SECURITIES & EXCHANGE COMMISSION EDGAR FILING

HCI Group, Inc.

Form: 10-Q

Date Filed: 2020-05-08

Corporate Issuer CIK: 1400810

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

Form 10-Q

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

For the quarterly period ended March 31, 2020

OR

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

Commission File Number

001-34126

HCI Group, Inc.

(Exact name of Registrant as specified in its charter)

Florida	**20-5961396**
(State of Incorporation)	*(IRS Employer Identification No.)*

5300 West Cypress Street, Suite 100
Tampa, FL 33607
(Address, including zip code, of principal executive offices)

(813) 849-9500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Shares, no par value	**HCI**	**New York Stock Exchange**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer ☐	Accelerated filer ☑	Non-accelerated filer ☐	Smaller reporting company ☐
			Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate number of shares of the Registrant's Common Stock, no par value, outstanding on April 30, 2020 was 7,888,834.

HCI GROUP, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION
Item 1 – *Financial Statements*
HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollar amounts in thousands)

	March 31, 2020 (Unaudited)	December 31, 2019
Assets		
Fixed-maturity securities, available for sale, at fair value (amortized cost: $186,224 and $199,954, respectively and allowance for credit losses: $439 and $0, respectively)	$ 185,845	$ 202,839
Equity securities, at fair value (cost: $25,514 and $31,863, respectively)	24,131	35,285
Short-term investments, at fair value	464	491
Limited partnership investments	25,634	28,346
Investment in unconsolidated joint venture, at equity	746	762
Real estate investments	75,770	73,763
Total investments	312,590	341,486
Cash and cash equivalents	317,078	229,218
Restricted cash	700	700
Accrued interest and dividends receivable	1,924	1,616
Income taxes receivable	916	1,040
Premiums receivable	18,898	20,255
Prepaid reinsurance premiums	7,620	17,983
Reinsurance recoverable, net of allowance for credit losses:		
Paid losses and loss adjustment expenses (allowance: $134 and $0, respectively)	16,766	16,155
Unpaid losses and loss adjustment expenses (allowance: $295 and $0, respectively)	100,937	116,523
Deferred policy acquisition costs	20,338	21,663
Property and equipment, net	14,569	14,698
Intangible assets, net	4,034	4,192
Other assets	19,969	17,080
Total assets	$ 836,339	$ 802,609

(continued)

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets - continued
(Dollar amounts in thousands)

	March 31, 2020 (Unaudited)	December 31, 2019
Liabilities and Stockholders' Equity		
Losses and loss adjustment expenses	$ 207,108	$ 214,697
Unearned premiums	165,155	181,163
Advance premiums	44,545	5,589
Assumed reinsurance balances payable	54	76
Accrued expenses	9,275	10,059
Deferred income taxes, net	3,268	4,008
Revolving credit facility	23,750	9,750
Long-term debt	165,416	163,695
Other liabilities	38,512	28,029
Total liabilities	657,083	617,066
Commitments and contingencies (Note 19)		
Stockholders' equity:		
7% Series A cumulative convertible preferred stock (no par value, 1,500,000 shares authorized, no shares issued or outstanding)	—	—
Series B junior participating preferred stock (no par value, 400,000 shares authorized, no shares issued or outstanding)	—	—
Preferred stock (no par value, 18,100,000 shares authorized, no shares issued or outstanding)	—	—
Common stock (no par value, 40,000,000 shares authorized, 7,735,204 and 7,764,564 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively)	—	—
Additional paid-in capital	—	—
Retained income	179,210	183,365
Accumulated other comprehensive income, net of taxes	46	2,178
Total stockholders' equity	179,256	185,543
Total liabilities and stockholders' equity	$ 836,339	$ 802,609

See accompanying Notes to Consolidated Financial Statements

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)
(Dollar amounts in thousands, except per share amounts)

	Three Months Ended March 31,	
	2020	2019
Revenue		
Gross premiums earned	$ 92,365	$ 82,597
Premiums ceded	(30,719)	(31,413)
Net premiums earned	61,646	51,184
Net investment (loss) income	(192)	3,278
Net realized investment losses	(2,244)	(372)
Net unrealized investment (losses) gains	(4,805)	5,293
Credit losses on investments	(439)	—
Policy fee income	829	795
Other	585	456
Total revenue	55,380	60,634
Expenses		
Losses and loss adjustment expenses	28,078	26,996
Policy acquisition and other underwriting expenses	11,826	9,673
General and administrative personnel expenses	8,367	7,364
Interest expense	2,970	4,337
Other operating expenses	3,482	2,981
Total expenses	54,723	51,351
Income before income taxes	657	9,283
Income tax expense	110	2,545
Net income	$ 547	$ 6,738
Basic earnings per share	$ 0.07	$ 0.82
Diluted earnings per share	$ 0.07	$ 0.82

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)
(Amounts in thousands)

	Three Months Ended March 31,	
	2020	2019
Net income	$ 547	$ 6,738
Other comprehensive (loss) income:		
Change in unrealized (loss) gain on investments:		
Net unrealized (loss) gain arising during the period	(3,471)	2,704
Credit losses charged to income	439	—
Call and repayment gains charged to investment income	(66)	—
Reclassification adjustment for net realized loss (gain)	273	(33)
Net change in unrealized (loss) gain	(2,825)	2,671
Deferred income taxes on above change	693	(677)
Total other comprehensive (loss) income, net of income taxes	(2,132)	1,994
Comprehensive (loss) income	$ (1,585)	$ 8,732

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For the Three Months Ended March 31, 2020
(Unaudited)
(Dollar amounts in thousands, except per share amount)

