the securities underlying the Units shall be made at your offices or at such other place as shall be agreed upon by the Company and you, on such date as you may request (each a "Date of Delivery"). Such securities shall be issued in such denominations and registered in such names as you may request in writing at least three full business days before the Date of Delivery.

5. **Covenants**.

(a) Covenants of the Company. The Company covenants with you as follows:

(i) Notices. Until and including the Closing Date, the Company immediately will notify you, and confirm such notice in writing, (A) of any fact that would make inaccurate any representation or warranty by the Company, and (B) of any change in facts on which your obligation to perform under this Agreement is dependent.

(ii) Effectiveness of Registration Statement. The Company will use its best efforts to cause the Registration Statement to become effective (if not yet effective at the date and time this Agreement is executed and delivered by the parties hereto). If the Company elects to rely upon Rule 430A of the Rules and Regulations or the filing of the Prospectus is otherwise required under Rule 424(b) of the Rules and Regulations, and subject to the provisions of Section 5(a)(iii) of this Agreement, the Company will comply with the requirements of Rule 430A and will file the Prospectus, properly completed, pursuant to the applicable provisions of Rule 424(b) within the time prescribed. The Company will notify you immediately, and confirm the notice in writing, (i) when the Registration Statement, or any post-effective amendment to the Registration Statement, shall have become effective, or any supplement to the Prospectus, or any amended Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission to amend the Registration Statement or amend or supplement the Prospectus or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of any order preventing or suspending the use of any Preliminary Prospectus or the suspension of the qualification of the Units or the securities underlying the Units for offering or sale in any jurisdiction, or of the institution or threatening of any proceeding for any such purposes. The Company will use all reasonable efforts to prevent the issuance of any such stop order or of any

order preventing or suspending such use and, if any such order is issued, to obtain the withdrawal thereof at the earliest possible moment.

(iii) Amendments to Registration Statement and Prospectus. The Company will not at any time file or make any amendment to the Registration Statement, or any amendment or supplement (i) to the Prospectus, if the Company has not elected to rely upon Rule 430A, or (ii) if the Company has elected to rely upon Rule 430A, to either the Prospectus included in the Registration Statement at the time it becomes effective or to the Prospectus filed in accordance with Rule 424(b), in either case if you shall not have previously been advised and furnished a copy thereof a reasonable time prior to the proposed filing, or if you or your counsel shall reasonably object to such amendment or supplement; provided, however, that if you shall have objected to such amendment or supplement, you shall cease your efforts to sell the Units until an amendment or supplement is filed.

(iv) Delivery of Registration Statement. The Company has delivered to you or will deliver to you, without expense to you, at such locations as you shall request, as soon as the Registration Statement or any amended Registration Statement is available, such number of signed copies of the Registration Statement as originally filed and of amended Registration Statements, if any, copies of all exhibits and documents filed therewith, and signed copies of all consents and certificates of experts, as you may reasonably request.

(v) Delivery of Prospectus. The Company will deliver to you at its expense, from time to time, as many copies of the Preliminary Prospectus as you may reasonably request, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will deliver to you at its expense, as soon as the Registration Statement shall have become effective and thereafter from time to time as requested during the period when the Prospectus is required to be delivered under the 1933 Act, such number of copies of the Prospectus (as supplemented or amended) as you may reasonably request. Until and including the Closing Date, the Company will comply to the best of its ability with the 1933 Act and the Rules and Regulations so as to permit the completion of the distribution of the Units as contemplated in this Agreement and in the prospectus. If the delivery of a prospectus is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Units and if at such time any events shall have occurred as result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made when such Prospectus is delivered not misleading or, if for any reason it shall be necessary during the same period to amend or supplement the Prospectus in order to comply with the 1933 Act, the Company will notify you and upon your request prepare and furnish without charge to you and to any dealer in securities as many copies as you may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus that will correct such statement or omission or effect such compliance, and in case you are required to deliver a prospectus in connection with sales of any of the Units, upon your request but at your expense, the Company will prepare and deliver to you as many copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the 1933 Act.

(vi) Blue Sky Qualification. The Company, in good faith and in cooperation with you, will use its best efforts to qualify the Units for offering and sale under (or obtain exemptions from the application of) the applicable "blue sky" or securities laws of such jurisdictions as you from time to time may reasonably designate and to maintain such qualifications in effect until the date on which the Company ceases to be obligated to maintain the effectiveness of the Registration Statement; provided, however, that the Company shall not be obligated to qualify as a foreign corporation in any jurisdiction in which it is not so qualified or to make any undertakings in respect of doing business in any jurisdiction in which it is not otherwise so subject or to take any action that would subject it to general service of process in any such jurisdiction where it is not currently qualified or where it would be subject to taxation as a foreign corporation where it is not now so subject. The Company will file such statements and reports as may be required by the laws of each jurisdiction in which the Units have been qualified as above provided.

(vii) Application of Net Proceeds. The Company will apply the net proceeds received from the sale of the Units in all material respects as set forth in the Prospectus under the caption "Use of Proceeds."

(viii) Cooperation with Your Due Diligence. At all times prior to the Offering Termination Date, the Company will cooperate with you in such investigation as you may make or cause to be made of all the business and operations of the Company in connection with the sale of the Units, and will make available to you in connection therewith such information in its possession as you may reasonably request, all of which you agree to safeguard as the confidential information of the Company and to refrain from using for any purpose adverse to the interests of the Company.

(ix) Transfer Agent. The Company will maintain a transfer agent and, if necessary under applicable jurisdictions, a registrar (which may be the same entity as the transfer agent) for the Units and the securities underlying the Units.

(x) Nasdaq. The Company will use its reasonable best efforts to maintain the quotation of the Units and the securities underlying the Units on The Nasdaq Global Market.

(xi) Actions of Company, Officers, Directors, and Affiliates. The Company will not and will use its best efforts to cause its officers, directors, and affiliates not to (i) take, directly or indirectly, prior to termination of the Offering contemplated by this Agreement, any action designed to stabilize or manipulate the price of any security of the Company, or that may cause or result in, or that might in the future reasonably be expected to cause or result in, the stabilization or manipulation of the price of any security of the Company, to facilitate the sale or resale of any of the Units or any security underlying the Units, (ii) other than under this Agreement, sell, bid for, purchase, or pay anyone any compensation for soliciting purchases of the Units or (iii) pay or agree to pay to any person any compensation for soliciting any order to purchase any other securities of the Company.

(b) Your Covenants. You covenant with the Company as follows:

(i) Information Provided. You have not provided and will not provide to the purchasers of Units any written or oral information regarding the business of the Company, including any representations regarding the Company's financial condition or financial prospects, other than such information as is contained in the Prospectus. You further covenant that you will use your best efforts to comply in the offering of the Units with such purchaser suitability requirements as may be imposed by state securities or blue sky requirements.

(ii) Prospectus Supplements. Until the termination of this Agreement, if any event affecting the Prospectus, the Company or you shall occur which, in the opinion of counsel to the Company, should be set forth in a supplement to the Prospectus, you agree to distribute each supplement of the Prospectus to each person who has previously received a copy of the Prospectus from you and you further agree to include such supplement in all future deliveries of the Prospectus. You agree that following notice from the Company that a supplement to the Prospectus is necessary, you will cease further efforts to sell the Units until such a supplement is prepared and delivered to you.

(iii) Compliance with Laws, Etc. In connection with or in contemplation of your sale of the Units, you will comply in all material respects with applicable federal and state laws, rules and regulations and the rules and regulations of applicable self-regulatory organizations (provided, however, that you shall be deemed not to have breached this covenant if your failure to so comply is based on a breach by the Company of any of its representations, warranties or covenants contained in this Agreement and you shall have complied with Section 5(b)(ii) above).

6. Payment of Expenses. Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, and subject to the provisions of Section 10 of this Agreement, the Company hereby agrees that it will pay all fees and expenses incident to the performance of its obligations under this Agreement (excluding fees and expenses of counsel for you, except as specifically set forth below), including (a) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits), as originally filed and as amended, the Preliminary Prospectuses and the Prospectus and any amendments or supplements thereto, and the cost of furnishing copies thereof to you, (b) the preparation, printing, and distribution of this Agreement, the certificates representing the Units (and the securities underlying the Units), the Blue Sky Memoranda, and any instruments relating to any of the foregoing, (c) the issuance and delivery of the Units (and the securities underlying the Units), including any transfer taxes payable thereon, (d) the fees and disbursements of the Company's counsel and accountants, (e) the qualification of the Units under applicable securities laws in accordance with Section 5(a)(vi) of this Agreement, including filing fees and fees and disbursements made in connection therewith and in connection with the Blue Sky Memoranda supplied to you by counsel for the Company, and any filing fee paid in connection with the review of the Offering by FINRA (f) all costs, fees, and expenses in connection with the application for qualifying the Units (and the securities underlying the Units) for quotation on the Nasdaq Global Market, (g) the transfer agent's and registrar's fees and all miscellaneous expenses referred to in the Registration Statement, (h) costs related to travel and lodging incurred

by the Company and its representatives relating to meetings with and presentations to prospective purchasers of the Units reasonably determined by you to be necessary or desirable to effect the sale of the Units to the public, (i) any escrow arrangements in connection with the transactions described herein, including any compensation or reimbursement to the Escrow Agent for its services as such, and (j) all other costs and expenses incident to the performance of the Company's obligations hereunder that are not otherwise specifically provided for in this Section.

7. Conditions of Your Obligations. Your obligations hereunder shall be subject to, in your discretion, the following terms and conditions:

(a) Effectiveness of Registration Statement. The Registration Statement shall have become effective not later than 5:30 p.m. on the date of this Agreement or, at such later time or on such later date as you may agree to in writing; and as of the Closing Date no stop order suspending the effectiveness of the Registration Statement shall have been issued under the 1933 Act and no proceedings for that purpose shall have been instituted or shall be pending or, to your knowledge or the knowledge of the Company, shall be contemplated by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the satisfaction of your counsel.

(b) Closing Date Matters. On the Closing Date, (i) the Registration Statement and the Prospectus, as they may then be amended or supplemented, in all material respects shall conform to the requirements of the 1933 Act and the Rules and Regulations and shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; the Company shall have complied in all material respects with Rule 430A (if it shall have elected to rely thereon) and neither the Registration Statement nor the Prospectus, as they may then be amended or supplemented, (ii) there shall not have been, since the respective dates as of which information is given in the Registration Statement, any material adverse change in the business, prospects, properties, assets, results of operations or condition (financial or otherwise) of the Company whether or not arising in the ordinary course of business, (iii) no action, suit or proceeding at law or in equity shall be pending or, to the Company's knowledge, threatened against the Company that would be required to be set forth in the Prospectus other than as set forth therein and no proceedings shall be pending or, to the knowledge of the Company, threatened against the Company before or by any federal, state or other commission, board or administrative agency wherein an unfavorable decision, ruling or finding could materially adversely affect the business, prospects, assets, results of operations or condition (financial or otherwise) of the Company other than as set forth in the Prospectus, (iv) the Company shall have complied with all agreements and satisfied all conditions on their part to be performed or satisfied on or prior to the Closing Date, and (v) the representations and warranties of the Company set forth in Section 2 of this Agreement shall be accurate in all material respects as though expressly made at and as of the Closing Date. On each Closing Date, you shall have received a certificate executed by the President of the Company, dated as of the Closing Date, to such effect and with respect to the following additional matters: (A) the Registration Statement has become effective under the 1933 Act and no stop order suspending the effectiveness of the Registration Statement or preventing or suspending the use of the Prospectus has been issued, and no proceedings for that purpose have been instituted or are

pending or, to his knowledge, threatened under the 1933 Act; and (B) he has reviewed the Registration Statement and the Prospectus and, when the Registration Statement became effective and at all times subsequent thereto up to the delivery of such certificate, the Registration Statement and the Prospectus and any amendments or supplements thereto contained no untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(c) Opinion of Foley & Lardner LLP. At the Closing Date, you shall receive the opinion of Foley & Lardner LLP, counsel for the Company, in form and substance reasonably satisfactory to you, to the effect of Exhibit B.

(d) Opinion of Your Counsel. At the Closing Date, you shall receive the favorable opinion of Kaufman & Canoles, P.C., your counsel, with respect to such matters as you may reasonably require, and the Company shall have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to pass on such matters.

(e) Independent Public Accountants. At the time that this Agreement is executed by the Company, you shall have received from Hacker Johnson & Smith, P.A., a letter, dated the date hereof, in form and substance satisfactory to you, confirming that they are independent certified public accountants with respect to the Company within the meaning of the 1933 Act and the applicable Rules and Regulations thereunder adopted by the Commission, and stating in effect that:

(i) in their opinion, except as disclosed in the Registration Statement, the consolidated financial statements and financial statement schedules audited by them and included in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related Rules and Regulations adopted by the Commission;

(ii) on the basis of limited procedures (set forth in detail in such letter and made in accordance with such procedures as may be specified by you) not constituting an audit conducted in accordance with generally accepted auditing standards, consisting of (but not limited to) a reading of the latest available unaudited consolidated financial statements of the Company and its subsidiaries, a reading of certain minutes of meetings as set forth in the minute books of the Company, inquiries of certain officials of the Company responsible for financial and accounting matters, and such other inquiries and procedures as may be specified in such letter, nothing came to their attention to cause them to believe that:

(A) any material modifications should be made to the unaudited condensed consolidated financial statements described in a specified section of such letter, included in the Registration Statement, for them to be in conformity with generally accepted accounting principles;

(B) the unaudited condensed consolidated financial statements described in a specified section of such letter do not comply as to form in all material respects

with the applicable accounting requirements of the 1933 Act and the related Rules and Regulations adopted by the Commission;

(C) the unaudited pro forma condensed consolidated financial statements referred to in a specified section of such letter included in the Registration Statement do not comply as to form in all material respects with the applicable accounting requirements of rule 11-02 of Regulation S-X and that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(D) (i) at a specified date not more than five (5) days prior to the date of such letter, there was any change in the capital stock, increase in long-term debt, or decrease in consolidated net current assets or shareholders' equity of the consolidated companies as compared with amounts shown in the [March 31, 2008], condensed consolidated balance sheet included in the Registration Statement, or (ii) for the period from [April 1, 2008] to a specified date not more than five (5) days prior to the date of such letter, there were any decreases, as compared to the corresponding period in the preceding year, in consolidated net sales or in the total or per-share amounts of income before extraordinary items or of net income, except in all instances for changes, increases, or decreases that the Registration Statement discloses have occurred or may occur or that are described in such letter; and

(iii) in addition to the procedures referred to in clause (ii) above and the examination referred to in their report included in the Registration Statement, they have carried out certain specified procedures, not constituting an audit conducted in accordance with generally accepted auditing standards, with respect to certain amounts, percentages, and financial information specified by you that are derived from the general accounting records of the Company, that appear in the Registration Statement or the exhibits or schedules thereto and are specified by you, and have compared such amounts, percentages, and financial information with the accounting records of the Company and with material derived from such records and have found them to be in agreement.

(f) Updated Comfort Letter. At the Closing Date, you shall have received from Hacker Johnson & Smith, P.A., a letter, in form and substance satisfactory to you and dated as of the Closing Date, to the effect that they reaffirm the statements made in the letter furnished pursuant to Section 7.(e) above, except that the specified date referred to shall be a date not more than five (5) days prior to the Closing Date.

(g) Post-Financial Developments. In the event that either of the letters to be delivered pursuant to Sections 7.(e) and 7.(f) above sets forth any changes, decreases or increases, it shall be a further condition to your obligations that you shall have reasonably determined, after discussions with officers of the Company responsible for financial and accounting matters and with Hacker Johnson & Smith, P.A., that such changes, decreases or increases as are set forth in such letter do not reflect a material adverse change in the capital stock, long-term debt, obligations under capital leases, total assets, net current assets, or shareholders' equity of the Company as compared with the amounts shown in the latest consolidated pro forma balance sheet of the Company, or a material adverse change in the

revenues or operating income before interest, depreciation and amortization for the Company in each case as compared with the corresponding period of the prior year.

(h) Additional Information. On the Closing Date, you shall have been furnished with all such documents, certificates and opinions as you may reasonably request for the purpose of enabling your counsel to pass upon the issuance and sale of the Units as contemplated in this Agreement and the matters referred to in Section 7.(b), and in order to evidence the accuracy and completeness of, any of the representations, warranties or statements of the Company, the performance of any of the covenants of the Company, or the fulfillment of any of the conditions herein contained; and all proceedings taken by the Company at or prior to the Closing Date in connection with the authorization, issuance and sale of the Units as contemplated in this Agreement, shall be satisfactory in form and substance to you and to your counsel. The Company will furnish you with such number of conformed copies of such opinions, certificates, letters and documents as you shall reasonably request. Any certificate signed by any officer, partner, or other official of the Company and delivered to you or your counsel shall be deemed a representation and warranty by the Company to you as to the statements made therein.

(i) Adverse Events. Subsequent to the date hereof, there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, the Nasdaq, Global, National or Capital Markets or the American Stock Exchange, (ii) the declaration of a general moratorium on commercial banking activities by New York, Virginia, Florida or federal authorities, (iii) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war if the effect of any such event specified in this clause (iii) in your reasonable judgment makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Units on the terms and in the manner contemplated in the Prospectus, (iv) the adoption of any federal or state statute, regulation, rule or order of a court or other governmental authority that, in you reasonable judgment, would result in a Material Adverse Effect or (v) such a material adverse change in general economic, political, financial or international conditions affecting financial markets in the United States having a material adverse impact on trading prices of securities in general, as, in your reasonable judgment, makes it impracticable or inadvisable to proceed with the public offering of the Units or the delivery of the Units on the terms and in the manner contemplated in the Prospectus.

(j) FINRA Review. FINRA, upon review of the terms of the Offering, shall not have objected to the Offering, the terms of the Offering or your participation in the Offering.

(k) Nasdaq Quotation. The Units and the securities underlying the Units shall be approved for quotation on The Nasdaq Global Market.

If any of the conditions specified in this Section 7 shall not have been fulfilled when and as required by this Agreement to be fulfilled, this Agreement may be terminated by you on notice to the Company at any time at or prior to the Closing Date, and such termination shall be without liability of any party to any other party, except as provided in Sections 6 and 10. Notwithstanding any such termination, the provisions of Section 8 shall remain in effect.

If the sale of the Units, as contemplated by this Agreement, is consummated, then the Company shall no longer be under any obligation or liability under the February 13, 2008 letter between you and the Company and such letter agreement shall be terminated.

8. Indemnification and Contribution.

(a) Indemnification by the Company. Subject to the limitations in this paragraph below, the Company will indemnify and hold each of you harmless against any losses, claims, damages, or liabilities (including, without limitation, attorneys' fees, legal expenses, court costs and the costs of paralegal, accounting, financial and other legal and investigative support personnel and all such costs at any appellate level reasonably incurred in connection with defending or investigating any claims), joint or several, to which either of you may become subject under the 1933 Act, the 1934 Act or otherwise, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any breach of any representation, warranty or covenant of the Company herein contained or any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse you for any legal or other expenses reasonably incurred by you in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Preliminary Prospectus, the Registration Statement or the Prospectus, or any such amendment or supplement thereto, in reliance upon and in conformity with written information furnished to the Company by either of you expressly for use therein; provided further, that the indemnity agreement contained in Section 8.(a) with respect to any Preliminary Prospectus shall not inure to your benefit if you failed to send or give a copy of the Prospectus to such person at or prior to the written confirmation of the sale of such Units to such person in any case where such delivery is required by the 1933 Act or the Rules and Regulations and if the Prospectus would have cured any untrue statement or alleged untrue statement or omission or alleged omission giving rise to such loss, claim, damage, or liability. In addition to its other obligations under this Section 8.(a), the Company agrees that, as an interim measure during the pendency of any such claim, action, investigation, inquiry, or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in this Section 8.(a), it will reimburse you on a monthly basis for all reasonable legal and other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry, or other proceeding (to the extent documented by reasonably itemized invoices therefor), notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Company's obligation to reimburse you for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, you shall promptly return it to the person(s) from whom it was received. Any such interim reimbursement payments that are not made to you within thirty (30) days of a request for reimbursement shall bear interest at the prime rate (or reference rate or

other commercial lending rate for borrowers of the highest credit standing) published from time to time by The Wall Street Journal (the "Prime Rate") from the date of such request. This indemnity agreement shall be in addition to any liabilities that the Company may otherwise have. For purposes of this Section 8, the information set forth in the second paragraph on the front cover page (insofar as such information relates to you) and the third and fourth sentences of the third paragraph under the caption "Plan of Distribution" constitutes the only information furnished by you to the Company for inclusion in any Preliminary Prospectus, the Prospectus, or the Registration Statement. The Company will not, without your prior written consent, settle or compromise or consent to the entry of any judgment in any pending or threatened action or claim or related cause of action or portion of such cause of action in respect of which indemnification may be sought hereunder (whether or not you are a party to such action or claim), unless such settlement, compromise, or consent includes an unconditional release of you from all liability arising out of such action or claim (or related cause of action or portion thereof). The indemnity agreement in this Section 8.(a) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls you within the meaning of the 1933 Act or the 1934 Act to the same extent as such agreement applies to you.