	Common Stock		Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive Income Net of Tax	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2019	7,764,564	$ —	$ —	$ 183,365	$ 2,178	$ 185,543
Net income	—	—	—	547	—	547
Total other comprehensive loss, net of income taxes	—	—	—	—	(2,132)	(2,132)
Cumulative effect on adoption of credit loss standard	—	—	—	(453)	—	(453)
Exercise of common stock options	10,000	—	63	—	—	63
Issuance of restricted stock	45,000	—	—	—	—	—
Forfeiture of restricted stock	(7,138)	—	—	—	—	—
Repurchase and retirement of common stock	(371)	—	(17)	—	—	(17)
Repurchase and retirement of common stock under share repurchase plan	(76,851)	—	(3,041)	—	—	(3,041)
Common stock dividends ($0.40 per share)	—	—	—	(3,095)	—	(3,095)
Stock-based compensation	—	—	1,841	—	—	1,841
Additional paid-in capital shortfall allocated to retained income	—	—	1,154	(1,154)	—	—
Balance at March 31, 2020	7,735,204	$ —	$ —	$ 179,210	$ 46	$ 179,256

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For the Three Months Ended March 31, 2019
(Unaudited)
(Dollar amounts in thousands, except per share amount)

	Common Stock		Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive (Loss) Income, Net of Tax	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2018	8,356,730	$ —	$ —	$ 182,894	$ (1,453)	$ 181,441
Net income	—	—	—	6,738	—	6,738
Total other comprehensive loss, net of income taxes	—	—	—	—	1,994	1,994
Issuance of restricted stock	40,000	—	—	—	—	—
Forfeiture of restricted stock	(4,681)	—	—	—	—	—
Repurchase and retirement of common stock	(371)	—	(18)	—	—	(18)
Repurchase and retirement of common stock under share repurchase plan	(31,789)	—	(1,338)	—	—	(1,338)
Common stock dividends ($0.40 per share)	—	—	—	(3,236)	—	(3,236)
Stock-based compensation	—	—	1,459	—	—	1,459
Balance at March 31, 2019	8,359,889	$ —	$ 103	$ 186,396	$ 541	$ 187,040

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)
(Amounts in thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash flows from operating activities:		
Net income	$ 547	$ 6,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	1,841	1,459
Net (accretion of discounts) amortization of premiums on investments in fixed-maturity securities	(20)	90
Depreciation and amortization	2,182	2,707
Deferred income tax (benefit) expense	(47)	112
Net realized investment losses	2,244	372
Net unrealized investment losses (gains)	4,805	(5,293)
Credit loss expense	415	—
Loss from unconsolidated joint venture	16	33
Net loss from limited partnership interests	2,935	211
Distributions received from limited partnership interests	382	1,013
Foreign currency remeasurement loss	80	1
Other non-cash items	1	48
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	(308)	(664)
Income taxes	124	2,400
Premiums receivable	1,357	(221)
Prepaid reinsurance premiums	10,363	10,568
Reinsurance recoverable	14,546	18,271
Deferred policy acquisition costs	1,325	1,336
Other assets	(2,651)	(1,821)
Losses and loss adjustment expenses	(7,589)	(22,925)
Unearned premiums	(16,008)	(14,429)
Advance premiums	38,956	9,968
Assumed reinsurance balances payable	(22)	(10)
Accrued expenses and other liabilities	(71)	631
Net cash provided by operating activities	55,403	10,595

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
(Unaudited)
(Amounts in thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash flows from investing activities:		
Investments in limited partnership interests	$ (919)	$ (761)
Distributions received from limited partnership interests	314	—
Purchase of property and equipment	(353)	(634)
Purchase of real estate investments	(2,452)	(9,133)
Purchase of fixed-maturity securities	(9,089)	(69,672)
Purchase of equity securities	(4,548)	(12,371)
Purchase of short-term and other investments	—	(182)
Proceeds from sales of fixed-maturity securities	4,049	2,911
Proceeds from calls, repayments and maturities of fixed-maturity securities	27,914	41,403
Proceeds from sales of equity securities	9,007	27,874
Proceeds from sales, redemptions and maturities of short-term and other investments	—	35,854
Net cash provided by investing activities	23,923	15,289
Cash flows from financing activities:		
Cash dividends paid	(3,172)	(3,313)
Cash dividends received under share repurchase forward contract	77	77
Proceeds from revolving credit facility	14,000	8,000
Proceeds from exercise of common stock options	63	—
Proceeds from issuance of long-term debt	10,000	—
Repayment of long-term debt	(9,160)	(90,318)
Repurchases of common stock	(17)	(18)
Repurchases of common stock under share repurchase plan	(3,041)	(1,338)
Debt issuance costs	(165)	(459)
Net cash provided by (used in) financing activities	8,585	(87,369)
Effect of exchange rate changes on cash	(51)	(8)
Net increase (decrease) in cash, cash equivalents, and restricted cash	87,860	(61,493)
Cash, cash equivalents, and restricted cash at beginning of period	229,918	240,158
Cash, cash equivalents, and restricted cash at end of period	$ 317,778	$ 178,665
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 33	$ 33
Cash paid for interest	$ 3,349	$ 5,111
Non-cash investing and financing activities:		
Unrealized (loss) gain on investments in available-for-sale securities, net of tax	$ (2,132)	$ 1,994
Receivable from sales of equity securities	$ 61	$ —
Receivable from maturities of fixed-maturity securities	$ 219	$ —
Payable on purchases of equity securities	$ 142	$ —
Payable on purchases of fixed-maturity securities	$ 9,616	$ —

See accompanying Notes to Consolidated Financial Statements.

Note 1 -- Nature of Operations

HCI Group, Inc., together with its subsidiaries ("HCI" or the "Company"), is primarily engaged in the property and casualty insurance business through two Florida domiciled insurance companies, Homeowners Choice Property & Casualty Insurance Company, Inc. ("HCPCI") and TypTap Insurance Company ("TypTap"). HCPCI is authorized to underwrite various homeowners' property and casualty insurance products and allied lines business in the state of Florida. HCPCI also offers flood-endorsed and wind-only policies to Florida customers and has regulatory approval to underwrite residential property and casualty insurance in the states of Arkansas, California, Maryland, North Carolina, New Jersey, Ohio, Pennsylvania, South Carolina and Texas. However, Florida is still HCPCI's primary market. TypTap offers standalone flood and homeowners multi-peril policies. The operations of both insurance subsidiaries are supported by HCI Group, Inc. and certain HCI subsidiaries. In particular, the Company is developing technologies to collect and analyze claims and other supplemental data to generate savings and efficiency for the operations of the insurance subsidiaries. In addition, Greenleaf Capital, LLC, the Company's real estate subsidiary, is primarily engaged in the businesses of owning and leasing real estate and operating marina facilities and one restaurant.

Risks and Uncertainties Caused by Novel Coronavirus ("COVID-19")

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. COVID-19 is a respiratory illness caused by a virus that can spread from person to person. To contain the spread of COVID-19, measures are being undertaken in the United States of America and elsewhere around the world. These measures include, but are not limited to, domestic and international travel restrictions, temporary closure of nonessential businesses, cessation of public activity, and work-from-home orders, which has led to significantly reduced economic activity. In Florida where the Company's headquarters is located, a statewide stay-at-home order was issued. In response to the pandemic, the Company temporarily closed its offices in Florida and asked employees to work from home until further notice. The Company also closed temporarily its restaurant and both of its marinas. The Company quickly adjusted its technologies and infrastructure to support a remote workforce and maintain business continuity. As a provider of homeowners insurance, the Company continually prepares for disasters and catastrophic events, including events that could disrupt business continuity.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which is intended to provide fast and direct economic assistance for American workers and families, small businesses, and to preserve jobs in American industries. The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The Company qualifies as a small business under the CARES Act but did not apply for any of the government loan programs.

At present, the Company's insurance subsidiaries do not foresee a direct material impact from the outbreak of COVID-19 in terms of increased claims and losses. However, the resulting economic uncertainty is adversely affecting the results of the Company's investment portfolios (See Note 5 -- Investments). The Company generally holds or invests premiums collected from policyholders in the financial markets in order to earn income before claims need to be paid. Since the economic outlook started to deteriorate, the Company's investments in limited partnerships, equity and fixed-maturity securities have decreased in value significantly.

In addition, the Company’s insurance subsidiaries may experience difficulties collecting premiums from some policyholders. Policyholders with financial difficulties may decide not to renew insurance policies with the Company. Reinsurance companies with which the Company has contracted may also face liquidity issues and may not timely settle reinsurance balances that become due. Reinsurance costs could also increase as reinsurers pay COVID-19 related claims worldwide and face the possibility of increases in the cost of capital needed to fund their operations.

Furthermore, due to the impact of the COVID-19 outbreak on retail business activities, rent payments due from the Company’s lessees may be delayed or not received. Some lessees, with the exception of all anchor tenants, have already sought rent concessions in order to stay in business. In the near term, the Company determined there is no impairment to its real estate investments or intangible assets as the real estate market is inherently slower moving than equity and debt security markets. For other auxiliary operations such as restaurant and marina business, the temporary closure of these operations has no material impact on the Company’s results of operations.

It is too early to gauge the effectiveness of the CARES Act in assisting targeted individuals and businesses and preventing economic downturn. As of the date of issuance of these interim unaudited consolidated financial statements, the extent to which the COVID-19 pandemic may materially affect the Company's financial condition, liquidity, or results of operations in the medium and long-term future remains uncertain and unquantifiable.

Note 2 -- Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements for HCI Group, Inc. and its majority-owned and controlled subsidiaries (collectively, the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, and the Securities and Exchange Commission (“SEC”) rules for interim financial reporting. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such rules and regulations. However, in the opinion of management, the accompanying consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the Company’s financial position as of March 31, 2020 and the results of operations and cash flows for the periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for any subsequent interim period or for the fiscal year ending December 31, 2020. The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019 included in the Company’s Form 10-K, which was filed with the SEC on March 6, 2020.

In preparing the interim unaudited consolidated financial statements, management was required to make certain judgments, assumptions, and estimates that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the financial reporting date and throughout the periods being reported upon. Certain of the estimates result from judgments that can be subjective and complex and consequently actual results may differ from these estimates.

Material estimates that are particularly susceptible to significant change in the near term are related to the Company’s losses and loss adjustment expenses, which include amounts estimated for claims incurred but not yet reported. The Company uses various assumptions and actuarial data it believes to be reasonable under the circumstances to make these estimates. In addition, accounting policies specific to reinsurance with retrospective provisions, reinsurance recoverable, deferred income taxes, and stock-based compensation expense involve significant judgments and estimates material to the Company’s consolidated financial statements.

All significant intercompany balances and transactions have been eliminated.

Adoption of New Accounting Standards

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13 (“ASU 2016-13”), Financial Instruments - Credit Losses (Topic 326), effective January 1, 2020. This update amends guidance on the recognition and measurement of credit losses for assets held at amortized cost and available-for-sale debt securities. For assets held at amortized cost, ASU 2016-13 eliminates the probable initial recognition threshold and, instead, requires credit losses to be measured using the Current Expected Credit Loss (“CECL”) model. The CECL model requires the measurement of all expected credit losses based on historical experience, current conditions, and reasonable and supportable forecasts which incorporate forward-looking information. For available-for-sale debt securities, credit losses will continue to be measured in a manner similar to the current standard.

Effective January 1, 2020, the Company used a modified retrospective method for transition to the CECL model. The Company recognized a cumulative-effect adjustment of $453 related to reinsurance recoverable to beginning retained income with a corresponding entry to an allowance for credit losses account. Any subsequent changes to the expected credit losses will be recognized in the Company’s consolidated statement of income.