(b) Indemnification by You. Subject to the limitations in this paragraph below, each of you, severally and not jointly, will indemnify and hold harmless the Company against any losses, claims, damages, or liabilities (including, without limitation, attorneys' fees, legal expenses, court costs and the costs of paralegal, accounting, financial and other legal and investigative support personnel and all such costs at any appellate level reasonably incurred in connection with defending or investigating any claims) to which the Company may become subject, under the 1933 Act, the 1934 Act, or otherwise, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any breach of any warranty or covenant by you herein contained or any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement, or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that (i) such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement, or the Prospectus or any such amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by you expressly for use therein, or (ii) you failed to deliver an amendment or supplement to the Prospectus that the Company made available to you prior to the Closing Date and that corrected any statement or omission in a Preliminary Prospectus, the Registration Statement or the Prospectus which forms the basis for a claim against the Company, and will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such loss, claim, damage, liability, or action. In addition to its other obligations under this Section 8.(b), you agree that, as an interim measure during the pendency of any such claim, action, investigation, inquiry, or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in this Section 8.(b), you will reimburse the Company on a monthly basis for all reasonable legal and other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry, or other proceeding (to the extent documented by reasonably itemized invoices therefor),

notwithstanding the absence of a judicial determination as to the propriety and enforceability of your obligation to reimburse the Company for such expenses and the possibility that such payments might later been held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Company shall promptly return it to the person(s) from whom it was received. Any such interim reimbursement payments that are not made to the Company within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request. This indemnity agreement shall be in addition to any liabilities that you may otherwise have. You will not, without the Company's prior written consent, settle or compromise or consent to the entry of any judgment in any pending or threatened action or claim or related cause of action or portion of such cause of action in respect of which indemnification may be sought hereunder (whether or not the Company is a party to such action or claim), unless such settlement, compromise, or consent includes an unconditional release of the Company from all liability arising out of such action or claim (or related cause of action or portion thereof). The indemnity agreement in this Section 8(b) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each officer and director of the Company and each person, if any, who controls the Company within the meaning of the 1933 Act or the 1934 Act to the same extent as such agreement applies to the Company.

(c) Notices of Claims; Employment of Counsel. Any party that proposes to assert the right to be indemnified under this Section 8 promptly shall notify in writing each party against which a claim is to be made under this Section 8 of the institution of such action but the omission so to notify such indemnifying party of any such action shall not relieve it from any liability it may have to any indemnified party except (i) to the extent that the omission to notify shall have caused or increased the indemnifying party's liability or resulted in the forfeiture by the indemnifying party of substantial rights or defenses, and (ii) that the indemnifying party shall be relieved of its indemnity obligation for expenses of the indemnified party incurred before the indemnifying party is notified. Such indemnifying party or parties shall assume the defense of such action, including the employment of counsel (reasonably satisfactory to the indemnified party) and payment of fees and expenses. An indemnified party shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless the employment of such counsel shall have been authorized in writing by the indemnifying party or parties in connection with the defense of such action or the indemnifying party or parties shall not have employed counsel to have charge of the defense of such action or such indemnified party or parties shall have been advised by counsel that there may be defenses available to it or them that are different from or additional to those available to such indemnifying party or parties (in which case such indemnifying party or parties shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by such indemnifying party or parties; provided that the indemnifying party shall not be liable for the expenses of more than one separate counsel). Anything in this paragraph to the contrary notwithstanding, an indemnifying party shall not be liable for any settlement of any such claim or action effected without its written consent.

(d) Arbitration. It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in Sections 8(a) and 8(b) hereof, including

the amounts of any requested reimbursement payments, the method of determining such amounts and the basis on which such amounts shall be apportioned among the indemnifying parties, shall be settled by arbitration conducted pursuant to the Code of Arbitration Procedure of FINRA. Any such arbitration must be commenced by service of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the party demanding arbitration does not make such designation of an arbitration tribunal in such demand or notice, then the party responding to said demand or notice is authorized to do so. Any such arbitration will be limited to the operation of the interim reimbursement provisions contained in Sections 8.(a) and 8.(b) hereof and will not resolve the ultimate propriety or enforceability of the obligation to indemnify for expenses that is created by the provisions of Sections 8.(a) and 8.(b).

(e) Contribution. If the indemnification provided for in Section 8.(a) or 8.(b) is unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, claims, damages, or liabilities (or actions in respect thereof) referred to therein, then the Company on the one hand and you on the other shall contribute to the amount paid or payable as a result of such losses, claims, damages, or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and you on the other from the offering of the Units. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then the Company and you shall contribute to such amount paid or payable in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and you on the other in connection with the statements or omissions that resulted in such losses, claims, damages, or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and you on the other shall be deemed to be in the same proportion as the total net proceeds from the Offering (before deducting expenses) received by the Company bear to the total selling commissions received by you in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or allegedly untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or to information with respect to you and furnished by you respectively, in writing specifically for inclusion in the Prospectus on the other and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission. The Company and you agree that it would not be just and equitable if contribution pursuant to this Section 8.(e) were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 8.(e). The amount paid or payable as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this Section 8.(e) shall be deemed to include any legal or other expenses reasonably incurred by any such party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) with respect to the transactions giving rise to the right of contribution provided in this Section 8.(e) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligations in this Section 8.(e) for you to contribute are several in proportion to your respective underwriting obligations and not joint. For purposes of this Section 8.(e), each person, if any, who controls you within the meaning of Section 15 of the

1933 Act shall have the same rights to contribution as you, and each director of the Company who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act, shall have the same rights to contribution as the Company.

9. Representations and Agreements to Survive. Except as the context otherwise requires, all representations, warranties, covenants and agreements contained in this Agreement shall remain operative and in full force and effect regardless of any investigation made by you, or on your behalf, or by any controlling person, or by or on behalf of the Company, and shall survive until the fifth anniversary of the Offering Termination Date and the termination of this Agreement pursuant to Section 10 hereof.

10. Termination of Agreement.

(a) Termination of Agreement. You shall have the right to terminate this Agreement at any time prior to the Closing Date if any of the factors referenced in Section 7(b)(i)-(v) hereof proves to be incorrect or if any of the factors referenced in Section 7(i)(i)-(v) hereof occurs. If you elect to terminate the agreement as provided in this Section 10, you shall notify the Company promptly in writing. You shall have no liability to the Company pursuant to this Agreement or otherwise as a result of any such termination.

(b) Result of Termination.

(i) If:

(A) you should terminate this Agreement upon the breach by the Company of any material term of this Agreement;

(B) the Offering fails to close by September 30, 2008, for reasons within the control of the Company (it being understood that to the extent the Company used reasonable good faith efforts to respond to comments on the Registration Statement from the Commission and any other applicable regulatory body, then the Offering shall not be deemed in accordance with this Agreement to have failed for reasons within the control of the Company);

(D) the Offering fails to close by September 30, 2008 due to reasons beyond the control of the Company or you (other than your inability to sell the Units due to adverse market conditions or as a result of any factor referenced in Section 7.(i) of this Agreement); or

(E) the Company abandons the Offering

then in addition to its obligations with respect to expenses as set forth in Section 6, the Company will reimburse you on demand for all your reasonable out-of-pocket expenses and disbursements (including the fees and expenses of your counsel) actually incurred by you in reviewing the Registration Statement and the Prospectus, and in investigating and making preparations for the marketing of the Units up to a maximum of $75,000. Notwithstanding any other provision of

this Agreement, the amount reimbursable shall not exceed the amount of out-of-pocket accountable expenses actually incurred by you in compliance with Rule 2710(f)(2)(D) of the NASD Rules. In addition, if (I) the Offering is terminated pursuant to Section 10(b)(i)(B) or (E) and (II) within one year of such termination the Company or any successor or affiliated entity should raise equity in any public or private market in excess of $8,000,000 either in one installment or several, the Company will pay Anderson & Strudwick, Incorporated 7% of the gross proceeds of such equity raise, which shall not exceed the maximum gross proceeds of the Offering contemplated by the Registration Statement.

(ii) If the sale of the Units provided for herein is not consummated for any other reason, the Company shall pay expenses as required by Section 6, and neither party shall have any additional liability to the other except for such liabilities, if any, as may exist or thereafter arise under Section 8.

(iii) For purposes of clarification, if the closing of the Offering is not completed by September 30, 2008, this Agreement will expire and the Company will have no further obligation or liability hereunder except as set forth in Sections 6, 8, and 10 hereof and the Placement Agent will have no further obligation or liability hereunder except as set forth in Section 8 hereto.

11. Notices.

(a) Method and Location of Notices. All communications hereunder, except as herein otherwise specifically provided, shall be in writing and shall be sent by overnight courier, hand-delivered or telecopied and confirmed as follows:

To the Company:

Homeowners Choice, Inc.
145 N.W. Central Park Plaza, Suite 115
Port St. Lucie, Florida 34986
Telecopier No.: (772) 204-9399

with a copy to:
Foley & Lardner LLP
100 North Tampa Street, Suite 2700
Tampa, Florida 33602
Attention: Carolyn T. Long, Esquire
Telecopier No.: (813) 221-4210

To the Placement Agents:

Anderson & Strudwick, Incorporated
707 East Main Street
20th Floor
Richmond, Virginia 23219
Attention: Mr. L. McCarthy Downs, III
Telecopier No.: (804) 648-3404

with a copy to:

Kaufman & Canoles, P.C.
Three James Center
1051 East Cary Street, 12th Floor
Richmond, Virginia 23219
Attention: Bradley A. Haneberg, Esquire
Telecopier No.: (804) 771-5777

(b) Time of Notices. Notice shall be deemed to be given by you to the Company or by the Company to you when it is sent by overnight courier, hand-delivered or telecopied as provided in Section 11.(a).

12. Parties. This Agreement shall inure solely to the benefit of and shall be binding upon you, the Company and the controlling persons referred to in Section 8, and their respective successors, legal representatives and assigns. No other person shall have or be construed to have a legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provision herein contained.

13. Governing Law, Construction, and Time. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia. Specified time of day refers to United States Eastern Time. Time shall be of the essence of this Agreement.

14. Description Headings. The descriptive headings of the several sections and paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

15. Counterparts. This Agreement may be executed in one or more counterparts, and if executed in more than one counterpart, the executed counterparts shall together constitute a single instrument.

If the foregoing correctly sets forth the understanding between you and the Company, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between us.

Very truly yours,

Homeowners Choice, Inc.

By: _____

Name: _____

Title: Chief Executive Officer

Date: _____

Confirmed and accepted as of the date first above written:

On behalf of the Placement Agents:

ANDERSON & STRUDWICK, INCORPORATED

By: _____

Name: L. McCarthy Downs, III

Title: Senior Vice President

Date: _____

**SCHEDULE I**

Anderson & Strudwick, Incorporated
GunnAllen Financial, Inc.

**EXHIBIT A**

## Form of Warrant

**See attached.**

**EXHIBIT B**

**Form of Foley & Lardner LLP Opinion**

**See attached.**

# BYLAWS

# OF

# HOMEOWNERS CHOICE, INC.

(As Amended May 29, 2008)

## ARTICLE I. OFFICE

The Corporation may have such offices, either within or without the State of Florida, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

## ARTICLE II. SHAREHOLDERS

**SECTION 1. Annual Meeting**. The annual meeting of the Shareholders shall be held between January 1st and December 31st each year, on such date and at such hour as may be specified in the Notice of Meeting or in a duly executed Waiver of Notice thereof, for the purpose of electing Directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday in the State of Florida, such meeting shall be held on the next succeeding business day. If the election of Directors shall not be held on the day designated herein for any annual meeting of the Shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the Shareholders as soon thereafter as conveniently may be.

**SECTION 2. Special Meetings**. Special meetings of the Shareholders, for any purpose or purposes, may be called by the Board of Directors, by the holders of not less than one-tenth (1/10) of all the shares of the Corporation entitled to vote at the meeting, or by the President of the Corporation.

**SECTION 3. Place of Meeting**. The Board of Directors may designate any place, either within or without the State of Florida, unless otherwise prescribed by statute, as the place of meeting for any annual meeting of Shareholders or for any special meeting of Shareholders called by the Board of Directors. If no designation is made by the Board, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the Corporation in the State of Florida. Notwithstanding the first two sentences of this Section, a Waiver of Notice signed by all Shareholders entitled to vote at a meeting, whether an annual or special meeting, may designate any place, either within or without the State of Florida, unless otherwise prescribed by statute, as the place of the holding of such meeting.

**SECTION 4. Notice of Meeting**. Written or printed notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered to each Shareholder of record entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting, either personally or by first-class mail, by or at the direction of the President, the Secretary, or the person or persons calling the meeting. If mailed, such notice shall be deemed to be delivered

when deposited in the United States mail addressed to the Shareholder at his address as it appears on the records of the Corporation, with the postage thereon prepaid. Notice may be waived in accordance with Article XII.

**SECTION 5. Fixing of Record Date**. The Board of Directors may fix a date, not less than ten (10) nor more than sixty (60) days before the date set for any meeting of the Shareholders, as the record date as of which the Shareholders of record entitled to notice of and to vote at such meeting and any adjournment thereof shall be determined.

**SECTION 6. Quorum**. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of the Shareholders. When a meeting is adjourned to another time or place, it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken, and any business may be transacted at the adjourned meeting that might have been transacted at the original date of the meeting. If, however, after the adjournment, the Board fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given in compliance with Section 4 of this article to each Shareholder of record on the new record date entitled to vote at such meeting. After a quorum has been established at a Shareholders' meeting, the subsequent withdrawal of Shareholders, so as to reduce the number of shares entitled to vote at the meeting below the number required for a quorum, shall not affect the validity of any action taken at the meeting or any adjournment thereof.

**SECTION 7. Proxies.** Every Shareholder entitled to vote at a meeting of Shareholders or to express consent or dissent without a meeting, or his duly authorized attorney-in-fact, may authorize another person or persons to act for him by proxy. The proxy must be executed in writing by the Shareholder or his duly authorized attorney-in-fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of such meeting or at the time of expressing such consent or dissent without a meeting. No proxy shall be valid after the expiration of eleven (11) months after the date thereof unless provided otherwise in the proxy.

**SECTION 8. Voting of Shares**. Each outstanding share of stock having voting rights shall be entitled to one (1) vote upon each matter submitted to a vote at a meeting of the Shareholders. If a quorum is present, the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the Shareholders unless a greater number is required by the Florida Statutes.

**SECTION 9. Voting of Shares by Certain Holders**. Shares of stock standing in the name of another corporation may be voted by the Officer, agent or proxy designated by the Bylaws of the corporate Shareholder or, in the absence of any applicable bylaw, by such person as the board of Directors of the corporate Shareholder may designate. Proof of such designation may be made by presentation of a certified copy of the bylaws or other instrument of the corporate Shareholder. In the absence of any such designation or, in case of conflicting designation by the corporate Shareholder, the chairman of the board, the president, any vice president, the secretary, and the treasurer or chief financial officer, as the case may be, of the corporate Shareholder shall be presumed to possess, in that order, authority to vote such shares.

Shares of stock held by an administrator, executor, guardian or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name.

Shares of stock standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Shares of stock standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name, if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

A Shareholder whose shares of stock are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee or his nominee shall be entitled to vote the shares so transferred.

Treasury shares, shares of its own stock owned by another corporation the majority of the voting stock of which is owned or controlled by it, and shares of its own stock held by a corporation in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any given time.

**SECTION 10. Action Without a Meeting**. Any action required by law to be taken at any meeting of Shareholders of the Corporation or any action which may be taken at a meeting of Shareholders, may be taken without a meeting, without prior notice, and without a vote if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote were present and voted. If any class of shares is entitled to vote as a class, such written consent shall be required of the holders of the majority of the shares of each class of shares entitled to vote as a class thereon and of the total shares entitled to vote.

Within ten days after obtaining such authorization by written consent, notice must be given to those Shareholders who have not consented in writing. The notice shall fairly summarize the material features of the authorized action and, if the action be a merger, consolidation, or sale or exchange of assets for which the dissenters rights are provided under the law, the notice shall contain a clear statement of the right of Shareholders dissenting therefrom to be paid the fair value of their shares upon compliance with further provisions of the law regarding the rights of dissenting Shareholders.

In the event that the action to which the Shareholder’s consent is such as would have required the filing of a certificate under any other section of the law if such action had been voted on by Shareholders in a meeting thereof, the certificate filed under such other section shall state that written consent has been given in accordance with the provisions of Section 607.0704 of the Florida Statutes.

## ARTICLE III. BOARD OF DIRECTORS

**SECTION 1. General Powers**. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, the Board of Directors.

**SECTION 2. Number, Tenure and Qualification**. The number of Directors of the Corporation shall be established by resolution of the Board of Directors from time to time, and may be increased or decreased from time to time by a vote of the majority of the Board of Directors, provided the Corporation shall never have less than one (1) Director nor more than fifteen (15) Directors. The Board of Directors shall be classified by or pursuant to the Articles of Incorporation or by the Bylaws of the Corporation. The directors shall be classified, with respect to the time for which they severally hold office, into three classes, Class A, Class B and Class C, each of which shall be as nearly equal number as possible, and shall be adjusted from time to time in the manner specified in the Bylaws to maintain such proportionality. Each initial director in Class A shall hold office for a term expiring at the 2009 annual meeting of the shareholders; each director in Class B shall hold office for a term expiring at the 2010 annual meeting of the shareholders; and each director in Class C shall hold office for a term expiring at the 2011 annual meeting of the shareholders. Notwithstanding the foregoing provisions of this Article III, Section 2, each director shall serve until such director's successor is duly elected and qualified or until such director's earlier death, resignation or removal. At each annual meeting of the shareholders, successors to the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of the shareholders held in the third year following the year of election and until their successors shall have been duly elected and qualified or until such director's earlier death, resignation or removal. Resignation of Directors shall be in accordance with Article V herein below.

**SECTION 3. Removal**. Any Director may be removed with or without cause by vote of the holders of a majority of the shares entitled to vote at an election of Directors, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of a Director shall not of itself create contract rights.

**SECTION 4. Regular Meetings**. A regular meeting of the Board of Directors shall be held without other notice than this Bylaw, except as provided in Article XIV of these Bylaws, immediately after and at the same place as the annual meeting of Shareholders. The Board of Directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

**SECTION 5. Special Meetings**. Special meetings of the Board of Directors may be called by the Chairman of the Board, by the President or by the lesser of a majority or two Directors. The person or persons authorized to call special meetings of the Board of Directors may fix the place for holding any special meeting of the Board of Directors called by him/them.

**SECTION 6. Notice**. Notice of any special meeting shall be given at least five (5) days before the meeting by written notice delivered personally, or by mail, or by telegram or cablegram to each Director at his business address, unless in case of emergency, the Chairman of the Board or the President shall prescribe a shorter notice to be given personally or by telegraphing each Director at his residence or business address. If a notice of meeting is mailed,

such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. Any Director may waive notice of any meeting, before or after the meeting in accordance with Article XII. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting and a waiver of any and all objections to the place of the meeting, the time of the meeting, or the manner in which it has been called or convened, except when a Director states, at the beginning of the meeting, any objection to the transaction of business because the meeting is not lawfully called or convened.

**SECTION 7. Quorum**. A majority of the number of Directors fixed pursuant to Section 2 of this Article shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. A majority of the Directors present, whether or not a quorum exists, may adjourn any meeting of the Board of Directors to another time and place. Notice of any such adjourned meeting shall be given to the Directors who were not present at the time of the adjournment and, unless the time and place of the adjourned meeting are announced at the time of the adjournment, to the other Directors.

**SECTION 8. Manner of Acting**. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

**SECTION 9. Vacancies**. Any vacancy occurring in the Board of Directors, including any vacancy created by reason of an increase in the number of Directors, may be filled by the affirmative vote of a majority of the Shareholders. A Director elected to fill a vacancy shall hold office only until the next election of Directors by the Shareholders, or until his earlier resignation, removal from office or death.

**SECTION 10. Compensation**. By resolution of the Board of Directors, the Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Director. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

**SECTION 11. Presumption of Assent**. A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken, unless he votes against such action or abstains from voting in respect thereto because of an asserted conflict of interest.

**SECTION 12. Constructive Presence at a Meeting**. A member of the Board of Directors may participate in a meeting of such Board by means of a conference telephone or similar communications equipment, by means of which all persons participating in the meeting can hear each other at the same time. Participating by such means shall constitute presence in person at a meeting.

**SECTION 13. Action without a Meeting**. Any action required by law to be taken at any meeting of the Directors of the Corporation or any action which may be taken at a meeting of the Directors, may be taken without a meeting if a consent in writing, setting forth the action so to be taken, signed by all of the Directors, is filed in the minutes of the proceedings of the Board. Such consent shall have the same effect as a unanimous vote.

## ARTICLE IV. OFFICERS

**SECTION 1. Number**. The Officers of the Corporation shall be the President and Chief Executive Officer, a Secretary, and a Chief Financial Officer, each of whom shall be elected by the Board of Directors. Any number of Vice Presidents and such other Officers and assistant Officers and agents as may be deemed necessary may be elected or appointed by the Board of Directors. Any two (2) or more offices may be held by the same person.

**SECTION 2. Election and Term of Office**. The Officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board of Directors held after each annual meeting of the Shareholders. If the election of Officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each Officer shall hold office until his successor shall have been duly elected and shall have qualified or until his earlier resignation, removal from office or death. Resignation of Officers shall be in accordance with Article V.

**SECTION 3. Removal**. Any Officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors with or without cause, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an Officer or agent shall not of itself create contract rights.

**SECTION 4. Vacancies**. A vacancy, however occurring, in any office may be filled by the Board of Directors for the unexpired portion of the term.

**SECTION 5. President and Chief Executive Officer**. The President and Chief Executive Officer (the "**President**") shall be the principal executive Officer of the Corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business affairs of the Corporation. He shall, when present, preside at all meetings of the Shareholders and of the Board of Directors, unless the Board of Directors has elected a Chairman of the Board and the Chairman of the Board is present at such meeting. The President may sign deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other Officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties as from time to time may be assigned to him by the Board of Directors.

**SECTION 6. Vice-President(s)**. If a Vice-President(s) is elected or appointed, in the absence of the President or in the event of his death, inability or refusal to act, the Vice-President(s), in the order of their election if more than one, shall have the duties of the President, and when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice-President shall perform such other duties as from time to time may be assigned to him by the President or the Board of Directors.