Allowance for Credit Losses

Allowance for credit losses represents an estimation of potential losses that the Company may experience due to credit risk. The allowance for credit losses account is a contra account of a financial asset to reflect the net amount expected to be collected. Any increase or decrease in the allowance for credit losses related to investments is recognized and reflected as credit losses on investments in the Company’s consolidated statement of income. For all other financial assets, credit loss expense is included in other operating expenses. When the risk of credit loss becomes certain, the allowance for credit losses account will be written off against the financial asset. Under the CECL model, the Company measures all expected credit losses related to relevant financial assets based on historical experience, current conditions, and reasonable and supportable forecasts which incorporate forward-looking information. The Company primarily uses a discounted cash flow method and a rating-based method in estimating credit losses at a reporting date for financial assets under the scope of the CECL model. The discounted cash flow method is a valuation method used to estimate the value of a financial asset based on its future cash flows. The Company uses this method to determine the expected credit losses for available-for-sale fixed-maturity securities. In addition, the Company elects not to measure an allowance for credit losses for accrued interest receivable as any uncollectible amount is adjusted to interest income on a monthly basis.

For certain financial assets related to insurance business such as reinsurance recoverable and reinsurance receivable for premium refund, the Company uses a rating-based method, which is a modified version of the probability of defaultmethod. It requires two key inputs: a) the liquidation rate and b) the amount of loss exposure. The liquidation rate, which is published annually, is the ratio of impaired insurance companies that were eventually liquidated to the group of insurance companies considered by A.M. Best in its study. The amount of loss exposure represents the future billing balance, net of any collateral, spread over the projected periods that are based on the Company's historical claim payment pattern. The rating-based method measures credit losses by multiplying the future billings grouped by insurance rating over the projected periods by their corresponding liquidation rates by insurance rating. At present, the exposure tocredit losses for certain financial assets related to non-insurance business is considered immaterial to the Company's financial position.

Limited Partnership Investments

The Company has interests in limited partnerships that are not registered under the United Stated Securities Act of 1933, as amended, the securities laws of any state or the securities laws of any other jurisdictions. The partnership interests cannot be resold in the public market and any withdrawal is subject to the terms and conditions of the partnership agreement. The Company has no influence over partnership operating and financial policies. The Company uses the equity method to account for the investments with ownership interest greater than five percent. For the investments with ownership interest at five percent or less, the Company uses the net asset value method to estimate the fair value of these investments. The Company generally recognizes its share of the limited partnership's earnings or losses on a three-month lag. Due to the lag, the Company may record an adjustment to the Company's most recent share of net asset value when the amount can be reasonably estimated.

Net investment income or loss from limited partnerships represents a net aggregate amount of operating results allocated to the Company based on the percentage of ownership interest in each limited partnership.

Pursuant to U.S. GAAP, these limited partnerships which are private equity funds must measure their investments at fair value and reflect the unrealized gains and losses in the fair value of their investments on their statement of income. As a result, the carrying value of limited partnership investments at each reporting date approximates their estimated fair value.

Premium Receivable

Premium receivable represents the amount of premiums due from policyholders for insurance coverage. Premiums are recorded as receivable in the Company's general ledger on the effective date of the policy. Premiums are billed to the policyholder 45-60 days in advance of the effective date. The policyholder is given a 30-day grace period after the effective date to pay the premium before the insurance coverage is cancelled. If the policyholder does not pay the premium, the Company can cancel the policy and has no obligation to provide insurance coverage. Unpaid renewal policies are cancelled at midnight on the last day of the period for which the policyholder has paid. The unearned premium liability for the cancelled policy is reversed along with the premium receivable balance. Therefore, there is no unpaid earned premium and credit loss associated with the cancelled policy.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

However, when the 30-day grace period falls between two reporting periods, the premium receivable balance at the end of the first reporting period may potentially be overstated for not considering the policy that is subsequently cancelled during the following reporting period. To mitigate the overstatement issue, the Company estimates the monetary impact from the subsequent policy cancellation by multiplying the historical cancellation rate to the premium receivable balance at the reporting date. The premium receivable balance, together with the unearned premium liability is then reduced by the computed amount.

At March 31, 2020 and December 31, 2019, allowances for uncollectible premiums were $1,217 and $528, respectively.

Note 3 -- Recent Accounting Pronouncements

Accounting Standards Update No. 2020-01. In January 2020, the Financial Accounting Standards Board issued Accounting Standards Update No. 2020-01 ("ASU 2020-01") Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. This update, among others, clarifies the interaction of the accounting for equity securities under Topic 321 and investments under the equity method of accounting in Topic 323 when there is a change in level of ownership or degree of influence. ASU 2020-01 is effective for the Company beginning with the first quarter of 2021 and will be applied prospectively. Early adoption is permitted. This guidance will not have a material impact on the Company's consolidated financial statements.

Note 4 -- Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Company's consolidated balance sheets that sum to the total of the same such amounts shown in the statements of cash flows.