**SECTION 7. Secretary**. The Secretary shall: (a) keep the minutes of all the meetings of the Shareholders and the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation

and see that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; (d) keep a register of the post office address of each Shareholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

**SECTION 8. Chief Financial Officer**. If a Chief Financial Officer is elected or appointed, the Chief Financial Officer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VI of these Bylaws; and (b) in general perform all of the duties incident to the office of Chief Financial Officer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors. If required by the Board of Directors, the Chief Financial Officer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine.

**SECTION 9. Salaries**. The salaries of the Officers shall be fixed from time to time by the Board of Directors and no Officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

## ARTICLE V. RESIGNATIONS

Any Director or Officer of the Corporation may resign at any time by giving written notice to the Board of Directors, and if there are no Directors then to all of the Shareholders. Any such resignation shall take effect at the time specified therein, or, if the time be not specified therein, upon its acceptance by the party or parties to whom notice is given hereunder.

## ARTICLE VI. CONTRACTS, LOANS, CHECKS AND DEPOSITS

**SECTION 1. Contracts**. The Board of Directors may authorize any Officer or Officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, unless otherwise restricted by law. Such authority may be general or confined to specific instances.

**SECTION 2. Loans**. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

**SECTION 3. Checks, Drafts, etc**. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such Officer or Officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

**SECTION 4. Deposits**. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

## ARTICLE VII. CERTIFICATES FOR SHARES AND THEIR TRANSFER

**SECTION 1. Certificates for Shares**. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President and by the Secretary or by such other Officers authorized by law and by the Board of Directors so to do. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered in the corporate records. All certificates surrendered to the Corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

**SECTION 2. Transfer of Shares**. Transfer of shares of the Corporation shall be made in the records of the Corporation only when the holder of record thereof or his legal representative, or his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, shall furnish proper evidence of authority to transfer, and when there is surrendered for cancellation the certificate for such shares, properly endorsed. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

## ARTICLE VIII. FISCAL YEAR

The fiscal year of the Corporation shall be as determined by the Board of Directors of the Corporation.

## ARTICLE IX. DIVIDENDS

The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and its Articles of Incorporation.

## ARTICLE X. INDEMNIFICATION

The Corporation shall indemnify any Director or Officer or any former Director or Officer, to the full extent permitted by law.

## ARTICLE XI. SEAL

The Board of Directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the Corporation and the state of incorporation and the words, “Corporate Seal”.

## ARTICLE XII. WAIVER OF NOTICE

Unless otherwise provided by law, whenever any notice is required to be given to any Shareholder or Director of the Corporation under the provisions of these Bylaws or under the

provisions of the Articles of Incorporation, a waiver thereof in writing, or written consent as to the action to be taken for which the notice was given, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

## ARTICLE XIII. RULES OF ORDER

Roberts' Rules of Order shall prescribe the rules of conduct for all meetings of the Corporation so far as not inconsistent with the laws of Florida, with the Articles of Incorporation, or with these Bylaws.

## ARTICLE XIV. AMENDMENTS

These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by a vote of a majority of the Shareholders, at any annual Shareholders' meeting or at any special Shareholders' meeting, provided notice of the proposed change is given in the notice of such meeting. If there is a proposed change to be taken up at a meeting of the Shareholders, notice of such meeting must be given under the terms of Article II, Section 4 of these Bylaws. In addition, these Bylaws may be altered, amended or repealed and new Bylaws may be adopted by a vote of a majority of the Board of Directors.

**Exhibit 4.2**

# WARRANT AGREEMENT

This Warrant Agreement (the "Agreement") is made as of _____, 2008 between Homeowners Choice, Inc., a Florida corporation, with offices at 145 N.W. Central Park Plaza, Suite 115, Port St. Lucie, Florida 34986 (the "Company"), and American Stock Transfer & Trust Company, a New York corporation, with offices at 6201 15th Avenue, Brooklyn, New York 11219 (the "Warrant Agent").

**WHEREAS**, the Company is engaged in a public offering (the "Public Offering") of units (the "Units") and, in connection therewith, has determined to issue and deliver up to 1,666,668 warrants to the public investors (the "Warrants") evidencing the right of the holder thereof to purchase shares of the Company's common stock, no par value per share (the "Common Stock"), as described herein;

**WHEREAS**, the Company has filed with the Securities and Exchange Commission a Registration Statement on Form S-1, No. 333-150513, as amended, (the "Registration Statement"), for the registration, under the Securities Act of 1933, as amended (the "Act") of, among other securities, the Warrants and the Common Stock issuable upon exercise of the Warrants;

**WHEREAS**, the Company desires the Warrant Agent to act on behalf of the Company, and the Warrant Agent is willing to so act, in connection with the issuance, registration, transfer, exchange, cancellation and exercise of the Warrants;

**WHEREAS**, the Company desires to provide for the form and provisions of the Warrants, the terms upon which they shall be issued and exercised, and the respective rights, limitation of rights, and immunities of the Company, the Warrant Agent, and the holders of the Warrants; and

**WHEREAS**, all acts and things have been done and performed which are necessary to make the Warrants, when executed on behalf of the Company and countersigned by or on behalf of the Warrant Agent as provided herein, the valid, binding and legal obligations of the Company, and to authorize the execution and delivery of this Agreement.

**NOW, THEREFORE**, in consideration of the mutual agreements herein contained, the parties hereto agree as follows:

1. **Appointment of Warrant Agent**. The Company hereby appoints the Warrant Agent to act as agent for the Company for the Warrants, and the Warrant Agent hereby accepts such appointment and agrees to perform the same in accordance with the terms and conditions set forth in this Agreement.

2. **Warrants**.

2.1 **Form of Warrant**. Each Warrant shall be issued in registered form only, shall be in substantially the form of Exhibit A hereto, the provisions of which are incorporated

herein, and shall be signed by, or bear the facsimile signature of, the President and the Secretary of the Company or such other officer(s) of the Company designated by its board of directors. In the event the person whose facsimile signature has been placed upon any Warrant shall have ceased to serve in the capacity in which such person signed the Warrant before such Warrant is issued, it may be issued with the same effect as if he or she had not ceased to be such at the date of issuance.

2.2 **Effect of Countersignature**. Unless and until countersigned by the Warrant Agent pursuant to this Agreement, a Warrant shall be invalid and of no effect and may not be exercised by the holder thereof.

2.3 **Registration**.

2.3.1 **Warrant Register**. The Warrant Agent shall maintain books (the "Warrant Register"), for the registration of original issuance and the registration of transfer of the Warrants. Upon the initial issuance of the Warrants, the Warrant Agent shall issue and register the Warrants in the names of the respective holders thereof in such denominations and otherwise in accordance with instructions delivered to the Warrant Agent by the Company.

2.3.2 **Registered Holder**. Prior to due presentment for registration of transfer of any Warrant, the Company and the Warrant Agent may deem and treat the person in whose name such Warrant shall be registered upon the Warrant Register (the "registered holder"), as the absolute owner of such Warrant and of each Warrant represented thereby (notwithstanding any notation of ownership or other writing on the Warrant made by anyone other than the Company or the Warrant Agent), for the purpose of any exercise thereof, and for all other purposes, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

2.4 **Detachability of Warrants**. The securities comprising the Units will be separately transferable immediately upon the consummation of the Public Offering.

3. **Terms and Exercise of Warrants**

3.1 **Warrant Price**. Two Warrants shall, when countersigned by the Warrant Agent, entitle the registered holder thereof, subject to the provisions of such Warrant and of this Agreement, to purchase from the Company one share of Common Stock, at the price of $_____ per whole share, subject to the adjustments provided in Section 4 hereof and in the last sentence of this Section 3.1. The term "Warrant Price" as used in this Agreement refers to the price per share at which Common Stock may be purchased at the time a Warrant is exercised. The Company in its sole discretion may lower the Warrant Price at any time prior to the Expiration Date.

3.2 **Duration of Warrants**. A Warrant may be exercised only during the period (the "Exercise Period") commencing on _____, 2008 and terminating at 5:00 p.m., New York City time on the earlier to occur of (i)_____, 2013 and (ii) the day prior to the date fixed for cancellation of the Warrants as provided in Section 6 of this Agreement ("Expiration Date"). Each Warrant not

exercised on or before the Expiration Date shall become void, and all rights thereunder and all rights in respect thereof under this Agreement shall cease at the close of business on the Expiration Date. The Company in its sole discretion may extend the duration of the Warrants by delaying the Expiration Date.

3.3 **Exercise of Warrants**.

3.3.1 **Payment**. Subject to the provisions of the Warrant and this Agreement, a Warrant, when countersigned by the Warrant Agent, may be exercised by the registered holder thereof by surrendering it, at the office of the Warrant Agent, or at the office of its successor as Warrant Agent, in Brooklyn, New York, with the subscription form, as set forth in the Warrant, duly executed, and by paying in full, in lawful money of the United States, in cash, good certified check or good bank draft payable to the order of the Company (or as otherwise agreed to by the Company), the Warrant Price for each full share of Common Stock as to which the Warrant is exercised and any and all applicable taxes due in connection with the exercise of the Warrant, the exchange of the Warrant for the Common Stock, and the issuance of the Common Stock.

3.3.2 **Issuance of Certificates**. As soon as practicable after the exercise of any Warrant and the clearance of the funds in payment of the Warrant Price, the Company shall issue to the registered holder of such Warrant a certificate or certificates for the number of full shares of Common Stock to which such holder is entitled, registered in such name or names as may be directed by such holder, and if such Warrant shall not have been exercised in full, a new countersigned Warrant for the number of shares as to which such Warrant shall not have been exercised. Notwithstanding the foregoing, the Company shall not be obligated to deliver any securities pursuant to the exercise of a Warrant unless a registration statement under the Act with respect to the Common Stock is effective. Warrants may not be exercised by, or securities issued to, any registered holder in any state in which such exercise would be unlawful.

3.3.3 **Valid Issuance**. All shares of Common Stock issued upon the proper exercise of a Warrant in conformity with this Agreement shall be validly issued, fully paid and nonassessable.

3.3.4 **Date of Issuance**. Each person in whose name any such certificate for shares of Common Stock is issued shall for all purposes be deemed to have become the holder of record of such shares on the date on which the Warrant was surrendered and payment of the Warrant Price was made, irrespective of the date of delivery of such certificate, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

4. **Adjustments**.

4.1 **Stock Dividends — Split-Ups**. If after the date hereof, and subject to the provisions of Section 4.6 below, the number of outstanding shares of Common Stock is increased by a stock dividend payable in shares of Common Stock, or by a split-up of shares of Common Stock, or other similar event, then, on the effective date of such stock dividend, split-up or similar event, the number of shares of Common Stock issuable upon exercise of each Warrant shall be increased in proportion to such increase in outstanding shares of Common Stock.

4.2 **Aggregation of Shares**. If after the date hereof, and subject to the provisions of Section 4.6, the number of outstanding shares of Common Stock is decreased by a consolidation, combination, reverse stock split or reclassification of shares of Common Stock or other similar event, then, on the effective date of such consolidation, combination, reverse stock split, reclassification or similar event, the number of shares of Common Stock issuable upon exercise of each Warrant shall be decreased in proportion to such decrease in outstanding shares of Common Stock.

4.3 **Adjustments in Exercise Price**. Whenever the number of shares of Common Stock purchasable upon the exercise of the Warrants is adjusted, as provided in Section 4.1 and 4.2 above, the Warrant Price shall be adjusted (to the nearest cent) by multiplying such Warrant Price immediately prior to such adjustment by a fraction (x) the numerator of which shall be the number of shares of Common Stock purchasable upon the exercise of the Warrants immediately prior to such adjustment, and (y) the denominator of which shall be the number of shares of Common Stock so purchasable immediately thereafter.

4.4 **Replacement of Securities Upon Reorganization, Etc.** In case of any reclassification or reorganization of the outstanding shares of Common Stock (other than a change covered by Section 4.1 or 4.2 hereof or that solely affects the par value of such shares of Common Stock), or in the case of any merger or consolidation of the Company with or into another corporation (other than a consolidation or merger in which the Company is the continuing corporation and that does not result in any reclassification or reorganization of the outstanding shares of Common Stock), or in the case of any sale or conveyance to another corporation or entity of the assets or other property of the Company as an entirety or substantially as an entirety in connection with which the Company is dissolved, the Warrant holders shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in the Warrants and in lieu of the shares of Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, the kind and amount of shares of stock or other securities or property (including cash) receivable upon such reclassification, reorganization, merger or consolidation, or upon a dissolution following any such sale or transfer, that the Warrant holder would have received if such Warrant holder had exercised his, her or its Warrant(s) immediately prior to such event; and if any reclassification also results in a change in shares of Common Stock covered by Section 4.1 or 4.2, then such adjustment shall be made pursuant to Sections 4.1, 4.2, 4.3 and this Section 4.4. The provisions of this Section 4.4 shall similarly apply to successive reclassifications, reorganizations, mergers or consolidations, sales or other transfers.

4.5 **Notices of Changes in Warrant**. Upon every adjustment of the Warrant Price or the number of shares issuable upon exercise of a Warrant, the Company shall give written notice thereof to the Warrant Agent, which notice shall state the Warrant Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of a Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Upon the occurrence of any event specified in Sections 4.1, 4.2, 4.3 or 4.4, then, in any such event, the Company shall give

written notice to each Warrant holder, at the last address set forth for such holder in the Warrant Register, of the record date or the effective date of the event. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such event.

4.6 **No Fractional Shares**. Notwithstanding any provision contained in this Agreement to the contrary, the Company shall not issue fractional shares upon exercise of Warrants and no payment will be made with respect to any fractional share of Common Stock to which any holder of Warrants might otherwise be entitled upon exercise of Warrants.

4.7 **Form of Warrant**. The form of Warrant need not be changed because of any adjustment pursuant to this Section 4, and Warrants issued after such adjustment may state the same Warrant Price and the same number of shares as is stated in the Warrants initially issued pursuant to this Agreement. However, the Company may at any time in its sole discretion make any change in the form of Warrant that the Company may deem appropriate and that does not affect the substance thereof, and any Warrant thereafter issued or countersigned, whether in exchange or substitution for an outstanding Warrant or otherwise, may be in the form as so changed.

5. **Transfer and Exchange of Warrants**.

5.1 **Registration of Transfer**. The Warrant Agent shall register the transfer, from time to time, of any outstanding Warrant upon the Warrant Register, upon surrender of such Warrant for transfer, properly endorsed with signatures properly guaranteed and accompanied by appropriate instructions for transfer. Upon any such transfer, a new Warrant representing an equal aggregate number of Warrants shall be issued and the old Warrant shall be cancelled by the Warrant Agent. The Warrants so cancelled shall be delivered by the Warrant Agent to the Company from time to time upon request.

5.2 **Procedure for Surrender of Warrants**. Warrants may be surrendered to the Warrant Agent, together with a written request for exchange or transfer, and thereupon the Warrant Agent shall issue in exchange therefor one or more new Warrants as requested by the registered holder of the Warrants so surrendered, representing an equal aggregate number of Warrants; provided, however, that in the event that a Warrant surrendered for transfer bears a restrictive legend, the Warrant Agent shall not cancel such Warrant and issue new Warrants in exchange therefor until the Warrant Agent has received an opinion of counsel for the Company stating that such transfer may be made and indicating whether the new Warrants must also bear a restrictive legend.

5.3 **Fractional Warrants**. The Warrant Agent shall not be required to effect any registration of transfer or exchange which will result in the issuance of a warrant certificate for a fraction of a warrant.

5.4 **Service Charges**. No service charge shall be made for any exchange or registration of transfer of Warrants.

5.5 **Warrant Execution and Countersignature**. The Warrant Agent is hereby authorized to countersign and to deliver, in accordance with the terms of this Agreement, the Warrants required to be issued pursuant to the provisions of this Section 5, and the Company, whenever required by the Warrant Agent, will supply the Warrant Agent with Warrants duly executed on behalf of the Company for such purpose.

6. **Cancellation of Warrants**.

6.1 **Cancellation**. Subject to Section 6.4 hereof, the outstanding Warrants may be cancelled in whole or in part (and if in part, by lot) at the option of the Company, at any time before the expiration of the Warrants and after _____ __, _____, upon the notice referred to in Section 6.2, provided that the closing price per share of the Common Stock has exceeded $_____ for at least ten (10) trading days within any period of twenty (20) consecutive trading days, including the last trading day of the period.

6.2 **Date Fixed for, and Notice of, Cancellation**. In the event that the Company shall elect to cancel all or a portion of the Warrants, the Company shall fix a date for the cancellation. The date of cancellation shall be a date which is more than 30 calendar days, but less than 60 calendar days after a notice of cancellation is mailed by the Company by first class mail to the holders of the Warrants at their last addresses as they shall appear in the Company's Warrant ledger. Any notice mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the registered holder receives such notice.

6.3 **Exercise After Notice of Cancellation**. The Warrants may be exercised at any time after notice of cancellation has been given by the Company pursuant to Section 6.2 hereof and prior to the close of business on the business day that is one day prior to the date fixed for cancellation. On and after the cancellation date, the record holder of the Warrants shall have no further rights under the Warrants.

6.4 **Outstanding Warrants Only**. The Company understands that the cancellation rights provided for by this Section 6 apply only to outstanding Warrants.

7. **Other Provisions Relating to Rights of Holders of Warrants**

7.1 **No Rights As Shareholder**. A Warrant does not entitle the registered holder thereof to any of the rights of a shareholder of the Company, including, without limitation, the right to receive dividends, or other distributions, to exercise any preemptive rights to vote or to consent or to receive notice as shareholders in respect of the meetings of shareholders or the election of directors of the Company or any other matter.

7.2 **Lost, Stolen, Mutilated, or Destroyed Warrants**. If any Warrant is lost, stolen, mutilated, or destroyed, the Company and the Warrant Agent may on such terms as to indemnity or otherwise as they may in their discretion impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination, tenor, and date as the Warrant so lost, stolen, mutilated, or destroyed. Any such new Warrant shall constitute a substitute contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated, or destroyed Warrant shall be at any time enforceable by anyone.

7.3 **Reservation of Common Stock**. The Company shall at all times reserve and keep available a number of its authorized but unissued shares of Common Stock that will be sufficient to permit the exercise in full of all outstanding Warrants issued pursuant to this Agreement.

7.4 **Registration of Common Stock**. The Company has filed with the Securities and Exchange Commission a Registration Statement for the registration, under the Act, of, and it shall take such action as is necessary to qualify for sale, in those states in which the Warrants were initially offered by the Company, the Common Stock issuable upon exercise of the Warrants. The Company will use its best efforts to maintain the effectiveness of such Registration Statement until the expiration of the Warrants in accordance with the provisions of this Agreement.

8. **Concerning the Warrant Agent and Other Matters**.

8.1 **Payment of Taxes**. The Company will from time to time promptly pay all taxes and charges that may be imposed upon the Company or the Warrant Agent in connection with the issuance or delivery of shares of Common Stock upon the exercise of the Warrants, but the Company shall not be obligated to pay any transfer taxes in connection with the Warrants or such shares.

8.2 **Resignation, Consolidation, or Merger of Warrant Agent**

8.2.1 **Appointment of Successor Warrant Agent.** The Warrant Agent, or any successor to it hereafter appointed, may resign its duties and be discharged from all further duties and liabilities hereunder after giving sixty (60) days' notice in writing to the Company. If the office of the Warrant Agent becomes vacant by resignation or incapacity to act or otherwise, the Company shall appoint in writing a successor Warrant Agent in place of the Warrant Agent. If the Company shall fail to make such appointment within a period of 30 days after it has been notified in writing of such resignation or incapacity by the Warrant Agent or by the holder of the Warrant (who shall, with such notice, submit his Warrant for inspection by the Company), then the holder of any Warrant may apply to the Supreme Court of the State of New York for the County of New York for the appointment of a successor Warrant Agent at the Company's cost. Any successor Warrant Agent, whether appointed by the Company or by such court, shall be a corporation organized and existing under the laws of the State of New York, in good standing and having its principal office in Brooklyn, New York, and authorized under such laws to exercise corporate trust powers and subject to supervision or examination by federal or state authority. After appointment, any successor Warrant Agent shall be vested with all the authority, powers, rights, immunities, duties, and obligations of its predecessor Warrant Agent with like effect as if originally named as Warrant Agent hereunder, without any further act or deed; but if for any reason it becomes necessary or appropriate, the predecessor Warrant Agent shall execute and deliver, at the expense of the Company, an instrument transferring to such successor Warrant Agent all the authority, powers, and rights of such predecessor Warrant Agent hereunder; and upon request of any successor Warrant Agent the Company shall make, execute, acknowledge, and deliver any and all instruments in writing for more fully and effectually vesting in and confirming to such successor Warrant Agent all such authority, powers, rights, immunities, duties, and obligations.

8.2.2 **Notice of Successor Warrant Agent**. In the event a successor Warrant Agent shall be appointed, the Company shall give notice thereof to the predecessor Warrant Agent and the transfer agent for the Common Stock not later than the effective date of any such appointment.

8.2.3 **Merger or Consolidation of Warrant Agent**. Any corporation into which the Warrant Agent may be merged or with which it may be consolidated or any corporation resulting from any merger or consolidation to which the Warrant Agent shall be a party shall be the successor Warrant Agent under this Agreement without any further act.

8.3 **Fees and Expenses of Warrant Agent**

8.3.1 **Remuneration**. The Company agrees to pay the Warrant Agent reasonable remuneration for its services as such Warrant Agent hereunder and will reimburse the Warrant Agent upon demand for all expenditures that the Warrant Agent may reasonably incur in the execution of its duties hereunder.

8.3.2 **Further Assurances**. The Company agrees to perform, execute, acknowledge, and deliver or cause to be performed, executed, acknowledged, and delivered all such further and other acts, instruments, and assurances as may reasonably be required by the Warrant Agent for the carrying out or performing of the provisions of this Agreement.

8.4 **Liability of Warrant Agent**

8.4.1 **Reliance on Company Statement**. Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a statement signed by the President, Chairman of the Board or Secretary of the Company and delivered to the Warrant Agent. The Warrant Agent may rely upon such statement for any action taken or suffered in good faith by it pursuant to the provisions of this Agreement.

8.4.2 **Indemnity**. The Warrant Agent shall be liable hereunder only for its own negligence, willful misconduct or bad faith. The Company agrees to indemnify the Warrant Agent and save it harmless against any and all liabilities, including judgments, costs and reasonable counsel fees, for anything done or omitted by the Warrant Agent in the execution of this Agreement except as a result of the Warrant Agent's negligence, willful misconduct, or bad faith.

8.4.3 **Exclusions**. The Warrant Agent shall have no responsibility with respect to the validity of this Agreement or with respect to the validity or execution of any Warrant (except its countersignature thereof); nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant; nor shall it be responsible to make any adjustments required under the provisions of Section 4 hereof or responsible for the manner, method, or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any

shares of Common Stock to be issued pursuant to this Agreement or any Warrant or as to whether any shares of Common Stock will when issued be valid and fully paid and nonassessable.

8.5 **Acceptance of Agency**. The Warrant Agent hereby accepts the agency established by this Agreement and agrees to perform the same upon the terms and conditions herein set forth and, among other things, shall account promptly to the Company with respect to Warrants exercised and concurrently account for, and pay to the Company, all moneys received by the Warrant Agent for the purchase of shares of Common Stock through the exercise of Warrants.

9. **Miscellaneous Provisions**.

9.1 **Successors**. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant Agent shall bind and inure to the benefit of their respective successors and assigns.

9.2 **Notices**. Any notice, statement or demand authorized by this Agreement to be given or made by the Warrant Agent or by the holder of any Warrant to or on the Company shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service within five days after deposit of such notice, postage prepaid, addressed (until another address is filed in writing by the Company with the Warrant Agent), as follows:

Homeowners Choice, Inc.
2340 Drew Street, Suite 200
Clearwater, Florida 33765
Attn: Andrew Graham, General Counsel

Any notice, statement or demand authorized by this Agreement to be given or made by the holder of any Warrant or by the Company to or on the Warrant Agent shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service within five days after deposit of such notice, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company), as follows:

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, New York 11219
Attn: [_____]

with a copy in each case to:

Foley & Lardner LLP
100 North Tampa Street, Suite 2700
Tampa, Florida 33602
Attn: Martin A. Traber and Carolyn T. Long

and

[_____]
[_____]
[_____]
Attn: [_____].

9.3 **Applicable Law**. The validity, interpretation, and performance of this Agreement and of the Warrants shall be governed in all respects by the laws of the State of Florida, without giving effect to conflicts of law principles that would result in the application of the substantive laws of another jurisdiction. The Company and the Warrant Agent hereby agree that any action, proceeding or claim arising out of or relating in any way to this Agreement shall be brought and enforced in the courts of the State of Florida or the United States District Court for the Middle District of Florida, and irrevocably submit to such jurisdiction, which jurisdiction shall be exclusive. The Warrant Agent hereby waives any objection to such exclusive jurisdiction and that such courts represent an inconvenient forum. Any such process or summons to be served upon the Warrant Agent may be served by transmitting a copy thereof by registered or certified mail, return receipt requested, postage prepaid, addressed to it at the address set forth in Section 9.2 hereof. Such mailing shall be deemed personal service and shall be legal and binding upon the Warrant Agent in any action, proceeding or claim.

9.4 **Persons Having Rights Under This Agreement**. Nothing in this Agreement expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the parties hereto and the registered holders of the Warrants, any right, remedy, or claim under or by reason of this Agreement or any covenant, condition, stipulation, promise, or agreement herein. All covenants, conditions, stipulations, promises, and agreements contained in this Agreement shall be for the sole and exclusive benefit of the parties hereto and their successors and assigns and of the registered holders of the Warrants.

9.5 **Examination of the Warrant Agreement**. A copy of this Agreement shall be available at all reasonable times at the office of the Warrant Agent in Brooklyn, New York for inspection by the registered holder of any Warrant. The Warrant Agent may require any such holder to submit his Warrant for inspection by it.

9.6 **Counterparts**. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

9.7 **Effect of Headings**. The Section headings herein are for convenience only and are not part of this Agreement and shall not affect the interpretation thereof.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

Attest:

_____

**HOMEOWNERS CHOICE, INC.**

By: _____
Name: _____
Title: _____

Attest:

_____

**AMERICAN STOCK TRANSFER & TRUST COMPANY**

By: _____
Name: _____
Title: _____

**EXHIBIT A**

## FORM OF WARRANT CERTIFICATE

**THIS WARRANT CERTIFICATE CANNOT BE TRANSFERRED OR EXCHANGED UNTIL THE DATE (THE "DETACHMENT DATE") ESTABLISHED FOR SEPARATION FROM THE SHARES TO WHICH THIS WARRANT IS ATTACHED EXCEPT AS PART OF A UNIT OF HOMEOWNERS CHOICE, INC.**

EXERCISABLE ONLY IF COUNTERSIGNED BY THE WARRANT
AGENT AS PROVIDED HEREIN

Warrant Certificate evidencing
Warrants to Purchase Common Stock, no par value, as described herein.

Homeowners Choice, Inc.

No.____ CUSIP No._____

**VOID AFTER 5:00 P.M., NEW YORK CITY TIME,
ON _____, 2013, OR UPON EARLIER CANCELLATION**

This certifies that _____, or its registered assigns, is the registered holder of_____ warrants to purchase certain securities (each a "**Warrant**"). Each Warrant entitles the holder thereof, subject to the provisions contained herein and in the Warrant Agreement (as defined below), to purchase from Homeowners Choice, Inc., a Florida corporation (the "**Company**"), one half of a share of the Company's Common Stock, provided that a single Warrant may not be exercised. Two Warrants may be exercised to acquire one share of the Company's Common Stock (each, a "**Share**") at the Exercise Price set forth below. The exercise price of each set of two Warrants (the "**Exercise Price**") shall be $____ initially, subject to adjustments as set forth in the Warrant Agreement (as defined below).

Subject to the terms of the Warrant Agreement, each Warrant evidenced hereby may be exercised in whole, but not in part, at any time, as specified herein, on any Business Day (as defined below) occurring during the period (the "**Exercise Period**") commencing on _____, 2008 and ending at 5:00 P.M., New York City time, on the earlier to occur of (i)_____, 2013 and (ii) the day prior to the date fixed for cancellation of the Warrants as provided in Section 6 of the Warrant Agreement (the "**Expiration Date**"). Each Warrant remaining unexercised after 5:00 P.M., New York City time on the Expiration Date shall become void, and all rights of the holder of this Warrant Certificate evidencing such Warrant shall cease.

The holder of the Warrants represented by this Warrant Certificate may exercise any two Warrants by delivering, not later than 5:00 P.M., New York City time, on any Business Day during the Exercise Period (the "**Exercise Date**") to American Stock Transfer & Trust Company (the "**Warrant Agent**," which term includes any successor warrant agent under the Warrant Agreement described below) at its corporate trust department at 6201 15th Avenue, Brooklyn,

New York 11219 (i) this Warrant Certificate and the Warrants to be exercised (the "**Book-Entry Warrants**") free on the records of The Depository Trust Company (the "**Depository**") to an account of the Warrant Agent at the Depository designated for such purpose in writing by the Warrant Agent to the Depository, (ii) an election to purchase ("**Election to Purchase**"), properly executed (A) by the holder hereof on the reverse of this Warrant Certificate or (B) properly executed by the institution in whose account the Warrant is recorded on the records of the Depository (the "**Participant**") substantially in the form included on the reverse hereof, as applicable and (iii) the Exercise Price for each set of Warrants to be exercised in lawful money of the United States of America by certified or official bank check or by bank wire transfer in immediately available funds. If any of (a) this Warrant Certificate or the Book-Entry Warrants, (b) the Election to Purchase, or (c) the Exercise Price therefor, is received by the Warrant Agent after 5:00 P.M., New York City time, the Warrants will be deemed to be received and exercised on the Business Day next succeeding the date such items are received and such date shall be the Exercise Date for purposes hereof. If the date such items are received is not a Business Day, the Warrants will be deemed to be received and exercised on the next succeeding day which is a Business Day and such date shall be the Exercise Date. If the Warrants to be exercised are received or deemed to be received after the Expiration Date, the exercise thereof will be null and void and any funds delivered to the Warrant Agent will be returned to the holder as soon as practicable. In no event will interest accrue on funds deposited with the Warrant Agent in respect of an exercise or attempted exercise of Warrants. The validity of any exercise of Warrants will be determined by the Warrant Agent in its sole discretion and such determination will be final and binding upon the holder of the Warrants and the Company. Neither the Warrant Agent nor the Company shall have any obligation to inform a holder of Warrants of the invalidity of any exercise of Warrants.

As used herein, the term "**Business Day**" means any day that is not a Saturday or Sunday and is not a United States federal holiday or a day on which banking institutions generally are authorized or obligated by law or regulation to close in New York City.

Warrants may be exercised only in sets of two Warrants. No fractional shares of Common Stock are to be issued upon the exercise of any Warrant and no payment will be made with respect to any fractional share of Common Stock to which any holder of Warrants might otherwise be entitled upon exercise of Warrants. If fewer than all of the Warrants evidenced by this Warrant Certificate are exercised, a new Warrant Certificate for the number of Warrants remaining unexercised shall be executed by the Company and countersigned by the Warrant Agent as provided in Section 2 of the Warrant Agreement, and delivered to the holder of this Warrant Certificate at the address specified on the books of the Warrant Agent or as otherwise specified by such Registered Holder.

This Warrant Certificate is issued under and in accordance with the Warrant Agreement, dated as of_____, 2008 (the "**Warrant Agreement**"), between the Company and the Warrant Agent and is subject to the terms and provisions contained in the Warrant Agreement, to all of which terms and provisions the holder of this Warrant Certificate and the beneficial owners of the Warrants represented by this Warrant Certificate consent by acceptance hereof. Copies of the Warrant Agreement are on file and can be inspected at the above-mentioned office of the Warrant Agent and at the office of the Company at 2340 Drew Street, Suite 200, Clearwater, Florida 33765.

After _____ __, ____, the Company may, at its option, cancel in whole or in part (and if in part, by lot) the then outstanding Warrants upon giving notice in accordance with the terms of the Warrant Agreement (the "**Cancellation Notice**"), provided, that the closing price per share of the Company's common stock has exceeded $____ for at least ten (10) trading days within any period of twenty (20) consecutive trading days, including the last trading day of the period. In the event that the Company shall elect to cancel all or a portion of the then outstanding Warrants, the Company shall fix a date for the cancellation (the "**Cancellation Date**"). The Warrants may be exercised in accordance with the terms of this Agreement at any time after a Cancellation Notice shall have been given by the Company; provided, however, that no Warrants may be exercised subsequent to the expiration of the Exercise Period; provided, further, that all rights whatsoever with respect to the Warrants shall cease on the Cancellation Date.

The accrual of dividends, if any, on the Shares issued upon the valid exercise of any Warrant will be governed by the terms generally applicable to such Shares. From and after the issuance of such Shares, the former holder of the Warrants exercised will be entitled to the benefits generally available to other holders of Shares and such former holder's right to receive payments of dividends and any other amounts payable in respect of the Shares shall be governed by, and shall be subject to, the terms and provisions generally applicable to such Shares.

The Exercise Price and the number of Shares purchasable upon the exercise of each set of two Warrants shall be subject to adjustment as provided pursuant to Section 4 of the Warrant Agreement.

Prior to the Detachment Date, the Warrants represented by this Warrant Certificate may be exchanged or transferred only together with the Shares to which such Warrant is attached (together, a "**Unit**"), and only for the purpose of effecting, or in conjunction with, an exchange or transfer of such Unit. Additionally, prior to the Detachment Date, each transfer of such Unit on the register of the Units shall operate also to transfer the Warrants included in such Units. From and after the Detachment Date, the above provisions shall be of no further force and effect. Upon due presentment for registration of transfer or exchange of this Warrant Certificate at the stock transfer division of the Warrant Agent, the Company shall execute, and the Warrant Agent shall countersign and deliver, as provided in Section 5 of the Warrant Agreement, in the name of the designated transferee one or more new Warrant Certificates of any authorized denomination evidencing in the aggregate a like number of unexercised Warrants, subject to the limitations provided in the Warrant Agreement.

Neither this Warrant Certificate nor the Warrants evidenced hereby shall entitle the holder hereof or thereof to any of the rights of a holder of the Shares, including, without limitation, the right to receive dividends, if any, or payments upon the liquidation, dissolution or winding up of the Company or to exercise voting rights, if any.

The Warrant Agreement and this Warrant Certificate may be amended as provided in the Warrant Agreement including, under certain circumstances described therein, without the consent of the holder of this Warrant Certificate or the Warrants evidenced thereby.

**THIS WARRANT CERTIFICATE AND ALL RIGHTS HEREUNDER AND UNDER THE WARRANT AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA APPLICABLE TO CONTRACTS FORMED AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF FLORIDA, WITHOUT REGARD TO THE CONFLICTS OF LAW PROVISIONS THEREOF TO THE EXTENT SUCH PRINCIPLES OR RULES WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.**

This Warrant Certificate shall not be entitled to any benefit under the Warrant Agreement or be valid or obligatory for any purpose, and no Warrant evidenced hereby may be exercised, unless this Warrant Certificate has been countersigned by the manual signature of the Warrant Agent.

**IN WITNESS WHEREOF**, the Company has caused this instrument to be duly executed.

Dated as of _____, 2008

**HOMEOWNERS CHOICE, INC.**

By: _____
Name: _____
Title: _____

**AMERICAN STOCK TRANSFER**
**& TRUST COMPANY, AS WARRANT AGENT**

By: _____
Name: _____
Title: _____

**[REVERSE]**

Instructions for Exercise of Warrant

To exercise the Warrants evidenced hereby, the holder or Participant must, by 5:00 P.M., New York City time, on the specified Exercise Date, deliver to the Warrant Agent at its stock transfer division, a certified or official bank check or a wire transfer in immediately available funds, in each case payable to the Warrant Agent at Account No. _____, in an amount equal to the Exercise Price in full for the Warrants exercised. In addition, the Warrant holder or Participant must provide the information required below and deliver this Warrant Certificate to the Warrant Agent at the address set forth below and the Book-Entry Warrants to the Warrant Agent in its account with the Depository designated for such purpose. The Warrant Certificate and this Election to Purchase must be received by the Warrant Agent by 5:00 P.M., New York time, on the specified Exercise Date.

ELECTION TO PURCHASE
TO BE EXECUTED IF WARRANT HOLDER DESIRES
TO EXERCISE THE WARRANTS EVIDENCED HEREBY

The undersigned hereby irrevocably elects to exercise, on_____, ____ (the "**Exercise Date**"), _____ Warrants, evidenced by this Warrant Certificate, to purchase, _____ of the shares of Common Stock (each a "**Share**") of Homeowners Choice, Inc., a Florida corporation (the "**Company**"), and represents that, on or before the Exercise Date, such holder has tendered payment for such Shares by certified or official bank check or bank wire transfer in immediately available funds to the order of the Company c/o American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219, in the amount of $ ____ in accordance with the terms hereof. The undersigned requests that said number of Shares be in fully registered form, registered in such names and delivered, all as specified in accordance with the instructions set forth below.

If said number of Shares is less than all of the Shares purchasable hereunder, the undersigned requests that a new Warrant Certificate evidencing the remaining balance of the Warrants evidenced hereby be issued and delivered to the holder of the Warrant Certificate unless otherwise specified in the instructions below.

Dated: _____, ____

Name: _____ (Please Print)

_____
(Insert Social Security or Other Identifying Number of Holder)

Address: _____

_____

_____

Signature: _____

This Warrant may only be exercised by presentation to the Warrant Agent at one of the following locations:

By hand at:

By mail at:

The method of delivery of this Warrant Certificate is at the option and risk of the exercising holder and the delivery of this Warrant Certificate will be deemed to be made only when actually received by the Warrant Agent. If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to assure timely delivery.

(Instructions as to form and delivery of Shares and/or Warrant Certificates)

Name in which Shares are to be registered if other than in the name of the registered holder of this Warrant Certificate: _____

Address to which Shares are to be mailed if other than to the address of the registered holder of this Warrant Certificate as shown on the books of the Warrant Agent:

_____
(Street Address)

_____
(City and State) (Zip Code)

Name in which Warrant Certificate evidencing unexercised Warrants, if any, are to be registered if other than in the name of the registered holder of this Warrant Certificate:

Address to which certificate representing unexercised Warrants, if any, are to be mailed if other than to the address of the registered holder of this Warrant Certificate as shown on the books of the Warrant Agent:

(Street Address)

(City and State) (Zip Code)

Dated:

Signature

**Signature must conform in all respects to the name of the holder as specified on the face of this Warrant Certificate. If Shares, or a Warrant Certificate evidencing unexercised Warrants, are to be issued in a name other than that of the registered holder hereof or are to be delivered to an address other than the address of such holder as shown on the books of the Warrant Agent, the above signature must be guaranteed by a an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).**

SIGNATURE GUARANTEE

Name of Firm: _____

Address: _____

Area Code and Number: _____

Authorized Signature: _____

Name: _____

Title: _____

Dated: _____

**ASSIGNMENT**

(FORM OF ASSIGNMENT TO BE EXECUTED IF WARRANT HOLDER
DESIRES TO TRANSFER WARRANTS EVIDENCED HEREBY)

FOR VALUE RECEIVED, _____ HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO:

| | |
|---|---|
| (Please print name and address including zip code of assignee) | (Please insert social security or other identifying number of assignee) |

the rights represented by the within Warrant Certificate and does hereby irrevocably constitute and appoint_____ Attorney to transfer said Warrant Certificate on the books of the Warrant Agent with full power of substitution in the premises.

Dated:

_____
Signature

**(Signature must conform in all respects to the name of the holder as specified on the face of this Warrant Certificate and must bear a signature guarantee by an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).**

SIGNATURE GUARANTEE

Name of Firm: _____
Address: _____
Area Code and Number: _____
Authorized Signature: _____
Name: _____
Title: _____
Dated: _____

**THIS WARRANT CERTIFICATE CANNOT BE TRANSFERRED OR EXCHANGED UNTIL THE DATE (THE "DETACHMENT DATE") ESTABLISHED FOR SEPARATION FROM THE SHARES TO WHICH THIS WARRANT IS ATTACHED EXCEPT AS PART OF A UNIT OF HOMEOWNERS CHOICE, INC.**

EXERCISABLE ONLY IF COUNTERSIGNED BY THE WARRANT
AGENT AS PROVIDED HEREIN

Warrant Certificate evidencing
Warrants to Purchase Common Stock, no par value, as described herein.

Homeowners Choice, Inc.

No. ____ CUSIP No._____

**VOID AFTER 5:00 P.M., NEW YORK CITY TIME,**
**ON _____, 2013, OR UPON EARLIER CANCELLATION**

This certifies that _____, or its registered assigns, is the registered holder of_____ warrants to purchase certain securities (each a "**Warrant**"). Each Warrant entitles the holder thereof, subject to the provisions contained herein and in the Warrant Agreement (as defined below), to purchase from Homeowners Choice, Inc., a Florida corporation (the "**Company**"), one half of a share of the Company's Common Stock, provided that a single Warrant may not be exercised. Two Warrants may be exercised to acquire one share of the Company's Common Stock (each, a "**Share**") at the Exercise Price set forth below. The exercise price of each set of two Warrants (the "**Exercise Price**") shall be $____ initially, subject to adjustments as set forth in the Warrant Agreement (as defined below).

Subject to the terms of the Warrant Agreement, each Warrant evidenced hereby may be exercised in whole, but not in part, at any time, as specified herein, on any Business Day (as defined below) occurring during the period (the "**Exercise Period**") commencing on _____, 2008 and ending at 5:00 P.M., New York City time, on the earlier to occur of (i)_____, 2013 and (ii) the day prior to the date fixed for cancellation of the Warrants as provided in Section 6 of the Warrant Agreement (the "**Expiration Date**"). Each Warrant remaining unexercised after 5:00 P.M., New York City time on the Expiration Date shall become void, and all rights of the holder of this Warrant Certificate evidencing such Warrant shall cease.

The holder of the Warrants represented by this Warrant Certificate may exercise any two Warrants by delivering, not later than 5:00 P.M., New York City time, on any Business Day during the Exercise Period (the "**Exercise Date**") to American Stock Transfer & Trust Company (the "**Warrant Agent**," which term includes any successor warrant agent under the Warrant Agreement described below) at its corporate trust department at 6201 15th Avenue, Brooklyn, New York 11219 (i) this Warrant Certificate and the Warrants to be exercised (the "**Book-Entry Warrants**") free on the records of The Depository Trust Company (the "**Depository**") to an account of the Warrant Agent at the Depository designated for such purpose in writing by the

Warrant Agent to the Depository, (ii) an election to purchase ("**Election to Purchase**"), properly executed (A) by the holder hereof on the reverse of this Warrant Certificate or (B) properly executed by the institution in whose account the Warrant is recorded on the records of the Depository (the "**Participant**") substantially in the form included on the reverse hereof, as applicable and (iii) the Exercise Price for each set of Warrants to be exercised in lawful money of the United States of America by certified or official bank check or by bank wire transfer in immediately available funds. If any of (a) this Warrant Certificate or the Book-Entry Warrants, (b) the Election to Purchase, or (c) the Exercise Price therefor, is received by the Warrant Agent after 5:00 P.M., New York City time, the Warrants will be deemed to be received and exercised on the Business Day next succeeding the date such items are received and such date shall be the Exercise Date for purposes hereof. If the date such items are received is not a Business Day, the Warrants will be deemed to be received and exercised on the next succeeding day which is a Business Day and such date shall be the Exercise Date. If the Warrants to be exercised are received or deemed to be received after the Expiration Date, the exercise thereof will be null and void and any funds delivered to the Warrant Agent will be returned to the holder as soon as practicable. In no event will interest accrue on funds deposited with the Warrant Agent in respect of an exercise or attempted exercise of Warrants. The validity of any exercise of Warrants will be determined by the Warrant Agent in its sole discretion and such determination will be final and binding upon the holder of the Warrants and the Company. Neither the Warrant Agent nor the Company shall have any obligation to inform a holder of Warrants of the invalidity of any exercise of Warrants.