	March 31, 2020	December 31, 2019
Cash and cash equivalents	$ 317,078	$ 229,218
Restricted cash	700	700
Total	$ 317,778	$ 229,918

Restricted cash primarily represents funds held by certain states in which the Company's insurance subsidiaries conduct business to meet regulatory requirements.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Note 5 -- Investments

a) Available-for-Sale Fixed-Maturity Securities

The Company holds investments in fixed-maturity securities that are classified as available-for-sale. At March 31, 2020 and December 31, 2019, the cost or amortized cost, allowance for credit loss, gross unrealized gains and losses, and estimated fair value of the Company's available-for-sale securities by security type were as follows:

	Cost or Amortized Cost	Allowance for Credit Loss	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
As of March 31, 2020					
U.S. Treasury and U.S. government agencies	$ 16,007	$ —	$ 356	$ —	$ 16,363
Corporate bonds	155,240	(439)	1,312	(1,094)	155,019
State, municipalities, and political subdivisions	7,496	—	81	(1)	7,576
Exchange-traded debt	7,363	—	139	(716)	6,786
Redeemable preferred stock	118	—	—	(17)	101
Total	$ 186,224	$ (439)	$ 1,888	$ (1,828)	$ 185,845
As of December 31, 2019					
U.S. Treasury and U.S. government agencies	$ 26,220	$ —	$ 78	$ (3)	$ 26,295
Corporate bonds	157,155	—	2,212	(3)	159,364
State, municipalities, and political subdivisions	7,763	—	149	—	7,912
Exchange-traded debt	8,698	—	462	(15)	9,145
Redeemable preferred stock	118	—	5	—	123
Total	$ 199,954	$ —	$ 2,906	$ (21)	$ 202,839

Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties. The scheduled contractual maturities of fixed-maturity securities as of March 31, 2020 and December 31, 2019 are as follows:

	Amortized Cost	Estimated Fair Value
As of March 31, 2020		
Due in one year or less	$ 53,259	$ 53,556
Due after one year through five years	120,746	120,093
Due after five years through ten years	7,822	7,874
Due after ten years	4,397	4,322
	$ 186,224	$ 185,845

	Amortized Cost	Estimated Fair Value
As of December 31, 2019		
Due in one year or less	$ 63,135	$ 63,429
Due after one year through five years	125,833	127,660
Due after five years through ten years	6,896	7,350
Due after ten years	4,090	4,400
	$ 199,954	$ 202,839

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Sales of Available-for-Sale Fixed-Maturity Securities

Proceeds received, and the gross realized gains and losses from sales of available-for-sale securities, for the three months ended March 31, 2020 and 2019 were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Three months ended March 31, 2020	$ 4,049	$ 77	$ (350)
Three months ended March 31, 2019	$ 2,911	$ 34	$ (1)

Gross Unrealized Losses for Available-for-Sale Fixed-Maturity Securities

Securities with gross unrealized loss positions at March 31, 2020 and December 31, 2019, aggregated by investment category and length of time the individual securities have been in a continuous loss position, are as follows:

	Less Than Twelve Months		Twelve Months or Longer		Total	
As of March 31, 2020	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Estimated Fair Value**
Corporate bonds	$ (1,094)	$ 41,420	$ —	$ —	$ (1,094)	$ 41,420
State, municipalities, and political subdivisions	(2)	2,012	—	—	(2)	2,012
Exchange-traded debt	(716)	4,238	—	—	(716)	4,238
Redeemable preferred stock	(16)	101	—	—	(16)	101
Total	$ (1,828)	$ 47,771	$ —	$ —	$ (1,828)	$ 47,771

At March 31, 2020, there were 48 securities in an unrealized loss position. Of these securities, none had been in an unrealized loss position for 12 months or longer.

	Less Than Twelve Months		Twelve Months or Longer		Total	
As of December 31, 2019	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Estimated Fair Value**
U.S. Treasury and U.S. government agencies	$ (3)	$ 2,292	$ —	$ —	$ (3)	$ 2,292
Corporate bonds	(3)	4,597	—	—	(3)	4,597
Exchange-traded debt	(15)	345	—	—	(15)	345
Total	$ (21)	$ 7,234	$ —	$ —	$ (21)	$ 7,234

At December 31, 2019, there were eight securities in an unrealized loss position. Of these securities, none had been in an unrealized loss position for 12 months or longer.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Allowance for Credit Losses of Available-for-Sale Fixed-Maturity Securities

The Company regularly reviews its individual investment securities for credit impairment. The Company considers various factors in determining whether each individual security is impaired, including-

- the financial condition and near-term prospects of the issuer, including any specific events that may affect its operations or earnings;
- the extent to which the market value of the security has been below its cost or amortized cost;
- general market conditions and industry or sector specific factors and other qualitative factors;
- nonpayment by the issuer of its contractually obligated interest and principal payments; and
- the Company's intent and ability to hold the investment for a period of time sufficient to allow for the recovery of costs.

The table below summarized the activity in the allowance for credit losses of available-for-sale securities for the three months ended on March 31, 2020:

	Three Months Ended March 31, 2020
Beginning allowance for credit losses	$ —
Credit loss expense	439
Ending allowance for credit losses	$ 439

b) Equity Securities

The Company holds investments in equity securities measured at fair values which are readily determinable. At March 31, 2020 and December 31, 2019, the cost, gross unrealized gains and losses, and estimated fair value of the Company's equity securities were as follows:

	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
March 31, 2020	$ 25,514	$ 1,369	$ (2,752)	$ 24,131
December 31, 2019	$ 31,863	$ 3,652	$ (230)	$ 35,285

The table below presents the portion of unrealized gains and losses in the Company's consolidated statement of income for the periods related to equity securities still held.

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net (losses) gains recognized	$ (6,776)	$ 4,837
Exclude: Net realized losses recognized for securities sold	(1,971)	(456)
Net unrealized (losses) gains recognized	$ (4,805)	$ 5,293

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Sales of Equity Securities

Proceeds received, and the gross realized gains and losses from sales of equity securities, for the three months ended March 31, 2020 and 2019 were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Three months ended March 31, 2020	$ 9,007	$ 785	$ (2,756)
Three months ended March 31, 2019	$ 27,874	$ 2,074	$ (2,530)

c) Limited Partnership Investments

The Company has interests in limited partnerships that are not registered or readily tradeable on a securities exchange. These partnerships are private equity funds managed by general partners who make decisions with regard to financial policies and operations. As such, the Company is not the primary beneficiary and does not consolidate these partnerships. The following table provides information related to the Company's investments in limited partnerships:

	March 31, 2020			December 31, 2019		
Investment Strategy	**Carrying Value**	**Unfunded Balance**	**(%)(a)**	**Carrying Value**	**Unfunded Balance**	**(%)(a)**
Primarily in senior secured loans and, to a limited extent, in other debt and equity securities of private U.S. lower-middle-market companies. (b)(c)(e)	$ 8,865	$ 2,085	15.37	$ 9,659	$ 2,085	15.37
Value creation through active distressed debt investing primarily in bank loans, public and private corporate bonds, asset-backed securities, and equity securities received in connection with debt restructuring. (b)(d)(e)	5,569	—	1.76	5,985	—	1.76
High returns and long-term capital appreciation through investments in the power, utility and energy industries, and in the infrastructure sector. (b)(f)(g)	7,132	1,401	0.18	9,188	1,391	0.18
Value-oriented investments in less liquid and mispriced senior and junior debts of private equity-backed companies. (b)(h)(i)	2,492	2,093	0.47	1,602	3,106	0.47
Value-oriented investments in mature real estate private equity funds and portfolio globally. (b)(j)	1,576	8,632	2.24	1,912	8,548	2.24
Total	$ 25,634	$ 14,211		$ 28,346	$ 15,130	

(a) Represents the Company's percentage investment in the fund at each balance sheet date.

(b) Except under certain circumstances, withdrawals from the funds or any assignments are not permitted. Distributions, except income from late admission of a new limited partner, will be received when underlying investments of the funds are liquidated.

(c) Expected to have a ten-year term. Although the capital commitment period has expired, there are still follow-on investments and pending commitments that require additional fundings.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

(d) Expected to have a three-year term from June 30, 2018. Although the capital commitment period has ended, the general partner could still request an additional funding of approximately $843 under certain circumstances.

(e) At the fund manager's discretion, the term of the fund may be extended for up to two additional one-year periods.

(f) Expected to have a ten-year term and the capital commitment is expected to expire on June 30, 2020.

(g) With the consent of a supermajority of partners, the term of the fund may be extended for up to three additional one-year periods.

(h) Expected to have a six-year term from the commencement date, which can be extended for up to two additional one-year periods with the consent of either the advisory committee or a majority of limited partners.

(i) The capital commitment was extended and is now expected to expire on December 1, 2020.

(j) Expected to have an eight-year term from November 27, 2019.

The following is the summary of aggregated unaudited financial information of limited partnerships included in the investment strategy table above, which in certain cases is presented on a three-month lag due to the unavailability of information at the Company's respective balance sheet dates. The financial statements of these limited partnerships are audited annually.

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating results:		
Total income	$ (450,892)	$ (90,513)
Total expenses	(54,812)	(49,033)
Net loss	$ (505,704)	$ (139,546)

	March 31, 2020	December 31, 2019
Balance Sheet:		
Total assets	$ 6,320,606	$ 6,850,913
Total liabilities	$ 536,760	$ 549,562

For the three months ended March 31, 2020 and 2019, the Company recognized net investment loss of $2,935 and $211, respectively. Included in the net investment loss for the three months ended March 31, 2020 was $2,968 of an estimated unfavorable change in net asset value due to the impact of COVID-19 to the world economy. During the three months ended March 31, 2020 and 2019, the Company received total cash distributions of $696 and $1,013, respectively, including returns on investment of $382 and $1,013, respectively.

At March 31, 2020 and December 31, 2019, the Company's cumulative contributed capital to the partnerships at each respective balance sheet date totaled $30,447 and $29,528, respectively, and the Company's maximum exposure to loss aggregated $25,634 and $28,346, respectively.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

d) Investment in Unconsolidated Joint Venture

Melbourne FMA, LLC, a wholly owned subsidiary, currently has an equity investment in FMKT Mel JV, a Florida limited liability company treated as a joint venture under U.S. GAAP. At March 31, 2020 and December 31, 2019, the Company's maximum exposure to loss relating to the variable interest entity was $746 and $762, respectively, representing the carrying value of the investment. There were no cash distributions during the three months ended March 31, 2020 and 2019. At March 31, 2020 and December 31, 2019, there was no undistributed income from this equity method investment. The following tables provide FMJV's summarized unaudited financial results and the unaudited financial positions:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating results:		
Total revenues and gain	$ —	$ 2
Total expenses	(19)	(38)
Net loss	$ (19)	$ (36)
The Company's share of net loss*	$ (16)	$ (33)

* Included in net investment income in the Company's consolidated statements of income.

	March 31, 2020	December 31, 2019
Balance Sheet:		
Property and equipment, net	$ 732	$ 741
Cash	96	102
Other	4	4
Total assets	$ 832	$ 847
Other liabilities	$ 4	$ —
Members' capital	828	847
Total liabilities and members' capital	$ 832	$ 847
Investment in unconsolidated joint venture, at equity**	$ 746	$ 762

** Includes the 90% share of FMKT Mel JV's operating results.

e) Real Estate Investments

Real estate investments consist of the following as of March 31, 2020 and December 31, 2019.