As used herein, the term "**Business Day**" means any day that is not a Saturday or Sunday and is not a United States federal holiday or a day on which banking institutions generally are authorized or obligated by law or regulation to close in New York City.

Warrants may be exercised only in sets of two Warrants. No fractional shares of Common Stock are to be issued upon the exercise of any Warrant and no payment will be made with respect to any fractional share of Common Stock to which any holder of Warrants might otherwise be entitled upon exercise of Warrants. If fewer than all of the Warrants evidenced by this Warrant Certificate are exercised, a new Warrant Certificate for the number of Warrants remaining unexercised shall be executed by the Company and countersigned by the Warrant Agent as provided in Section 2 of the Warrant Agreement, and delivered to the holder of this Warrant Certificate at the address specified on the books of the Warrant Agent or as otherwise specified by such Registered Holder.

This Warrant Certificate is issued under and in accordance with the Warrant Agreement, dated as of_____, 2008 (the "**Warrant Agreement**"), between the Company and the Warrant Agent and is subject to the terms and provisions contained in the Warrant Agreement, to all of which terms and provisions the holder of this Warrant Certificate and the beneficial owners of the Warrants represented by this Warrant Certificate consent by acceptance hereof. Copies of the Warrant Agreement are on file and can be inspected at the above-mentioned office of the Warrant Agent and at the office of the Company at 2340 Drew Street, Suite 200, Clearwater, Florida 33765.

After _____ ____, _____, the Company may, at its option, cancel in whole or in part (and if in part, by lot) the then outstanding Warrants upon giving notice in accordance with the terms of the Warrant Agreement (the "**Cancellation Notice**"), provided, that the closing price per share of the Company's common stock has exceeded $_____ for at least ten (10) trading days within any period of twenty (20) consecutive trading days, including the last trading day of the period. In the event that the Company shall elect to cancel all or a portion of the then outstanding Warrants, the Company shall fix a date for the cancellation (the "**Cancellation Date**"). The Warrants may be exercised in accordance with the terms of this Agreement at any time after a Cancellation Notice shall have been given by the Company; provided, however, that no Warrants may be exercised subsequent to the expiration of the Exercise Period; provided, further, that all rights whatsoever with respect to the Warrants shall cease on the Cancellation Date.

The accrual of dividends, if any, on the Shares issued upon the valid exercise of any Warrant will be governed by the terms generally applicable to such Shares. From and after the issuance of such Shares, the former holder of the Warrants exercised will be entitled to the benefits generally available to other holders of Shares and such former holder's right to receive payments of dividends and any other amounts payable in respect of the Shares shall be governed by, and shall be subject to, the terms and provisions generally applicable to such Shares.

The Exercise Price and the number of Shares purchasable upon the exercise of each set of two Warrants shall be subject to adjustment as provided pursuant to Section 4 of the Warrant Agreement.

Prior to the Detachment Date, the Warrants represented by this Warrant Certificate may be exchanged or transferred only together with the Shares to which such Warrant is attached (together, a "**Unit**"), and only for the purpose of effecting, or in conjunction with, an exchange or transfer of such Unit. Additionally, prior to the Detachment Date, each transfer of such Unit on the register of the Units shall operate also to transfer the Warrants included in such Units. From and after the Detachment Date, the above provisions shall be of no further force and effect. Upon due presentment for registration of transfer or exchange of this Warrant Certificate at the stock transfer division of the Warrant Agent, the Company shall execute, and the Warrant Agent shall countersign and deliver, as provided in Section 5 of the Warrant Agreement, in the name of the designated transferee one or more new Warrant Certificates of any authorized denomination evidencing in the aggregate a like number of unexercised Warrants, subject to the limitations provided in the Warrant Agreement.

Neither this Warrant Certificate nor the Warrants evidenced hereby shall entitle the holder hereof or thereof to any of the rights of a holder of the Shares, including, without limitation, the right to receive dividends, if any, or payments upon the liquidation, dissolution or winding up of the Company or to exercise voting rights, if any.

The Warrant Agreement and this Warrant Certificate may be amended as provided in the Warrant Agreement including, under certain circumstances described therein, without the consent of the holder of this Warrant Certificate or the Warrants evidenced thereby.

**THIS WARRANT CERTIFICATE AND ALL RIGHTS HEREUNDER AND UNDER THE WARRANT AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA APPLICABLE TO CONTRACTS FORMED AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF FLORIDA, WITHOUT REGARD TO THE CONFLICTS OF LAW PROVISIONS THEREOF TO THE EXTENT SUCH PRINCIPLES OR RULES WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.**

This Warrant Certificate shall not be entitled to any benefit under the Warrant Agreement or be valid or obligatory for any purpose, and no Warrant evidenced hereby may be exercised, unless this Warrant Certificate has been countersigned by the manual signature of the Warrant Agent.

**IN WITNESS WHEREOF**, the Company has caused this instrument to be duly executed.

Dated as of _____, 2008

**HOMEOWNERS CHOICE, INC.**

By: _____

Name: _____

Title: _____

**AMERICAN STOCK TRANSFER & TRUST COMPANY, AS WARRANT AGENT**

By: _____

Name: _____

Title: _____

**[REVERSE]**

Instructions for Exercise of Warrant

To exercise the Warrants evidenced hereby, the holder or Participant must, by 5:00 P.M., New York City time, on the specified Exercise Date, deliver to the Warrant Agent at its stock transfer division, a certified or official bank check or a wire transfer in immediately available funds, in each case payable to the Warrant Agent at Account No. _____, in an amount equal to the Exercise Price in full for the Warrants exercised. In addition, the Warrant holder or Participant must provide the information required below and deliver this Warrant Certificate to the Warrant Agent at the address set forth below and the Book-Entry Warrants to the Warrant Agent in its account with the Depository designated for such purpose. The Warrant Certificate and this Election to Purchase must be received by the Warrant Agent by 5:00 P.M., New York time, on the specified Exercise Date.

ELECTION TO PURCHASE
TO BE EXECUTED IF WARRANT HOLDER DESIRES
TO EXERCISE THE WARRANTS EVIDENCED HEREBY

The undersigned hereby irrevocably elects to exercise, on_____, _____ (the "**Exercise Date**"), _____ Warrants, evidenced by this Warrant Certificate, to purchase, _____ of the shares of Common Stock (each a "**Share**") of Homeowners Choice, Inc., a Florida corporation (the "**Company**"), and represents that, on or before the Exercise Date, such holder has tendered payment for such Shares by certified or official bank check or bank wire transfer in immediately available funds to the order of the Company c/o American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219, in the amount of $ _____ in accordance with the terms hereof. The undersigned requests that said number of Shares be in fully registered form, registered in such names and delivered, all as specified in accordance with the instructions set forth below.

If said number of Shares is less than all of the Shares purchasable hereunder, the undersigned requests that a new Warrant Certificate evidencing the remaining balance of the Warrants evidenced hereby be issued and delivered to the holder of the Warrant Certificate unless otherwise specified in the instructions below.

Dated: _____, ____

Name: _____
_____ (Please Print)

_____
_____
(Insert Social Security or Other Identifying Number of Holder)

Address: _____
_____
_____
_____
_____
_____

Signature: _____
_____

This Warrant may only be exercised by presentation to the Warrant Agent at one of the following locations:

By hand at:

By mail at:

The method of delivery of this Warrant Certificate is at the option and risk of the exercising holder and the delivery of this Warrant Certificate will be deemed to be made only when actually received by the Warrant Agent. If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to assure timely delivery.

(Instructions as to form and delivery of Shares and/or Warrant Certificates)

Name in which Shares are to be registered if other than in the name of the registered holder of this Warrant Certificate:

_____

Address to which Shares are to be mailed if other than to the address of the registered holder of this Warrant Certificate as shown on the books of the Warrant Agent:

_____
(Street Address)

_____
(City and State) (Zip Code)

Name in which Warrant Certificate evidencing unexercised Warrants, if any, are to be registered if other than in the name of the registered holder of this Warrant Certificate:

Address to which certificate representing unexercised Warrants, if any, are to be mailed if other than to the address of the registered holder of this Warrant Certificate as shown on the books of the Warrant Agent:

(Street Address)

(City and State) (Zip Code)

Dated:

Signature

**Signature must conform in all respects to the name of the holder as specified on the face of this Warrant Certificate. If Shares, or a Warrant Certificate evidencing unexercised Warrants, are to be issued in a name other than that of the registered holder hereof or are to be delivered to an address other than the address of such holder as shown on the books of the Warrant Agent, the above signature must be guaranteed by a an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).**

SIGNATURE GUARANTEE

Name of Firm: _____

Address: _____

Area Code and Number: _____

Authorized Signature: _____

Name: _____

Title: _____

Dated: _____

**ASSIGNMENT**

(FORM OF ASSIGNMENT TO BE EXECUTED IF WARRANT HOLDER
DESIRES TO TRANSFER WARRANTS EVIDENCED HEREBY)

FOR VALUE RECEIVED, _____ HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO:

| | |
|---|---|
| _____ | _____ |
| (Please print name and address including zip code of assignee) | (Please insert social security or other identifying number of assignee) |

the rights represented by the within Warrant Certificate and does hereby irrevocably constitute and appoint_____ ____ Attorney to transfer said Warrant Certificate on the books of the Warrant Agent with full power of substitution in the premises.

Dated:

Signature

**(Signature must conform in all respects to the name of the holder as specified on the face of this Warrant Certificate and must bear a signature guarantee by an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).**

SIGNATURE GUARANTEE

Name of Firm: _____
Address: _____
Area Code and Number: _____
Authorized Signature: _____
Name: _____
Title: _____
Dated: _____

**Exhibit 4.4**

# WARRANT AGREEMENT

This Warrant Agreement (the "Agreement") is made as of _____, 2008 between Homeowners Choice, Inc., a Florida corporation, with offices at 145 N.W. Central Park Plaza, Suite 115, Port St. Lucie, Florida 34986 (the "Company"), and Anderson & Strudwick, Incorporated, a Virginia corporation, with offices at 707 East Main Street, 20th Floor, Richmond, Virginia 23219 (the "Holder").

**WHEREAS**, the Company is engaged in a public offering (the "Public Offering") of units and, in connection therewith, has determined to issue and deliver an aggregate of up to _____ warrants to the Holder (the "Warrants") evidencing the right of the Holder to purchase shares of the Company's common stock, no par value per share (the "Common Stock"), as described herein;

**WHEREAS**, the Warrants are to be issued to the Holder concurrently with the execution of this Agreement in consideration of the payment by the Holder to the Company of the sum of $0.001 per share of Common Stock subject to the Warrants;

**WHEREAS**, the Company has filed with the Securities and Exchange Commission a Registration Statement on Form S-1, No. 333-150513, as amended, (the "Registration Statement"), for the registration, under the Securities Act of 1933, as amended (the "Act") of, among other securities, the Common Stock issuable upon exercise of the Warrants;

**WHEREAS**, the Company desires to provide for the form and provisions of the Warrants, the terms upon which they shall be issued and exercised, and the respective rights and limitation of rights of the Company and the Holder; and

**WHEREAS**, all acts and things have been done and performed which are necessary to make the Warrants, when executed on behalf of the Company, the valid, binding and legal obligations of the Company, and to authorize the execution and delivery of this Agreement.

**NOW, THEREFORE**, in consideration of the mutual agreements herein contained, the parties hereto agree as follows:

1. **Warrants**.

1.1 **Form of Warrant.** Each Warrant shall be issued in registered form only, shall be in substantially the form of Exhibit A hereto, the provisions of which are incorporated herein, and shall be signed by, or bear the facsimile signature of, the President and the Secretary of the Company or such other officer(s) of the Company designated by its board of directors. In the event the person whose facsimile signature has been placed upon any Warrant shall have ceased to serve in the capacity in which such person signed the Warrant before such Warrant is issued, it may be issued with the same effect as if he or she had not ceased to be such at the date of issuance.

1.2 **Issuance of Warrants.** The Warrants shall be issued to the Holder concurrently with the execution of this Agreement in consideration of the payment by the Holder to the Company of the sum of $0.001 per share of Common Stock subject to the Warrants, the receipt and sufficiency of which are hereby acknowledged.

1.3 **Registered Holder.** Prior to due presentment for registration of transfer of any Warrant, the Company may deem and treat the Holder as the absolute owner of such Warrant and of each Warrant represented thereby (notwithstanding any notation of ownership or other writing on the Warrant made by anyone other than the Company), for the purpose of any exercise thereof, and for all other purposes, and the Company shall not be affected by any notice to the contrary.

2. **Terms and Exercise of Warrants**.

2.1 **Warrant Price.** Each Warrant shall entitle the Holder, subject to the provisions of such Warrant and of this Agreement, to purchase from the Company one share of Common Stock, at the price of $_____ per whole share, subject to the adjustments provided in Section 3 hereof and in the last sentence of this Section 2.1. The term "Warrant Price" as used in this Agreement refers to the price per share at which Common Stock may be purchased at the time a Warrant is exercised. The Company in its sole discretion may lower the Warrant Price at any time prior to the Expiration Date.

2.2 **Duration of Warrants.** A Warrant may be exercised only during the period (the "Exercise Period") commencing on _____, 200__ and terminating at 5:00 p.m., New York City time on the earlier to occur of (i)_____, 2013 and (ii) the day prior to the date fixed for cancellation of the Warrants as provided in Section 5 of this Agreement ("Expiration Date"). Each Warrant not exercised on or before the Expiration Date shall become void, and all rights thereunder and all rights in respect thereof under this Agreement shall cease at the close of business on the Expiration Date. The Company in its sole discretion may extend the duration of the Warrants by delaying the Expiration Date.

2.3 **Restrictive Legend.** Executed copies of this Agreement shall be filed in the office of the Company located at 2340 Drew Street, Suite 200, Clearwater, Florida 33765. Instruments evidencing all or part of the Warrant shall contain the legend shown on Exhibit A until one hundred eighty (180) days after the closing of the Public Offering, after which time such legend may be removed at the request of the Holder.

2.4 **Exercise of Warrants**.

2.4.1 **Exercise for Cash.** Subject to the provisions of the Warrant and this Agreement, a Warrant may be exercised by the Holder by surrendering it, at the office of the Company located at 2340 Drew Street, Suite 200, Clearwater, Florida 33765, Attn: Andrew Graham, General Counsel, with the subscription form, as set forth in the Warrant, duly executed, and by paying in full, in lawful money of the United States, in cash, good certified check or good bank draft payable to the order of the Company (or as otherwise agreed to by the Company), the Warrant Price for each full share of Common Stock as to which the Warrant is exercised and any and all applicable taxes due in connection with the exercise of the Warrant, the exchange of the Warrant for the Common Stock, and the issuance of the Common Stock.

2.4.2 **Cashless Exercise.** Subject to the provisions of the Warrant and this Agreement, a Warrant may be exercised by the Holder as to all or any portion of the whole number of shares covered by the Warrant by surrender of the Warrant together with irrevocable instructions to the Company to issue in exchange for the Warrant the number of shares equal to the product of (i) the number of shares as to which the Warrant is being exercised multiplied by (ii) a fraction the numerator of which is the "Current Value" (as such term is defined in Section 2.4.6 hereof) of a share less the Warrant Price therefor and the denominator of which is such Current Value. In the case of the exercise of less than all the shares exercisable under the Warrant, the Company shall cancel such Warrant and shall execute and deliver a new Warrant of like tenor for the unexercised balance.

2.4.3 **Issuance of Certificates.** As soon as practicable after the exercise of any Warrant and the clearance of the funds in payment of the Warrant Price, if applicable, the Company shall issue to the Holder a certificate or certificates for the number of full shares of Common Stock to which such Holder is entitled, registered in such name or names as may be directed by such Holder, and if such Warrant shall not have been exercised in full, a new Warrant for the number of shares as to which such Warrant shall not have been exercised. Notwithstanding the foregoing, the Company shall not be obligated to deliver any securities pursuant to the exercise of a Warrant unless a registration statement under the Act with respect to the Common Stock is effective. Warrants may not be exercised by, or securities issued to, the Holder in any state in which such exercise would be unlawful.

2.4.4 **Valid Issuance.** All shares of Common Stock issued upon the proper exercise of a Warrant in conformity with this Agreement shall be validly issued, fully paid and nonassessable.

2.4.5 **Date of Issuance.** Each person in whose name any such certificate for shares of Common Stock is issued shall for all purposes be deemed to have become the holder of record of such shares on the date on which the Warrant was surrendered and payment of the Warrant Price was made, irrespective of the date of delivery of such certificate, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

2.4.6 **Current Value.** For purposes of this section of the Agreement, "Current Value" is defined (i) in the case for which a public market exists for the shares at the time of such exercise, at a price per share equal to (A) the average of the means between the closing bid and asked prices of the shares in the over-the-counter market for the five consecutive trading days prior to the date of such notice, (B) if the shares are quoted on the Nasdaq Capital Market, the average of the means of the daily closing bid and asked prices of the shares for the five consecutive trading days prior to the date of such notice, or (C) if the shares are listed on any national securities exchange or The Nasdaq Global Market, the average of the daily closing prices of the shares for the five consecutive trading days prior to the date of such notice, and (ii) in the case no public market exists at the time of such exercise, the Appraised Value. For the

purposes of this Agreement, “Appraised Value” is the value determined in accordance with the following procedures. For a period of five (5) days after the date of an event (a “Valuation Event”) requiring determination of Current Value at a time when no public market exists for the shares (the “Negotiation Period”), each party to this Agreement agrees to negotiate in good faith to reach agreement upon the Appraised Value of the securities or property at issue, as of the date of the Valuation Event, which will be the fair market value of such securities or property, without premium for control or discount for minority interests, illiquidity or restrictions on transfer. In the event that the parties are unable to agree upon the Appraised Value of such securities or other property by the end of the Negotiation Period, then the Appraised Value of such securities or property will be determined for purposes of this Agreement by a recognized appraisal or investment banking firm mutually agreeable to the Holder and the Company (the “Appraiser”). If the Holder and the Company cannot agree on an Appraiser within two (2) business days after the end of the Negotiation Period, the Company, on the one hand, and the Holder, on the other hand, will each select an Appraiser within ten (10) business days after the end of the Negotiation Period and those Appraisers will determine the fair market value of such securities or property, without premium for control or discount for minority interests. Such independent Appraiser(s) will be directed to determine fair market value of such securities or property as soon as practicable, but in no event later than thirty (30) days from the date of its selection. The determination by Appraiser(s) of the fair market value will be conclusive and binding on all parties to this Agreement. If there are two Appraisers, and they do not agree as to fair market value, then fair market value shall be determined to be the average of the fair market values as determined by each Appraiser. Appraised Value of each share at a time when (i) the Company is not a reporting company under the Securities Exchange Act of 1934 and (ii) the shares are not traded in the organized securities markets, will, in all cases, be calculated by determining the Appraised Value of the entire Company taken as a whole and dividing that value by the number of shares then outstanding, without premium for control or discount for minority interests, illiquidity or restrictions on transfer. If there is one Appraiser, the cost of that Appraiser shall be split evenly between the Holder and the Company. If there are two Appraisers, each party shall pay the costs for its own Appraiser. In no event will the Appraised Value of the shares be less than the per share consideration received or receivable with respect to the shares or securities or property of the same class in connection with a pending transaction involving a sale, merger, recapitalization, reorganization, consolidation, or share exchange, dissolution of the Company, sale or transfer of all or a majority of its assets or revenue or income generating capacity, or similar transaction.

3. **Adjustments.**

3.1 **Stock Dividends — Split-Ups.** If after the date hereof, and subject to the provisions of Section 3.6 below, the number of outstanding shares of Common Stock is increased by a stock dividend payable in shares of Common Stock, or by a split-up of shares of Common Stock, or other similar event, then, on the effective date of such stock dividend, split-up or similar event, the number of shares of Common Stock issuable upon exercise of each Warrant shall be increased in proportion to such increase in outstanding shares of Common Stock.

3.2 **Aggregation of Shares.** If after the date hereof, and subject to the provisions of Section 3.6, the number of outstanding shares of Common Stock is decreased by a consolidation, combination, reverse stock split or reclassification of shares of Common Stock or

other similar event, then, on the effective date of such consolidation, combination, reverse stock split, reclassification or similar event, the number of shares of Common Stock issuable upon exercise of each Warrant shall be decreased in proportion to such decrease in outstanding shares of Common Stock.

3.3 **Adjustments in Warrant Price**. Whenever the number of shares of Common Stock purchasable upon the exercise of the Warrants is adjusted, as provided in Section 3.1 and 3.2 above, the Warrant Price shall be adjusted (to the nearest cent) by multiplying such Warrant Price immediately prior to such adjustment by a fraction (x) the numerator of which shall be the number of shares of Common Stock purchasable upon the exercise of the Warrants immediately prior to such adjustment, and (y) the denominator of which shall be the number of shares of Common Stock so purchasable immediately thereafter.

3.4 **Replacement of Securities Upon Reorganization, Etc.** In case of any reclassification or reorganization of the outstanding shares of Common Stock (other than a change covered by Section 3.1 or 3.2 hereof or that solely affects the par value of such shares of Common Stock), or in the case of any merger or consolidation of the Company with or into another corporation (other than a consolidation or merger in which the Company is the continuing corporation and that does not result in any reclassification or reorganization of the outstanding shares of Common Stock), or in the case of any sale or conveyance to another corporation or entity of the assets or other property of the Company as an entirety or substantially as an entirety in connection with which the Company is dissolved, the Holder shall thereafter have the right to purchase and receive, upon the basis and upon the terms and conditions specified in the Warrants and in lieu of the shares of Common Stock of the Company immediately theretofore purchasable and receivable upon the exercise of the rights represented thereby, the kind and amount of shares of stock or other securities or property (including cash) receivable upon such reclassification, reorganization, merger or consolidation, or upon a dissolution following any such sale or transfer, that the Holder would have received if the Holder had exercised its Warrant(s) immediately prior to such event; and if any reclassification also results in a change in shares of Common Stock covered by Section 3.1 or 3.2, then such adjustment shall be made pursuant to Sections 3.1, 3.2, 3.3 and this Section 3.4. The provisions of this Section 3.4 shall similarly apply to successive reclassifications, reorganizations, mergers or consolidations, sales or other transfers.

3.5 **Notices of Changes in Warrant**. Upon every adjustment of the Warrant Price or the number of shares issuable upon exercise of a Warrant, the Company shall give written notice thereof to the Holder, which notice shall state the Warrant Price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of a Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such event.

3.6 **No Fractional Shares**. Notwithstanding any provision contained in this Agreement to the contrary, the Company shall not issue fractional shares upon exercise of Warrants and no payment will be made with respect to any fractional share of Common Stock to which the Holder might otherwise be entitled upon exercise of Warrants.

3.7 **Form of Warrant**. The form of Warrant need not be changed because of any adjustment pursuant to this Section 3, and Warrants issued after such adjustment may state the same Warrant Price and the same number of shares as is stated in the Warrants initially issued pursuant to this Agreement. However, the Company may at any time in its sole discretion make any change in the form of Warrant that the Company may deem appropriate and that does not affect the substance thereof, and any Warrant thereafter issued, whether in exchange or substitution for an outstanding Warrant or otherwise, may be in the form as so changed.

4. **Assignment and Transfer of Warrants**.

4.1 **Assignment; Replacement of Warrant**. The Warrant and the shares underlying the Warrant may be sold, transferred, assigned, pledged or hypothecated by the Holder prior to one hundred eighty (180) days after the closing of the Public Offering only to *bona fide* officers of the Holder, who in turn shall be subject to the same restriction. Any assignment shall be effected in accordance with the Form of Assignment which is attached (along with the Form of Warrant) as Exhibit A hereto. If the Warrant is assigned, in whole or in part, the Warrant shall be surrendered at the office of the Company located at 2340 Drew Street, Suite 200, Clearwater, Florida 33765, Attn: Andrew Graham, General Counsel, and thereupon, in the case of a partial assignment, a new Warrant shall be issued to the Holder covering the number of shares not assigned, and the assignee shall be entitled to receive a new Warrant covering the number of shares so assigned. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Warrant and appropriate bond or indemnification protection, the Company shall issue a new Warrant of like tenor.

4.2 **Fractional Warrants**. The Company shall not be required to effect any transfer, assignment or exchange which will result in the issuance of a warrant certificate for a fraction of a warrant.

5. **Cancellation of Warrants**.

5.1 **Cancellation**. Subject to Section 5.4 hereof, the outstanding Warrants may be cancelled in whole or in part (and if in part, by lot) at the option of the Company, at any time before the expiration of the Warrants and after _____ ___, _____ , upon the notice referred to in Section 5.2, provided that the closing price per share of the Common Stock has exceeded $_____ for at least ten (10) trading days within any period of twenty (20) consecutive trading days, including the last trading day of the period.

5.2 **Date Fixed for, and Notice of, Cancellation**. In the event that the Company shall elect to cancel all or a portion of the Warrants, the Company shall fix a date for the cancellation. The date of cancellation shall be a date which is more than 30 calendar days, but less than 60 calendar days after a notice of cancellation is mailed by the Company by first class mail to the Holder at its last address as it shall appear in the Company's warrant ledger. Any notice mailed in the manner herein provided shall be conclusively presumed to have been duly given whether or not the Holder receives such notice.

5.3 **Exercise After Notice of Cancellation**. The Warrants may be exercised at any time after notice of cancellation has been given by the Company pursuant to Section 5.2 hereof and prior to the close of business on the business day that is one day prior to the date fixed for cancellation. On and after the cancellation date, the Holder shall have no further rights under the Warrants.

5.4 **Outstanding Warrants Only**. The Company understands that the cancellation rights provided for by this Section 5 apply only to outstanding Warrants.

6. **Other Provisions Relating to Rights of Holder of Warrant**

6.1 **No Rights As Shareholder**. A Warrant does not entitle the Holder to any of the rights of a shareholder of the Company, including, without limitation, the right to receive dividends, or other distributions, to exercise any preemptive rights to vote or to consent or to receive notice as a shareholder in respect of the meetings of shareholders or the election of directors of the Company or any other matter.

6.2 **Lost, Stolen, Mutilated, or Destroyed Warrants**. If any Warrant is lost, stolen, mutilated, or destroyed, the Company may on such terms as to indemnity or otherwise as it may in its discretion impose (which shall, in the case of a mutilated Warrant, include the surrender thereof), issue a new Warrant of like denomination, tenor, and date as the Warrant so lost, stolen, mutilated, or destroyed. Any such new Warrant shall constitute a substitute contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated, or destroyed Warrant shall be at any time enforceable by anyone.

6.3 **Reservation of Common Stock**. The Company shall at all times reserve and keep available a number of its authorized but unissued shares of Common Stock that will be sufficient to permit the exercise in full of all outstanding Warrants issued pursuant to this Agreement.

6.4 **Registration of Common Stock**. The Company has filed with the Securities and Exchange Commission a Registration Statement for the registration, under the Act, of, and it shall take such action as is necessary to qualify for sale, in those states in which the Warrants were initially offered by the Company, the Common Stock issuable upon exercise of the Warrants. The Company will use its best efforts to maintain the effectiveness of such Registration Statement until the expiration of the Warrants in accordance with the provisions of this Agreement.

7. **Miscellaneous Provisions**.

7.1 **Successors**. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Holder shall bind and inure to the benefit of their respective successors and assigns.

7.2 **Definition**. All references to the “Holder” in this Agreement shall be deemed to apply with equal effect to any persons or entities to whom a Warrant has been transferred in accordance with the terms hereof, and, where appropriate, to any persons or entities holding shares issuable upon exercise of a Warrant.

7.3 **Notices**. Any notice, statement or demand authorized by this Agreement to be given or made by the Holder to or on the Company shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service within five days after deposit of such notice, postage prepaid, addressed, as follows:

Homeowners Choice, Inc.
2340 Drew Street, Suite 200
Clearwater, Florida 33765
Attn: Andrew Graham, General Counsel

with a copy to:

Foley & Lardner LLP
100 North Tampa Street, Suite 2700
Tampa, Florida 33602
Attn: Martin A. Traber and Carolyn T. Long

Any notice, statement or demand authorized by this Agreement to be given or made by the Company to or on the Holder shall be sufficiently given when so delivered if by hand or overnight delivery or if sent by certified mail or private courier service within five days after deposit of such notice, postage prepaid, to the Holder's address shown in the warrant ledger of the Company, provided that the Holder may at any time on three (3) days' written notice to the Company designate or substitute another address where notice is to be given.

7.4 **Applicable Law**. The validity, interpretation, and performance of this Agreement and of the Warrants shall be governed in all respects by the laws of the State of Florida, without giving effect to conflicts of law principles that would result in the application of the substantive laws of another jurisdiction. The Company and the Holder hereby agree that any action, proceeding or claim arising out of or relating in any way to this Agreement shall be brought and enforced in the courts of the State of Florida or the United States District Court for the Middle District of Florida, and irrevocably submit to such jurisdiction, which jurisdiction shall be exclusive. The Holder hereby waives any objection to such exclusive jurisdiction and that such courts represent an inconvenient forum. Any such process or summons to be served upon the Holder may be served by transmitting a copy thereof by registered or certified mail, return receipt requested, postage prepaid, addressed to it at the address set forth in the warrant ledger of the Company. Such mailing shall be deemed personal service and shall be legal and binding upon the Holder in any action, proceeding or claim.

7.5 **Persons Having Rights Under This Agreement**. Nothing in this Agreement expressed and nothing that may be implied from any of the provisions hereof is intended, or shall be construed, to confer upon, or give to, any person or corporation other than the parties hereto, any right, remedy, or claim under or by reason of this Agreement or any covenant, condition, stipulation, promise, or agreement herein. All covenants, conditions, stipulations, promises, and agreements contained in this Agreement shall be for the sole and exclusive benefit of the parties hereto and their successors and assigns.

7.6 **Counterparts**. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

7.7 **Effect of Headings**. The Section headings herein are for convenience only and are not part of this Agreement and shall not affect the interpretation thereof.

**IN WITNESS WHEREOF**, this Agreement has been duly executed by the parties hereto as of the day and year first above written.

Attest:

_____

**HOMEOWNERS CHOICE, INC.**

By: _____

Name: _____

Title: _____

Attest:

_____

**ANDERSON & STRUDWICK, INCORPORATED**

By: _____

Name: _____

Title: _____

**EXHIBIT A**

**FORM OF WARRANT CERTIFICATE**

**UNTIL ONE HUNDRED EIGHTY (180) DAYS AFTER THE CLOSING OF THE INITIAL PUBLIC OFFERING OF THE COMMON STOCK OF HOMEOWNERS CHOICE, INC., NEITHER ANDERSON & STRUDWICK, INCORPORATED NOR ANY ASSIGNEE OF ALL OR A PORTION OF THE RIGHTS PURSUANT TO THIS WARRANT MAY SELL, TRANSFER, ASSIGN, PLEDGE OR HYPOTHECATE ANY OF ITS RIGHTS PURSUANT TO THIS WARRANT OTHER THAN TO BONA FIDE OFFICERS OF ANDERSON & STRUDWICK, INCORPORATED.**

Warrant Certificate evidencing
Warrants to Purchase Common Stock, no par value, as described herein.

Homeowners Choice, Inc.

No.____ CUSIP No. _____

**VOID AFTER 5:00 P.M., NEW YORK CITY TIME,**
**ON _____, 2013, OR UPON EARLIER CANCELLATION**

This certifies that _____, or its registered assigns, is the registered holder of_____ warrants to purchase certain securities (each a "**Warrant**"). Each Warrant entitles the holder thereof, subject to the provisions contained herein and in the Warrant Agreement (as defined below), to purchase from Homeowners Choice, Inc., a Florida corporation (the "**Company**"), one share of the Company's Common Stock (each, a "**Share**") at an initial Exercise Price (the "**Exercise Price**") of $_____ per Share, subject to adjustments as set forth in the Warrant Agreement (as defined below).

Subject to the terms of the Warrant Agreement, each Warrant evidenced hereby may be exercised in whole, but not in part, at any time, as specified herein, on any Business Day (as defined below) occurring during the period (the "**Exercise Period**") commencing on _____, 200__ and ending at 5:00 P.M., New York City time, on the earlier to occur of (i)_____, 2013 and (ii) the day prior to the date fixed for cancellation of the Warrants as provided in Section 5 of the Warrant Agreement (the "**Expiration Date**"). Each Warrant remaining unexercised after 5:00 P.M., New York City time on the Expiration Date shall become void, and all rights of the holder of this Warrant Certificate evidencing such Warrant shall cease.

The holder of the Warrants represented by this Warrant Certificate may exercise any Warrants by delivering, not later than 5:00 P.M., New York City time, on any Business Day during the Exercise Period (the "**Exercise Date**") to the Company at its office located at 2340 Drew Street, Suite 200, Clearwater, Florida 33765, Attn: Andrew Graham, General Counsel (i) this Warrant Certificate, (ii) an election to purchase ("**Election to Purchase**"), properly executed

by the holder hereof on the reverse of this Warrant Certificate or substantially in the form included on the reverse hereof, as applicable and (iii) the Exercise Price for each of the Warrants to be exercised in lawful money of the United States of America by certified or official bank check.

In addition, the holder of the Warrant represented by this Warrant Certificate may exercise any Warrants by delivering to the Company (at the address listed above), not later than 5:00 P.M. New York City time on the Exercise Date, this Warrant Certificate together with irrevocable instructions to the Company to issue in exchange for the Warrant Certificate the number of Shares equal to the product of (i) the number of Shares as to which the Warrant is being exercised multiplied by (ii) a fraction the numerator of which is the "Current Value" (as such term is defined in Section 2.4.6 of the Warrant Agreement) of a Share less the Exercise Price therefor and the denominator of which is such Current Value.

If any of (a) this Warrant Certificate, (b) the Election to Purchase, (c) the Exercise Price therefore, or (d) the instructions for the cashless exercise, if applicable, is received by the Company after 5:00 P.M., New York City time, the Warrants will be deemed to be received and exercised on the Business Day next succeeding the date such items are received and such date shall be the Exercise Date for purposes hereof. If the date such items are received is not a Business Day, the Warrants will be deemed to be received and exercised on the next succeeding day which is a Business Day and such date shall be the Exercise Date. If the Warrants to be exercised are received or deemed to be received after the Expiration Date, the exercise thereof will be null and void and any funds delivered to the Company will be returned to the holder as soon as practicable. In no event will interest accrue on funds deposited with the Company in respect of an exercise or attempted exercise of Warrants. The validity of any exercise of Warrants will be determined by the Company in its sole discretion and such determination will be final and binding upon the holder of the Warrants. The Company shall not have any obligation to inform a holder of Warrants of the invalidity of any exercise of Warrants.

As used herein, the term "**Business Day**" means any day that is not a Saturday or Sunday and is not a United States federal holiday or a day on which banking institutions generally are authorized or obligated by law or regulation to close in New York City.

Warrants may be exercised only in whole numbers of Warrants. No fractional shares of Common Stock are to be issued upon the exercise of any Warrant and no payment will be made with respect to any fractional share of Common Stock to which any holder of Warrants might otherwise be entitled upon exercise of Warrants. If fewer than all of the Warrants evidenced by this Warrant Certificate are exercised, a new Warrant Certificate for the number of Warrants remaining unexercised shall be executed by the Company as provided in Section 1 of the Warrant Agreement, and delivered to the holder of this Warrant Certificate at the address specified in the warrant ledger or as otherwise specified by such registered holder.

This Warrant Certificate is issued under and in accordance with the Warrant Agreement, dated as of_____, 2008 (the "**Warrant Agreement**"), between the Company and Anderson & Strudwick, Incorporated and is subject to the terms and provisions contained in the Warrant Agreement, to all of which terms and provisions the holder of this Warrant Certificate and the beneficial owners of the Warrants represented by this Warrant Certificate consent by acceptance hereof. Copies of the Warrant Agreement are on file and can be inspected at the office of the Company at 2340 Drew Street, Suite 200, Clearwater, Florida 33765.

After _____ ____, _____ , the Company may, at its option, cancel in whole or in part (and if in part, by lot) the then outstanding Warrants upon giving notice in accordance with the terms of the Warrant Agreement (the "**Cancellation Notice**"), provided, that the closing price per share of the Company's common stock has exceeded $_____ for at least ten (10) trading days within any period of twenty (20) consecutive trading days, including the last trading day of the period. In the event that the Company shall elect to cancel all or a portion of the then outstanding Warrants, the Company shall fix a date for the cancellation (the "**Cancellation Date**"). The Warrants may be exercised in accordance with the terms of this Agreement at any time after a Cancellation Notice shall have been given by the Company; provided, however, that no Warrants may be exercised subsequent to the expiration of the Exercise Period; provided, further, that all rights whatsoever with respect to the Warrants shall cease on the Cancellation Date.

The accrual of dividends, if any, on the Shares issued upon the valid exercise of any Warrant will be governed by the terms generally applicable to such Shares. From and after the issuance of such Shares, the former holder of the Warrants exercised will be entitled to the benefits generally available to other holders of Shares and such former holder's right to receive payments of dividends and any other amounts payable in respect of the Shares shall be governed by, and shall be subject to, the terms and provisions generally applicable to such Shares.

The Exercise Price and the number of Shares purchasable upon the exercise of each Warrant shall be subject to adjustment as provided pursuant to Section 3 of the Warrant Agreement.

Neither this Warrant Certificate nor the Warrants evidenced hereby shall entitle the holder hereof or thereof to any of the rights of a holder of the Shares, including, without limitation, the right to receive dividends, if any, or payments upon the liquidation, dissolution or winding up of the Company or to exercise voting rights, if any.

The Warrant Agreement and this Warrant Certificate may be amended as provided in the Warrant Agreement including, under certain circumstances described therein, without the consent of the holder of this Warrant Certificate or the Warrants evidenced thereby.

**THIS WARRANT CERTIFICATE AND ALL RIGHTS HEREUNDER AND UNDER THE WARRANT AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA APPLICABLE TO CONTRACTS FORMED AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF FLORIDA, WITHOUT REGARD TO THE CONFLICTS OF LAW PROVISIONS THEREOF TO THE EXTENT SUCH PRINCIPLES OR RULES WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.**

**IN WITNESS WHEREOF**, the Company has caused this instrument to be duly executed.

Dated as of _____, 2008

**HOMEOWNERS CHOICE, INC.**

By: _____

Name: _____

Title: _____

**[REVERSE]**

Instructions for Exercise of Warrant

To exercise the Warrants evidenced hereby, the holder must, by 5:00 P.M., New York City time, on the specified Exercise Date, deliver to the Company, a certified or official bank check, in each case payable to the Company, in an amount equal to the Exercise Price in full for the Warrants exercised. In addition, the Warrant holder must provide the information required below and deliver this Warrant Certificate to the Company at the address set forth below. The Warrant Certificate and this Election to Purchase must be received by the Company by 5:00 P.M., New York time, on the specified Exercise Date.

ELECTION TO PURCHASE
TO BE EXECUTED IF WARRANT HOLDER DESIRES
TO EXERCISE THE WARRANTS EVIDENCED HEREBY

The undersigned hereby irrevocably elects to exercise, on_____, _____ (the "**Exercise Date**"), _____ Warrants, evidenced by this Warrant Certificate, to purchase, _____ of the shares of Common Stock (each a "**Share**") of Homeowners Choice, Inc., a Florida corporation (the "**Company**"), and represents that, on or before the Exercise Date, such holder has tendered payment for such Shares by certified or official bank check to the order of the Company, in the amount of $ _____ in accordance with the terms hereof. The undersigned requests that said number of Shares be in fully registered form, registered in such names and delivered, all as specified in accordance with the instructions set forth below.

If said number of Shares is less than all of the Shares purchasable hereunder, the undersigned requests that a new Warrant Certificate evidencing the remaining balance of the Warrants evidenced hereby be issued and delivered to the holder of the Warrant Certificate unless otherwise specified in the instructions below.

Dated: _____, ____

Name: _____ (Please Print)

_____
(Insert Social Security or Other Identifying Number of Holder)

Address: _____

_____

_____

Signature: _____

This Warrant may only be exercised by presentation to the Company at the following location:

By hand at: 2340 Drew Street, Suite 200, Clearwater, Florida 33765

By mail at: 2340 Drew Street, Suite 200, Clearwater, Florida 33765, Attn: Andrew Graham, General Counsel

The method of delivery of this Warrant Certificate is at the option and risk of the exercising holder and the delivery of this Warrant Certificate will be deemed to be made only when actually received by the Company. If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to assure timely delivery.

(Instructions as to form and delivery of Shares and/or Warrant Certificates)

Name in which Shares are to be registered if other than in the name of the registered holder of this Warrant Certificate:

_____

Address to which Shares are to be mailed if other than to the address of the registered holder of this Warrant Certificate as shown on the warrant ledger:

_____
(Street Address)

_____
(City and State) (Zip Code)

Name in which Warrant Certificate evidencing unexercised Warrants, if any, are to be registered if other than in the name of the registered holder of this Warrant Certificate:

Address to which certificate representing unexercised Warrants, if any, are to be mailed if other than to the address of the registered holder of this Warrant Certificate as shown on the warrant ledger:

(Street Address)

(City and State) (Zip Code)

Dated:

Signature

**Signature must conform in all respects to the name of the holder as specified on the face of this Warrant Certificate. If Shares, or a Warrant Certificate evidencing unexercised Warrants, are to be issued in a name other than that of the registered holder hereof or are to be delivered to an address other than the address of such holder as shown on the warrant ledger, the above signature must be guaranteed by a an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).**

SIGNATURE GUARANTEE

Name of Firm: _____

Address: _____

Area Code and Number: _____

Authorized Signature: _____

Name: _____

Title: _____

Dated: _____

**ASSIGNMENT**

(FORM OF ASSIGNMENT TO BE EXECUTED IF WARRANT HOLDER
DESIRES TO TRANSFER WARRANTS EVIDENCED HEREBY)

FOR VALUE RECEIVED, _____ HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO:

_____ _____

(Please print name and address including zip code of assignee)

(Please insert social security or other identifying number of assignee)

the rights represented by the within Warrant Certificate and does hereby irrevocably constitute and appoint_____ Attorney to transfer said Warrant Certificate on the books of the Company with full power of substitution in the premises.

Dated:

_____

Signature

**(Signature must conform in all respects to the name of the holder as specified on the face of this Warrant Certificate and must bear a signature guarantee by an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).**

SIGNATURE GUARANTEE

Name of Firm: _____
Address: _____
Area Code and Number: _____
Authorized Signature: _____
Name: _____
Title: _____
Dated: _____

**UNTIL ONE HUNDRED EIGHTY (180) DAYS AFTER THE CLOSING OF THE INITIAL PUBLIC OFFERING OF THE COMMON STOCK OF HOMEOWNERS CHOICE, INC., NEITHER ANDERSON & STRUDWICK, INCORPORATED NOR ANY ASSIGNEE OF ALL OR A PORTION OF THE RIGHTS PURSUANT TO THIS WARRANT MAY SELL, TRANSFER, ASSIGN, PLEDGE OR HYPOTHECATE ANY OF ITS RIGHTS PURSUANT TO THIS WARRANT OTHER THAN TO BONA FIDE OFFICERS OF ANDERSON & STRUDWICK, INCORPORATED.**

Warrant Certificate evidencing
Warrants to Purchase Common Stock, no par value, as described herein.

Homeowners Choice, Inc.

No.___ CUSIP No._____

**VOID AFTER 5:00 P.M., NEW YORK CITY TIME,**
**ON _____, 2013, OR UPON EARLIER CANCELLATION**

This certifies that _____, or its registered assigns, is the registered holder of_____ warrants to purchase certain securities (each a "**Warrant**"). Each Warrant entitles the holder thereof, subject to the provisions contained herein and in the Warrant Agreement (as defined below), to purchase from Homeowners Choice, Inc., a Florida corporation (the "**Company**"), one share of the Company's Common Stock (each, a "**Share**") at an initial Exercise Price (the "**Exercise Price**") of $____ per Share, subject to adjustments as set forth in the Warrant Agreement (as defined below).

Subject to the terms of the Warrant Agreement, each Warrant evidenced hereby may be exercised in whole, but not in part, at any time, as specified herein, on any Business Day (as defined below) occurring during the period (the "**Exercise Period**") commencing on _____, 200__ and ending at 5:00 P.M., New York City time, on the earlier to occur of (i)_____, 2013 and (ii) the day prior to the date fixed for cancellation of the Warrants as provided in Section 5 of the Warrant Agreement (the "**Expiration Date**"). Each Warrant remaining unexercised after 5:00 P.M., New York City time on the Expiration Date shall become void, and all rights of the holder of this Warrant Certificate evidencing such Warrant shall cease.

The holder of the Warrants represented by this Warrant Certificate may exercise any Warrants by delivering, not later than 5:00 P.M., New York City time, on any Business Day during the Exercise Period (the "**Exercise Date**") to the Company at its office located at 2340 Drew Street, Suite 200, Clearwater, Florida 33765, Attn: Andrew Graham, General Counsel (i) this Warrant Certificate, (ii) an election to purchase ("**Election to Purchase**"), properly executed by the holder hereof on the reverse of this Warrant Certificate or substantially in the form included on the reverse hereof, as applicable and (iii) the Exercise Price for each of the Warrants to be exercised in lawful money of the United States of America by certified or official bank check.

In addition, the holder of the Warrant represented by this Warrant Certificate may exercise any Warrants by delivering to the Company (at the address listed above), not later than 5:00 P.M. New York City time on the Exercise Date, this Warrant Certificate together with irrevocable instructions to the Company to issue in exchange for the Warrant Certificate the number of Shares equal to the product of (i) the number of Shares as to which the Warrant is being exercised multiplied by (ii) a fraction the numerator of which is the "Current Value" (as such term is defined in Section 2.4.6 of the Warrant Agreement) of a Share less the Exercise Price therefor and the denominator of which is such Current Value.

If any of (a) this Warrant Certificate, (b) the Election to Purchase, (c) the Exercise Price therefore, or (d) the instructions for the cashless exercise, if applicable, is received by the Company after 5:00 P.M., New York City time, the Warrants will be deemed to be received and exercised on the Business Day next succeeding the date such items are received and such date shall be the Exercise Date for purposes hereof. If the date such items are received is not a Business Day, the Warrants will be deemed to be received and exercised on the next succeeding day which is a Business Day and such date shall be the Exercise Date. If the Warrants to be exercised are received or deemed to be received after the Expiration Date, the exercise thereof will be null and void and any funds delivered to the Company will be returned to the holder as soon as practicable. In no event will interest accrue on funds deposited with the Company in respect of an exercise or attempted exercise of Warrants. The validity of any exercise of Warrants will be determined by the Company in its sole discretion and such determination will be final and binding upon the holder of the Warrants. The Company shall not have any obligation to inform a holder of Warrants of the invalidity of any exercise of Warrants.

As used herein, the term "**Business Day**" means any day that is not a Saturday or Sunday and is not a United States federal holiday or a day on which banking institutions generally are authorized or obligated by law or regulation to close in New York City.

Warrants may be exercised only in whole numbers of Warrants. No fractional shares of Common Stock are to be issued upon the exercise of any Warrant and no payment will be made with respect to any fractional share of Common Stock to which any holder of Warrants might otherwise be entitled upon exercise of Warrants. If fewer than all of the Warrants evidenced by this Warrant Certificate are exercised, a new Warrant Certificate for the number of Warrants remaining unexercised shall be executed by the Company as provided in Section 1 of the Warrant Agreement, and delivered to the holder of this Warrant Certificate at the address specified in the warrant ledger or as otherwise specified by such registered holder.

This Warrant Certificate is issued under and in accordance with the Warrant Agreement, dated as of_____, 2008 (the "**Warrant Agreement**"), between the Company and Anderson & Strudwick, Incorporated and is subject to the terms and provisions contained in the Warrant Agreement, to all of which terms and provisions the holder of this Warrant Certificate and the beneficial owners of the Warrants represented by this Warrant Certificate consent by acceptance hereof. Copies of the Warrant Agreement are on file and can be inspected at the office of the Company at 2340 Drew Street, Suite 200, Clearwater, Florida 33765.

After _____ __, _____, the Company may, at its option, cancel in whole or in part (and if in part, by lot) the then outstanding Warrants upon giving notice in accordance with the terms of the Warrant Agreement (the "**Cancellation Notice**"), provided, that the closing price per share of the Company's common stock has exceeded $___ for at least ten (10) trading days within any period of twenty (20) consecutive trading days, including the last trading day of the period. In the event that the Company shall elect to cancel all or a portion of the then outstanding Warrants, the Company shall fix a date for the cancellation (the "**Cancellation Date**"). The Warrants may be exercised in accordance with the terms of this Agreement at any time after a Cancellation Notice shall have been given by the Company; provided, however, that no Warrants may be exercised subsequent to the expiration of the Exercise Period; provided, further, that all rights whatsoever with respect to the Warrants shall cease on the Cancellation Date.

The accrual of dividends, if any, on the Shares issued upon the valid exercise of any Warrant will be governed by the terms generally applicable to such Shares. From and after the issuance of such Shares, the former holder of the Warrants exercised will be entitled to the benefits generally available to other holders of Shares and such former holder's right to receive payments of dividends and any other amounts payable in respect of the Shares shall be governed by, and shall be subject to, the terms and provisions generally applicable to such Shares.

The Exercise Price and the number of Shares purchasable upon the exercise of each Warrant shall be subject to adjustment as provided pursuant to Section 3 of the Warrant Agreement.

Neither this Warrant Certificate nor the Warrants evidenced hereby shall entitle the holder hereof or thereof to any of the rights of a holder of the Shares, including, without limitation, the right to receive dividends, if any, or payments upon the liquidation, dissolution or winding up of the Company or to exercise voting rights, if any.

The Warrant Agreement and this Warrant Certificate may be amended as provided in the Warrant Agreement including, under certain circumstances described therein, without the consent of the holder of this Warrant Certificate or the Warrants evidenced thereby.

**THIS WARRANT CERTIFICATE AND ALL RIGHTS HEREUNDER AND UNDER THE WARRANT AGREEMENT SHALL BE GOVERNED BY AND INTERPRETED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF FLORIDA APPLICABLE TO CONTRACTS FORMED AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF FLORIDA, WITHOUT REGARD TO THE CONFLICTS OF LAW PROVISIONS THEREOF TO THE EXTENT SUCH PRINCIPLES OR RULES WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.**

**IN WITNESS WHEREOF**, the Company has caused this instrument to be duly executed.

Dated as of _____, 2008

**HOMEOWNERS CHOICE, INC.**

By: _____

Name: _____

Title: _____

**[REVERSE]**

Instructions for Exercise of Warrant

To exercise the Warrants evidenced hereby, the holder must, by 5:00 P.M., New York City time, on the specified Exercise Date, deliver to the Company, a certified or official bank check, in each case payable to the Company, in an amount equal to the Exercise Price in full for the Warrants exercised. In addition, the Warrant holder must provide the information required below and deliver this Warrant Certificate to the Company at the address set forth below. The Warrant Certificate and this Election to Purchase must be received by the Company by 5:00 P.M., New York time, on the specified Exercise Date.

ELECTION TO PURCHASE
TO BE EXECUTED IF WARRANT HOLDER DESIRES
TO EXERCISE THE WARRANTS EVIDENCED HEREBY

The undersigned hereby irrevocably elects to exercise, on_____, ____ (the "**Exercise Date**"), _____ Warrants, evidenced by this Warrant Certificate, to purchase, _____ of the shares of Common Stock (each a "**Share**") of Homeowners Choice, Inc., a Florida corporation (the "**Company**"), and represents that, on or before the Exercise Date, such holder has tendered payment for such Shares by certified or official bank check to the order of the Company, in the amount of $ _____ in accordance with the terms hereof. The undersigned requests that said number of Shares be in fully registered form, registered in such names and delivered, all as specified in accordance with the instructions set forth below.

If said number of Shares is less than all of the Shares purchasable hereunder, the undersigned requests that a new Warrant Certificate evidencing the remaining balance of the Warrants evidenced hereby be issued and delivered to the holder of the Warrant Certificate unless otherwise specified in the instructions below.

Dated: _____, ____

Name: _____ (Please Print)

_____
(Insert Social Security or Other Identifying Number of Holder)

Address: _____

_____

_____

Signature: _____

This Warrant may only be exercised by presentation to the Company at the following location:

By hand at: 2340 Drew Street, Suite 200, Clearwater, Florida 33765

By mail at: 2340 Drew Street, Suite 200, Clearwater, Florida 33765, Attn: Andrew Graham, General Counsel

The method of delivery of this Warrant Certificate is at the option and risk of the exercising holder and the delivery of this Warrant Certificate will be deemed to be made only when actually received by the Company. If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to assure timely delivery.

(Instructions as to form and delivery of Shares and/or Warrant Certificates)

Name in which Shares are to be registered if other than in the name of the registered holder of this Warrant Certificate: _____

Address to which Shares are to be mailed if other than to the address of the registered holder of this Warrant Certificate as shown on the warrant ledger: _____

(Street Address)

_____

(City and State) (Zip Code)

Name in which Warrant Certificate evidencing unexercised Warrants, if any, are to be registered if other than in the name of the registered holder of this Warrant Certificate:

Address to which certificate representing unexercised Warrants, if any, are to be mailed if other than to the address of the registered holder of this Warrant Certificate as shown on the warrant ledger:

(Street Address)

(City and State) (Zip Code)

Dated:

Signature

**Signature must conform in all respects to the name of the holder as specified on the face of this Warrant Certificate. If Shares, or a Warrant Certificate evidencing unexercised Warrants, are to be issued in a name other than that of the registered holder hereof or are to be delivered to an address other than the address of such holder as shown on the warrant ledger, the above signature must be guaranteed by a an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).**

SIGNATURE GUARANTEE

Name of Firm: _____

Address: _____

Area Code and Number: _____

Authorized Signature: _____

Name: _____

Title: _____

Dated: _____

**ASSIGNMENT**

(FORM OF ASSIGNMENT TO BE EXECUTED IF WARRANT HOLDER
DESIRES TO TRANSFER WARRANTS EVIDENCED HEREBY)

FOR VALUE RECEIVED, _____ HEREBY SELL(S), ASSIGN(S) AND TRANSFER(S) UNTO:

| | |
|---|---|
| (Please print name and address including zip code of assignee) | (Please insert social security or other identifying number of assignee) |

the rights represented by the within Warrant Certificate and does hereby irrevocably constitute and appoint_____ Attorney to transfer said Warrant Certificate on the books of the Company with full power of substitution in the premises.

Dated:

_____
Signature

**(Signature must conform in all respects to the name of the holder as specified on the face of this Warrant Certificate and must bear a signature guarantee by an Eligible Guarantor Institution (as that term is defined in Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended).**

SIGNATURE GUARANTEE

Name of Firm: _____
Address: _____
Area Code and Number: _____
Authorized Signature: _____
Name: _____
Title: _____
Dated: _____

**Exhibit 5.1**

FOLEY

FOLEY & LARDNER LLP

**ATTORNEYS AT LAW**

100 NORTH TAMPA STREET, SUITE 2700
TAMPA, FL 33602-5810
P.O. BOX 3391
TAMPA, FL 33601-3391
813.229.2300 TEL
813.221.4210 FAX
foley.com

July 8, 2008

CLIENT/MATTER NUMBER
084147-0102

Homeowners Choice, Inc.
145 NW Central Park Plaza, Suite 115
Port St. Lucie, Florida 34986

Ladies and Gentlemen:

You have requested our opinion with respect to certain matters in connection with the filing by Homeowners Choice, Inc. (the "Company") of a Registration Statement (No. 333-150513) on Form S-1 (as amended, the "Registration Statement"), with the Securities and Exchange Commission (the "Commission"), including a related prospectus to be filed with the Commission pursuant to Rule 424(b) of Regulation C (the "Prospectus") under the Securities Act of 1933, as amended, and the public offering of up to 1,666,668 Units, with each "Unit" consisting of one share (collectively, the "Shares") of the Company's common stock, no par value ("Common Stock") and one warrant ("Warrant").

In connection with this opinion, we have examined and relied upon the Registration Statement and related Prospectus; the Company's Articles of Incorporation (as amended); the Company's Bylaws (as amended); and minutes, resolutions and records of the Company's Board of Directors authorizing the issuance of the Units subject to the Registration Statement, together with certain related matters, and we have considered such matters of law and of fact, including the examination of originals or copies, certified or otherwise identified to our satisfaction, of such records, documents, certificates, and other instruments of the Company, certificates of officers, directors and representatives of the Company, certificates of public officials, and such other documents as in our judgment are necessary or appropriate to enable us to render the opinion expressed below. We have assumed the genuineness and authenticity of all documents submitted to us as originals, the conformity to originals of all documents submitted to us as copies thereof, and the due execution and delivery of all documents where due execution and delivery are a prerequisite to the effectiveness thereof.

The opinions set forth in this letter are limited solely to the laws of the State of Florida, and we express no opinion as to the laws of any other jurisdiction. This letter has been prepared and is to be construed in accordance with the Reports on Standards for Opinions of Florida Legal Counsel for Business and Real Estate Transactions (September 1998) (the "Report"), and the Report is incorporated by reference in this letter.

Based upon the foregoing, and in reliance thereon, we are of the opinion that the Shares underlying the Units and the Warrants have been duly authorized, and when sold and issued in accordance with the Registration Statement and related Prospectus, will be validly issued, fully paid and nonassessable. We consent to the reference to our firm under the caption "Legal Matters" in the Prospectus included in the Registration Statement and to the filing of this opinion as an exhibit to the Registration Statement. In giving our consent, we do not admit that we are "experts" within the meaning of Section 11 of the Securities Act or within the category of persons whose consent is required by Section 7 of the Securities Act.

Very truly yours,

/s/ Foley & Lardner LLP
FOLEY & LARDNER LLP

**Exhibit 10.19**

**AMENDMENT TO VOTING AGREEMENT**

Homeowners Choice, Inc. and the undersigned Shareholders hereby agree to amend the Voting Agreement as follows:

The Agreement will automatically terminate upon completion of a public sale of shares of any stock by the Company pursuant to an effective registration statement under the Securities Act of 1933, as amended.

HOMEOWNERS CHOICE, INC.

By: /s/ Francis X. McCahill
Francis X. McCahill
As Chief Executive Officer

By: /s/ Paresh Patel
Paresh Patel

By: /s/ Martin A. Traber
Martin A. Traber

By: /s/ George Apostolou
George Apostolou

By: /s/ Gregory Politis
Gregory Politis

By: /s/ Krishna Persaud
Krishna Persaud

By: /s/ Sanjay Madhu
Sanjay Madhu

By: /s/ Anthony Saravanos
Anthony Saravanos

By: /s/ Mark S. Berset
Mark S. Berset

**VOTING AGREEMENT**

This **VOTING AGREEMENT** (the "Agreement") is made and entered into as of , 2007, by and among the holders of Common Stock of the Company executing a counterpart signature page to this Agreement as a shareholder (hereinafter individually referred to each as a "Shareholder" and collectively as the "Shareholders"), and **HOMEOWNERS CHOICE, INC**., a Florida corporation (the "Company").

**WITNESSETH**:

**WHEREAS**, the Shareholders own shares of the outstanding Voting Common Stock (the "Shares") of the Company; and

**WHEREAS**, to provide for continuity in management of the Corporation, to prevent conflicts and to avoid deadlocks, the Shareholders desire to enter into this Agreement to provide for the voting of certain members to the Board of Directors (the "Board").

**NOW, THEREFORE**, in consideration of the foregoing premises and certain other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Shareholders and the Company agree as follows:

1. Agreement to Vote. Each Shareholder, hereby agrees on behalf of itself and any transferee or assignee of any the Shares, to hold all of the Shares subject to, and to vote the Shares at a regular or special meeting of stockholders (or by written consent) in accordance with, the provisions of this Agreement.

2. Board Composition. The Shareholders shall vote at a regular or special meeting of stockholders (or by written consent) such shares that they own (or as to which they have voting power) to ensure that the Board shall consist at all times of those individuals as provided on Schedule A, attached hereto.

3. Removal. Any director of the Company may be removed from the Board in the manner allowed by law and the Company's Articles of Incorporation and Bylaws, but with respect to a director designated pursuant to section 2 above, only upon the vote or written consent of the stockholders entitled to designate such director. The Shareholders also agree:

(a) In the event that the CEO is no longer serving as the CEO (the "Former CEO"), all parties to this Agreement shall immediately take such action as is necessary to remove the Former CEO from the Board.

(b) In the event that the COO is no longer serving as the COO (the "Former COO"), all parties to this Agreement shall immediately take such action as is necessary to remove the Former COO from the Board.

(c) In the event that the CFO is no longer serving as the CFO (the "Former CFO"), all parties to this Agreement shall immediately take such action as is necessary to remove the Former CFO from the Board.

4. Legend on Share Certificates. Each certificate representing any Shares shall be endorsed by the Company with a legend reading substantially as follows:

"THE SHARES EVIDENCED HEREBY ARE SUBJECT TO A VOTING AGREEMENT (A COPY OF WHICH MAY BE OBTAINED UPON WRITTEN REQUEST FROM THE ISSUER), AND BY ACCEPTING ANY INTEREST IN SUCH SHARES THE PERSON ACCEPTING SUCH INTEREST SHALL BE DEEMED TO AGREE TO AND SHALL BECOME BOUND BY ALL THE PROVISIONS OF SAID VOTING AGREEMENT."

5. Covenant of the Company. The Company will not, by any voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be performed hereunder by the Company.

6. No Liability for Election of Recommended Directors. Neither the Company, the Shareholders, nor any officer, director, stockholder, partner, employee or agent of the Company or Shareholders, makes any representation or warranty as to the fitness or competence of the nominee of any Shareholder hereunder to serve on the Company's Board by virtue of such Shareholder's execution of this Agreement or by the act of such Shareholder in voting for such nominee pursuant to this Agreement.

7. Grant of Proxy. Upon the failure of any Shareholder to vote their shares in accordance with the terms of this Agreement, such Shareholder hereby grants to a stockholder designated by the Board of Directors of the Company a proxy coupled with an interest in all Shares owned by such Shareholder, which proxy shall be irrevocable until this Agreement terminates pursuant to its terms or this Section 7 is amended to remove such grant of proxy in accordance with Section 13 hereof, to vote all such Shares in the manner provided in Sections 2 and 3 hereof.

8. Specific Enforcement. It is agreed and understood that monetary damages would not adequately compensate an injured Shareholder for the breach of this Agreement by any other Shareholder, that this Agreement shall be specifically enforceable, and that any breach or threatened breach of this Agreement shall be the proper subject of a temporary or permanent injunction or restraining order. Further, each Shareholder hereto waives any claim or defense that there is an adequate remedy at law for such breach or threatened breach.

9. Execution by the Company. The Company, by its execution in the space provided below, agrees that it will cause the certificates issued after the date hereof evidencing the Shares to bear the legend required by Section 4 hereof, and it shall supply, free of charge, a copy of this Agreement to any holder of a certificate evidencing shares of capital stock of the Company upon written request from such holder to the Company at its principal office. The parties hereto do hereby agree that the failure to cause the certificates evidencing the Shares to bear the legend required by Section 4 hereof and/or failure of the Company to supply, free of charge, a copy of this Agreement, as provided under this Section 9, shall not affect the validity or enforcement of this Agreement.

10. Captions. The captions, headings and arrangements used in this Agreement are for convenience only and do not in any way limit or amplify the terms and provisions hereof.

11. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the respective parties at the addresses set forth on the signature pages attached hereto (or at such other addresses as shall be specified by notice given in accordance with this Section 11).

12. Term. This Agreement shall terminate and be of no further force or effect upon as of the date which is five (5) years from the date of this Agreement.

13. Manner of Voting. The voting of shares pursuant to this Agreement may be effected in person, by proxy, by written consent or in any other manner permitted by applicable law.

14. Amendments and Waivers. Any term hereof may be amended and the observance of any term hereof may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of (i) the Company, and (ii) the holders of a majority of the then outstanding voting shares held by the Shareholders.

15. Stock Splits, Stock Dividends, etc. In the event of any issuance of shares of the Company's voting securities hereafter to any of the Shareholders hereto (including, without limitation, in connection with any stock split, stock dividend, recapitalization, reorganization or the like), such shares shall become subject to this Agreement and shall be endorsed with the legend set forth in Section 4.

16. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

17. Binding Effect. In addition to any restriction on transfer that may be imposed by any other agreement by which any Shareholder hereto may be bound, this Agreement shall be binding upon the Shareholders, their respective heirs, successors, transferees and assigns and to such additional individuals or entities that may become stockholders of the Company and that desire to become Shareholders hereto; provided that for any such transfer to be deemed effective, the transferee shall have executed and delivered an Adoption Agreement substantially in the form attached hereto as Exhibit A. Upon the execution and delivery of an Adoption Agreement by a transferee, such transferee shall be deemed to be a Shareholder hereto as if such transferee's signature appeared on the signature pages hereto. By its execution hereof

or any Adoption Agreement, each of the Shareholders hereto appoints the Company as its attorney-in-fact for the purpose of executing any Adoption Agreement which may be required to be delivered hereunder.

18. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida, without regard to conflicts of law principles thereof.

19. Venue. In the event any party to this Agreement commences any litigation, proceeding or other legal action with respect to any claim arising under this Agreement, the parties to this Agreement hereby (a) agree that any such litigation, proceeding or other legal action shall be brought exclusively in a court of competent jurisdiction located within Hillsborough County, Florida, whether a state or federal court; (b) agree that in connection with any such litigation, proceeding, or action, such parties will consent and submit to personal jurisdiction in any such court described in clause (a) and to service of process upon them in accordance with the rules and statutes governing service of process or in accordance with the notice provisions contained herein; and (c) agree to waive to the full extent permitted by law any objection that they may now or hereafter have to the venue of any such litigation, proceeding or action was brought in an inconvenient forum. The parties expressly agree that any breach of this Agreement shall be deemed to have occurred in such County. EACH PARTY HERETO WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY DISPUTE IN CONNECTION WITH OR RELATING TO THIS AGREEMENT, ANY RELATED AGREEMENT OR ANY MATTERS DESCRIBED OR CONTEMPLATED HEREIN OR THEREIN, AND AGREES TO TAKE ANY AND ALL ACTION NECESSARY OR APPROPRIATE TO EFFECT SUCH WAIVER.

20. Entire Agreement. This Agreement is intended to be the sole agreement of the Shareholders as it relates to the subject matter hereof and supersedes all other agreements to which any of the Shareholders may be parties relating to the subject matter hereof, including, but not limited to, all agreements relating to the voting, ownership or disposition of any securities of the Company.

24. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the Shareholders and the Company have executed this Agreement as of the date first above written.

**COMPANY**

**HOMEOWNERS CHOICE, INC.**

By: /s/ Francis X. McCahill, III
Francis X. McCahill, III, President

**SHAREHOLDER:**

By: _____

Address: _____

_____

Number of shares held by Shareholder: _____

ENTITY SHAREHOLDER SIGNATURE PAGE TO VOTING AGREEMENT
FOR HOMEOWNERS CHOICE, INC.

**SHAREHOLDER:**

By: /s/ Gregory Politis

Address: 965 S. Bayshore Blvd.
S. Harbor, FL 34695

Number of shares held by Shareholder: 500,000

By: /s/ Anthony Saravanos
Anthony Saravanos, Managing Member HC Investment LLC

Address: 12550 Heatherleaf Drive
Tampa, FL 33626

Number of shares held by Shareholder: 200,000

By: /s/ Martin A. Traber
Martin A. Traber

Address: 100 N. Tampa, Suite 2700
Tampa, FL 33602

Number of shares held by Shareholder: 300,000

By: /s/ Sanjay Madhu
Sanjay Madhu

Address: 425 E. Davis Blvd.
Tampa, FL 33606

Number of shares held by Shareholder: 200,000

By: /s/ Krishna Persaud
Krishna Persand

Address: 11767 Bayfield Dr.
Boca Raton, FL 33498

Number of shares held by Shareholder: 1,000,000

By: /s/ Mark S. Berset
Mark S. Berset

Address: 1050 Friendly Way S.
St. Pete, FL 33705

Number of shares held by Shareholder: 500,000

By: /s/ George Apostolou
George Apostolou

Address: 275 1st St. West
Tierra Verde, FL 33715

Number of shares held by Shareholder: 250,000

**SCHEDULE A**

**BOARD MEMBERS VOTED SUBJECT TO THIS AGREEMENT**

Paresh Patel
Martin A. Traber
Gregory Politis
George Apostolou
Sanjay Madhu
Krishna Persaud
Anthony Sarvanos

**EXHIBIT A**

**ADOPTION AGREEMENT**

This Adoption Agreement ("Adoption Agreement") is executed by the undersigned (the "Transferee") pursuant to the terms of that certain Voting Agreement dated as of _____, 2007 (the "Agreement") by and among the Company and certain of its stockholders. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Agreement. By the execution of this Adoption Agreement, the Transferee agrees as follows:

(a) Acknowledgment. Transferee acknowledges that Transferee is acquiring certain shares of the capital stock of the Company (the "Stock"), subject to the terms and conditions of the Agreement.

(b) Agreement. Transferee (i) agrees that the Stock acquired by Transferee shall be bound by and subject to the terms of the Agreement, and (ii) hereby adopts the Agreement with the same force and effect as if Transferee were originally a Shareholder thereto.

(c) Notice. Any notice required or permitted by the Agreement shall be given to Transferee at the address listed beside Transferee's signature below.

**EXECUTED AND DATED** this _____ day of _____, 200__.

**TRANSFEREE:**

By: _____
Print Name: _____
Print Title: _____

Address: _____
Fax: _____

Accepted and Agreed:

**COMPANY**

By: _____
Title: _____

**Exhibit 10.20**

# ESCROW AGREEMENT

This Escrow Agreement (the "Agreement") is made and entered into as of the_____ day of_____, 2008, by and among ANDERSON & STRUDWICK, INCORPORATED, a Virginia corporation (the "Placement Agent"), HOMEOWNERS CHOICE, INC., a Florida corporation (the "Company"), and SUNTRUST BANK, N.A. (the "Escrow Agent").

## R E C I T A L S:

A. The Company proposes to sell a minimum of 1,333,334 and a maximum of 1,666,668 units, with each unit consisting of one share of the Company's common stock and one warrant to purchase the Company's common stock (collectively, the "Units").

B. The Company has retained the Placement Agent, as agent for the Company on a best efforts, minimum-maximum basis, to sell the Units in a public offering, and the Placement Agent has agreed to sell the Units in the offering as the Company's agent on a best efforts, minimum-maximum basis.

C. The Escrow Agent is willing to hold the proceeds of the offering in escrow pursuant to this Agreement.

**NOW, THEREFORE**, in consideration of the foregoing and the mutual covenants and agreements contained in this Agreement, it is hereby agreed as follows:

1. Establishment of the Escrow Account. Contemporaneously herewith, the parties have established a non-interest-bearing account with the Escrow Agent, which escrow account is entitled "Homeowners Choice, Inc. IPO Escrow Account" (the "Escrow Account"). The Placement Agent will transfer funds directly to the Escrow Agent as directed by its customers and will instruct other purchasers of the Units to make checks payable to "SunTrust Bank – Homeowners Choice, Inc. IPO Escrow Account."

2. Escrow Period. The escrow period (the "Escrow Period") shall begin with the commencement of the offering and shall terminate upon the earlier to occur of the following dates:

(a) the date on which the Escrow Agent confirms that it has received in the Escrow Account gross proceeds for the sale of 1,666,668 Units;

(b) September 30, 2008; or

(c) the date on which the Placement Agent and the Company notify the Escrow Agent that the offering has been terminated in writing.

During the Escrow Period, the Company is aware and understands that it is not entitled to any funds received into escrow and no amounts deposited in the Escrow Account shall become the property of the Company or any other entity, or be subject to the debts of the Company or any other entity.

3. Deposits into the Escrow Account. The Placement Agent agrees that it shall deliver to the Escrow Agent for deposit in the Escrow Account all monies received from purchasers of the Units by noon of the next business day after receipt together with a written account of each sale, which account shall set forth, among other things, (i) the purchaser's name and address, (ii) the number of Units purchased by the purchaser, (iii) the amount paid therefor by the purchaser, (iv) whether the consideration received from the purchaser was in the form of a check, draft or money order, and (v) the purchaser's social security or tax identification number. The Escrow Agent agrees to hold all monies so deposited in the Escrow Account (the "Escrow Amount") for the benefit of the parties hereto until authorized to disburse such monies under the terms of this Agreement.

4. Disbursements from the Escrow Account. In the event the Escrow Agent does not receive deposits for the sale of 1,333,334 Units prior to the termination of the Escrow Period, or if the Placement Agent and the Company notify the Escrow Agent that the offering has been terminated, the Escrow Agent shall promptly refund to each purchaser the amount received from the purchaser, without deduction, penalty, or expense to the purchaser, and the Escrow Agent shall notify the Company and the Placement Agent of its distribution of the funds. The purchase money returned to each purchaser shall be free and clear of any and all claims of the Company or any of its creditors.

In the event the Escrow Agent does receive minimum deposits for the sale of 1,333,334 Units prior to termination of the Escrow Period, on the date of Closing, the Escrow Agent shall disburse the Escrow Amount pursuant to the provisions of Section 6, provided, however, in no event will the Escrow Amount be released to the Company until such amount is received by the Escrow Agent in collected funds. For purposes of this Agreement, the term "collected funds" shall mean all funds, including fed funds, received by the Escrow Agent which have cleared normal banking channels.

5. Collection Procedure.

(a) The Escrow Agent is hereby authorized to deposit each check in the Escrow Account.

(b) In the event any check paid by a purchaser and deposited in the Escrow Account shall be returned, the Escrow Agent shall notify the Placement Agent by telephone of such occurrence and advise it of the name of the purchaser, the amount of the check returned, and any other pertinent information. The Escrow Agent shall then transmit the returned check directly to the purchaser and shall transmit the statement previously delivered by the Placement Agent relating to such purchase to the Placement Agent.

(c) If the Company rejects any purchase of Units for which the Escrow Agent has already collected funds, the Escrow Agent shall promptly issue a refund check to the rejected purchaser. If the Placement Agent rejects any purchase for which the Escrow Agent has not yet collected funds but has submitted the purchaser's check for collection, the Escrow Agent shall promptly issue a check in the amount of the purchaser's check to the rejected purchaser after the Escrow Agent has cleared such funds. If the Escrow Agent has not yet submitted a rejected purchaser's check for collection, the Escrow Agent shall promptly remit the purchaser's check directly to the purchaser.

6. Delivery of Escrow Account.

(a) Prior to the Closing (as defined in Section 8 of this Agreement), the Placement Agent and the Company shall provide the Escrow Agent with a statement, executed by each party, containing the following information:

(i) The total number of Units sold by the Placement Agent directly to purchasers and a list of each purchaser, and the number of Units purchased by such purchaser, and specification of the manner in which the Units should be issued; and

(ii) A calculation by the Placement Agent and the Company as to the manner in which the Escrow Account should be distributed to the Company and the Placement Agent and in the event of oversubscription or rejection of certain purchasers, the aggregate amount to be returned to individual purchasers and a listing of the exact amount to be returned to each such purchaser.

The Escrow Agent shall hold the Escrow Account and distribute it in accordance with the above-described statement on the date of Closing or such later date that it receives the above-described statement.

(b) Upon termination of the offering by the Company or the Placement Agent for any reason, the Escrow Agent shall return to the purchasers who contributed to the Escrow Account the exact amount contributed by them.

7. Investment of Escrow Account. The Escrow Agent shall deposit funds received from purchasers in the Escrow Account, which shall be a non-interest-bearing bank account at SunTrust Bank.

8. Closing Date. The "Closing" shall be the date of closing of the offering, and the "Closing Date" shall be the date on or subsequent to the date on which the Escrow Agent has received minimum deposits for at least 1,333,334 Units that is designated to the Escrow Agent by the Placement Agent and the Company as the Closing Date.

9. Compensation of Escrow Agent. The Company shall pay the Escrow Agent a fee for its services hereunder in an amount equal to One Thousand Five Hundred Dollars ($1,500), which amount shall be paid on the Closing Date. In the event the offering is canceled for any reason, the Company shall pay the Escrow Agent its fee within ten (10) days after the Escrow Amount is refunded to purchasers. No such fee or any other monies whatsoever shall be paid out of or chargeable to the funds on deposit in the Escrow Account.

10. Disbursement Into Court. If, at any time, there shall exist any dispute between the Company, the Placement Agent and/or the purchasers with respect to the holding or disposition of any portion of the Escrow Amount or any other obligations of the Escrow Agent hereunder, or if at any time the Escrow Agent is unable to determine, to the Escrow Agent's sole satisfaction, the proper disposition of any portion of the Escrow Amount or the Escrow Agent's proper actions with respect to its obligations hereunder, or if the Company and the Placement Agent have not within 30 days of the furnishing by the Escrow Agent of a notice of resignation appointed a successor Escrow Agent to act hereunder, then the Escrow Agent may, in its sole discretion, take either both of the following actions:

(a) suspend the performance of any of its obligations under this Agreement until such dispute or uncertainty shall be resolved to the sole satisfaction of the Escrow Agent or until a successor Escrow Agent shall have been appointed (as the case my be); provided however, that the Escrow Agent shall continue to hold the Escrow Amount in accordance with Section 7 hereof; and/or

(b) petition (by means of an interpleader action or any other appropriate method) any court of competent jurisdiction in Richmond, Virginia, for instructions with respect to such dispute or uncertainty, and pay into court all funds held by it in the Escrow Account for holding and disposition in accordance with the instructions of such court.

The Escrow Agent shall have no liability to the Company, the Placement Agent or any other person with respect to any such suspension of performance or disbursement into court, specifically including any liability or claimed liability that may arise, or be alleged to have arisen, out of or as a result of any delay in the disbursement of funds held in the Escrow Account or any delay in or with respect to any other action required or requested of the Escrow Agent.

11. Duties and Rights of the Escrow Agent. The foregoing agreements and obligations of the Escrow Agent are subject to the following provisions:

(a) The Escrow Agent's duties hereunder are limited solely to the safekeeping of the Escrow Account in accordance with the terms of this Agreement. It is agreed that the duties of the Escrow Agent are only such as herein specifically provided, being purely of a ministerial nature, and the Escrow Agent shall incur no liability whatsoever except for negligence, willful misconduct or bad faith.

(b) The Escrow Agent is authorized to rely on any document believed by the Escrow Agent to be authentic in making any delivery of the Escrow Account. It shall have no responsibility for the genuineness or the validity of any document or any other item deposited with it and it shall be fully protected in acting in accordance with this Agreement or instructions received.

(c) The Company and the Placement Agent hereby waive any suit, claim, demand or cause of action of any kind which they may have or may assert against the Escrow Agent arising out of or relating to the execution or performance by the Escrow Agent of this Agreement, unless such suit, claim, demand or cause of action is based upon the gross negligence, willful misconduct, or bad faith of the Escrow Agent.

12. Notices. All notices given hereunder will be in writing, served by registered or certified mail, return receipt requested, postage prepaid, or by hand-delivery, to the parties at the following addresses:

To the Company:

Homeowners Choice, Inc.
2340 Drew Street, Suite 200
Clearwater, Florida 33765
Attention: Andrew Graham
Facsimile: [_____]

with a copy to:

Foley & Lardner LLP
100 North Tampa Street
Suite 2700
Tampa, Florida 33602
Attention: Carolyn T. Long, Esq.
Facsimile: (813) 221-4210

To the Placement Agent:

Anderson & Strudwick, Incorporated
707 East Main Street, 20th Floor
Richmond, Virginia 23219
Attention: L. McCarthy Downs, III
Facsimile: (804) 648-3404

with a copy to:

Kaufman & Canoles, P.C.
1051 East Cary Street
Suite 1206
Richmond, Virginia 23219
Attention: Bradley A. Haneberg, Esq.
Facsimile: (804) 771-5777

To the Escrow Agent:

SunTrust Bank
919 East Main Street
7th Floor
Richmond, Virginia 23219
Attention: Matthew Ward
Facsimile: (804) 782-7855

13. Miscellaneous.

(a) This Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns.

(b) If any provision of this Agreement shall be held invalid by any court of competent jurisdiction, such holding shall not invalidate any other provision hereof.

(c) This Agreement shall be governed by the applicable laws of the Commonwealth of Virginia.

(d) This Agreement may not be modified except in writing signed by the parties hereto.

(e) All demands, notices, approvals, consents, requests and other communications hereunder shall be given in the manner provided in this Agreement.

(f) This Agreement may be executed in one or more counterparts, and if executed in more than one counterpart, the executed counterparts shall together constitute a single instrument.

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed in their respective names, all as of the date first above written.

ANDERSON & STRUDWICK, INCORPORATED

By: _____
L. McCarthy Downs, III
Senior Vice President

HOMEOWNERS CHOICE, INC.

By: _____
Name: _____
Title: _____

SUNTRUST BANK

By: _____
Name: Matthew Ward
Title: Trust Officer

**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We hereby consent to the reference to our firm under the caption “Experts” in Amendment No. 2 to the Form S-1 Registration Statement and related Prospectus of Homeowners Choice, Inc. (the “Company”), for the registration of $10,000,008 of units, each unit consisting of one share of the Company’s common stock and one warrant, and to the incorporation by reference therein of our report dated June 16, 2008, relating to the consolidated balance sheets of the Company and its subsidiaries as of March 31, 2008 and December 31, 2007, and the related consolidated statements of operations, stockholders’ equity (deficit), and cash flows for the three month period ended March 31, 2008, for the year ended December 31, 2007 and for the period from November 30, 2006 (inception) to December 31, 2006, which are included in such Registration Statement.

/s/ Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
July 8, 2008

**ATTORNEYS AT LAW**
100 North Tampa Street, Suite 2700
Tampa, FL 33602-5810
P.O. Box 3391
Tampa, FL 33601-3391
813.229.2300 TEL
813.221.4210 FAX
www.foley.com

July 8, 2008

WRITER'S DIRECT LINE
813.225.4177
ctlong@foley.com EMAIL

CLIENT/MATTER NUMBER
084147-0102

**VIA FEDERAL EXPRESS**

Mr. Jeffrey Riedler, Assistant Director
Securities and Exchange Commission
Division of Corporation Finance
100 F Street NE
Washington, D.C. 20549
Mail Stop 6010

Dear Mr. Riedler:

On behalf of Homeowners Choice, Inc. (the "Company"), the following are the Company's responses to the Staff's letter of July 1, 2008 containing the Staff's comments regarding Amendment No. 1 to Form S-1 (the "Registration Statement") filed with the Commission on June 17, 2008 (SEC File No. 333-150513). For your convenience, the full text of each of the Staff's comments is set forth below, and the Company's response to each comment directly follows the applicable text. On behalf of the Company, we are also transmitting herewith Amendment No. 2 to the Registration Statement.

**Form S-1**

Competitive Strengths, page 4

1. *We note your response to comment 14 and reissue the comment. Please revise the section title to refer to "weaknesses" or "risks" so that the negative aspects of your business are a prominently presented as the positive aspects.*

Response:

The Company acknowledges the Staff's comment and has changed the title of this section to "Challenges and Risks."

**Management's Discussion and Analysis of Financial Condition and results of Operations, page 31**

2. *We note your response to comment 31 and reissue the comment. Please expand the discussion in the prospectus to state when you would be permitted to raise your rates, the conditions under which you may request an increase, the procedure for requesting a rate increase, and the factors considered in determining whether a rate increase may be approved.*

Response:

The Company has expanded the discussion under the "Overview" subheading to provide the information requested in the Staff's comment.

**Critical Accounting Policies and Estimates, page 33**

**Reserves for Losses and Loss Adjustment Expenses, page 33**

3. *Please refer to your response to our prior comment number 32. Please revise the sensitivity discussion to include the specific drivers of the reserve amounts such as severity, and frequency along with the changes that would result from possible changes in those assumptions. Please note that limiting this discussion to a mechanical percentage increase from the reserve balance in your balance sheet is not sufficient.*

Response:

As discussed with the Staff, the Company does not believe that any reasonably likely changes in the frequency of claims would affect the Company's loss reserves. The Company has revised its critical accounting policy regarding reserves for losses and loss adjustment expenses to clarify this point. In order to address the Staff's comment, the Company has also revised this critical accounting policy to reflect the manner in which certain increases and decreases in the severity of claims would affect the Company's loss reserves.

4. *Please refer to your response to our prior comment number 33. It is unclear how the revised disclosure addresses our comment and, as a result, we are reissuing the comment. Please disclose the risks associated with estimating the loss reserves for assumed reinsurance and the effects and expected effects that these uncertainties have on management's judgments and assumptions in establishing the assumed loss reserve. Also please consider the following items which could help describe the uncertainty:*

   - *The nature and extent of the information received from the cedants related to policies, claims, unearned premiums and loss reserves;*

- *The time lag from when claims are reported to the cedant to when the cedant reports them to the company and whether, how, and to what extent this time lag effects the loss reserve estimate;*
- *How management uses the information received from the cedants in its determination of its assumed loss reserves, whether reinsurance intermediaries are used to transact and service reinsurance policies, and how that impacts the loss reserving methodology;*
- *The amount of any backlog related to the processing of assumed reinsurance information, whether the backlog has been reserved for in the financial statements and, if applicable, when the backlog will be resolved;*
- *What process management performs to determine the accuracy and completeness of the information received from the cedants;*
- *How management resolves disputes with cedants, how often disputes occur, and the magnitude of any current, material disputes; and*
- *Whether management uses historical loss information to validate its existing reserves and/or as a means of noticing unusual trends in the information received from the cedants.*

Response:

The Company previously revised this critical accounting policy to discuss the risks that it believes are associated with estimating the Company's loss reserves for reinsurance. As discussed with the Staff, the Company does not rely on the cedent for information regarding claims that occurred prior to or following the Company's assumption of a policy from Citizens. Citizens is responsible for all claims that occur prior to the Company assuming a policy from Citizens. After the Company assumes a policy from Citizens, all claims information is reported directly to the Company. As discussed with the Staff, the Company has revised the introduction to its critical accounting policies to clarify this point.

**Item 15. Recent sales of unregistered securities**

*5. We note your response to comment 46. Please revise Item 15 to disclose when the options become exercisable.*

Response:

In response to the Staff's comment, the Company has revised Item 15 to disclose when Mr. Berset's options become exercisable.

If you have any additional questions regarding the foregoing, please don't hesitate to contact me at 813-225-4177.

Very truly yours,

/s/ Carolyn T. Long

Carolyn T. Long

cc: Mr. Francis McCahill, III
Homeowners Choice, Inc.