	March 31, 2020	December 31, 2019
Land	$ 39,511	$ 39,511
Land improvements	11,917	11,907
Buildings	24,149	24,086
Tenant and leasehold improvements	1,486	1,487
Other	5,878	3,489
Total, at cost	82,941	80,480
Less: accumulated depreciation and amortization	(7,171)	(6,717)
Real estate investments	$ 75,770	$ 73,763

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Depreciation and amortization expense related to real estate investments was $455 and $332 for the three months ended March 31, 2020 and 2019, respectively. During the first quarter of 2020, the Company incurred additional construction costs of $2,338 related to an ongoing redevelopment project in Clearwater, Florida.

f) Net Investment (Loss) Income

Net investment (loss) income, by source, is summarized as follows:

	Three Months Ended March 31,	
	2020	2019
Available-for-sale fixed-maturity securities	$ 1,515	$ 1,535
Equity securities	335	381
Investment expense	(118)	(129)
Limited partnership investments	(2,935)	(211)
Real estate investments	81	306
Loss from unconsolidated joint venture	(16)	(33)
Cash and cash equivalents	939	1,076
Short-term investments	7	353
Net investment (loss) income	$ (192)	$ 3,278

Note 6 -- Comprehensive Income (Loss)

Comprehensive income (loss) includes net income and other comprehensive income or loss, which for the Company includes changes in unrealized gains or losses of investments carried at fair value and changes in the allowance for credit losses related to these investments. Reclassification adjustments for realized (gains) losses are reflected in net realized investment gains (losses) on the consolidated statements of income. The components of other comprehensive income or loss and the related tax effects allocated to each component were as follows:

	Three Months Ended March 31, 2020			Three Months Ended March 31, 2019		
	Before Tax	Income Tax Expense (Benefit)	Net of Tax	Before Tax	Income Tax Expense (Benefit)	Net of Tax
Unrealized (losses) gains arising during the period	$ (3,471)	$ (851)	$ (2,620)	$ 2,704	$ 685	$ 2,019
Change in allowance for credit losses	439	107	332	—	—	—
Call and repayment gains charged to investment income	(66)	(16)	(50)	—	—	—
Reclassification adjustment for realized losses (gains)	273	67	206	(33)	(8)	(25)
Total other comprehensive (losses) gains	$ (2,825)	$ (693)	$ (2,132)	$ 2,671	$ 677	$ 1,994

Note 7 -- Fair Value Measurements

The Company records and discloses certain financial assets at their estimated fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1	-	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2	-	Other inputs that are observable for the asset, either directly or indirectly such as quoted prices for identical assets that are not observable throughout the full term of the asset.
Level 3	-	Inputs that are unobservable.

Valuation Methodology

Cash and cash equivalents

Cash and cash equivalents primarily consist of money-market funds and certificates of deposit maturing within 90 days. Their carrying value approximates fair value due to the short maturity and high liquidity of these funds.

Short-term investments

Short-term investments consist of certificates of deposit with maturities of 91 to 365 days. Due to their short maturity, the carrying value approximates fair value.

Fixed-maturity and equity securities

Estimated fair values of the Company's fixed-maturity and equity securities are determined in accordance with U.S. GAAP, using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either directly or indirectly, such as quoted prices for similar securities. In those instances where observable inputs are not available, fair values are measured using unobservable inputs. Unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the security and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are significantly affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange.

The estimated fair values for securities that do not trade on a daily basis are determined by management, utilizing prices obtained from an independent pricing service and information provided by brokers, which are level 2 inputs. Management reviews the assumptions and methods utilized by the pricing service and then compares the relevant data and pricing to broker-provided data. The Company gains assurance of the overall reasonableness and consistent application of the assumptions and methodologies and compliance with accounting standards for fair value determination through ongoing monitoring of the reported fair values.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Revolving Credit Facility

The Company's revolving credit facility is a variable-rate loan. The interest rate is periodically adjusted based on the London Interbank Offered Rate plus a spread. As a result, its carrying value approximates fair value.

Long-term debt

The following table summarizes components of the Company's long-term debt and methods used in estimating their fair values:

	Maturity Date	Valuation Methodology
4.25% Convertible senior notes	2037	Quoted price
3.90% Promissory note	2032	Discounted cash flow method/Level 3 inputs
4% Promissory note	2031	Discounted cash flow method/Level 3 inputs
3.75% Callable promissory note	2036	Discounted cash flow method/Level 3 inputs
4.55% Promissory note	2036	Discounted cash flow method/Level 3 inputs

Assets Measured at Estimated Fair Value on a Recurring Basis

The following table presents information about the Company's financial assets measured at estimated fair value on a recurring basis. The table indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as of March 31, 2020 and December 31, 2019:

	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	Total
As of March 31, 2020				
Financial Assets:				
Cash and cash equivalents	$ 317,078	$ —	$ —	$ 317,078
Restricted cash	$ 700	$ —	$ —	$ 700
Short-term investments	$ 464	$ —	$ —	$ 464
Fixed-maturity securities:				
U.S. Treasury and U.S. government agencies	$ 14,820	$ 1,543	$ —	$ 16,363
Corporate bonds	155,019	—	—	155,019
State, municipalities, and political subdivisions	—	7,576	—	7,576
Exchange-traded debt	6,786	—	—	6,786
Redeemable preferred stock	101	—	—	101
Total available-for-sale securities	$ 176,726	$ 9,119	$ —	$ 185,845
Equity securities	$ 24,131	$ —	$ —	$ 24,131

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	Total
As of December 31, 2019				
Financial Assets:				
Cash and cash equivalents	$ 229,218	$ —	$ —	$ 229,218
Restricted cash	$ 700	$ —	$ —	$ 700
Short-term investments	$ 491	$ —	$ —	$ 491
Fixed-maturity securities:				
U.S. Treasury and U.S. government agencies	$ 25,294	$ 1,001	$ —	$ 26,295
Corporate bonds	159,364	—	—	159,364
State, municipalities, and political subdivisions	—	7,912	—	7,912
Exchange-traded debt	9,145	—	—	9,145
Redeemable preferred stock	123	—	—	123
Total available-for-sale securities	$ 193,926	$ 8,913	$ —	$ 202,839
Equity securities	$ 35,285	$ —	$ —	$ 35,285

Assets and Liabilities Carried at Other Than Estimated Fair Value

The following tables present fair value information for assets and liabilities that are carried on the balance sheet at amounts other than fair value as of March 31, 2020 and December 31, 2019:

	Carrying Value	Fair Value Measurements Using			Estimated Fair Value
		(Level 1)	(Level 2)	(Level 3)	
As of March 31, 2020					
Financial Liabilities:					
Revolving credit facility	$ 23,750	$ —	$ 23,750	$ —	$ 23,750
Long-term debt:					
4.25% Convertible senior notes	$ 135,112	$ —	$ 130,813	$ —	$ 130,813
3.90% Promissory note	9,829	—	—	10,422	10,422
4% Promissory note	7,110	—	—	7,563	7,563
3.75% Callable promissory note	7,754	—	—	8,191	8,191
4.55% Promissory note	5,555	—	—	6,035	6,035
Total long-term debt	$ 165,360	$ —	$ 130,813	$ 32,211	$ 163,024

	Carrying Value	Fair Value Measurements Using			Estimated Fair Value
		(Level 1)	(Level 2)	(Level 3)	
As of December 31, 2019					
Financial Liabilities:					
Revolving credit facility	$ 9,750	$ —	$ 9,750	$ —	$ 9,750
Long-term debt:					
4.25% Convertible senior notes	$ 134,075	$ —	$ 147,375	$ —	$ 147,375
3.95% Promissory note	8,875	—	—	8,887	8,887
4% Promissory note	7,237	—	—	7,409	7,409
3.75% Callable promissory note	7,837	—	—	7,861	7,861
4.55% Promissory note	5,611	—	—	5,802	5,802
Total long-term debt	$ 163,635	$ —	$ 147,375	$ 29,959	$ 177,334

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Note 8 -- Other Assets

The following table summarizes the Company's other assets.

	March 31, 2020	December 31, 2019
Benefits receivable related to retrospective reinsurance contract	$ 12,000	$ 9,480
Prepaid expenses	2,094	2,107
Deposits	1,493	1,678
Lease acquisition costs, net	541	566
Other	3,841	3,249
Total other assets	$ 19,969	$ 17,080

Note 9 -- Revolving Credit Facility

During the first quarter of 2020, the Company borrowed an additional amount of $14,000 for general business purposes. For the three months ended March 31, 2020 and 2019, interest expense was $153 and $69, respectively, including $39 of amortization of issuance costs in each of the periods. At March 31, 2020, the Company was in compliance with all required covenants, and there were $23,750 of borrowings outstanding.

Note 10 -- Long-Term Debt

The following table summarizes the Company's long-term debt.

	March 31, 2020	December 31, 2019
4.25% Convertible senior notes, due March 1, 2037	$ 143,750	$ 143,750
3.95% Promissory note, due through February 17, 2020	—	8,881
4% Promissory note, due through February 1, 2031	7,214	7,345
3.75% Callable promissory note, due through September 1, 2036	7,869	7,955
4.55% Promissory note, due through August 1, 2036	5,646	5,704
3.90% Promissory note, due through April 1, 2032	10,000	—
Finance lease liabilities, due through August 15, 2023	56	60
Total principal amount	174,535	173,695
Less: unamortized discount and issuance costs	(9,119)	(10,000)
Total long-term debt	$ 165,416	$ 163,695

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

The following table summarizes future maturities of long-term debt as of March 31, 2020, which takes into consideration the assumption that the 4.25% Convertible Senior Notes are repurchased at the earliest call date.

Due in 12 months following March 31,		
2020	$	1,452
2021		145,289
2022		1,598
2023		1,654
2024		1,715
Thereafter		22,827
Total	$	174,535

Information with respect to interest expense related to long-term debt is as follows:

	Three Months Ended March 31,			
	2020		2019	
Interest Expense:				
Contractual interest	$	1,806	$	2,557
Non-cash expense (a)		1,052		1,790
Capitalized interest (b)		(41)		(79)
	$	2,817	$	4,268

(a) Includes amortization of debt discount and issuance costs.
(b) Interest was capitalized for a construction project.

Convertible Senior Notes

4.25% Convertible Notes. The Company's recent cash dividends on common stock have exceeded $0.35 per share, resulting in adjustments to the conversion rate of the 4.25% Convertible Notes. Accordingly, as of March 31, 2020, the conversion rate of the Company's 4.25% Convertible Notes was 16.3843 shares of common stock for each $1 in principal amount, which was the equivalent of approximately $61.03 per share.

As of March 31, 2020, the remaining amortization period of the debt discount for 4.25% Convertible Notes was expected to be 1.9 years.

3.95% Promissory Note

In February 2020, the Company repaid its 3.95% Promissory Note.

3.90% Promissory Note

On February 28, 2020, the Company entered into a loan agreement with American Equity Investment Life Insurance Company for gross proceeds of $10,000. The agreement bears interest at a fixed rate of 3.90% and is secured by the Company's shopping center property in Melbourne, Florida and the assignment of associated lease agreements. Approximately $60 of principal and interest is payable in 143 monthly installments beginning April 1, 2020 plus a final balloon payment of $5,007 including principal and unpaid interest payable on March 1, 2032. The promissory note may be repaid in full at any time as long as the Company provides at least 60 days' written notice and pays a prepayment premium and processing fee. The proceeds were primarily used to repay the 3.95% Promissory Note due in February 2020.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

On March 19, 2020, the loan agreement was modified to revise the due dates for the first and last installments to May 1, 2020 and April 1, 2032, respectively, while other terms and conditions remain intact.

Note 11 -- Reinsurance

The Company cedes a portion of its homeowners' insurance exposure to other entities under catastrophe excess of loss reinsurance contracts and one quota share reinsurance agreement. Ceded premiums under most catastrophe excess of loss reinsurance contracts are subject to revision resulting from subsequent adjustments in total insured value. Under the terms of the quota share reinsurance agreement, the Company is entitled to a 30% ceding commission on ceded premiums written. The reinsurance premiums under one multi-year flood catastrophe excess of loss reinsurance contract are generally determined on a quarterly basis based on the premiums associated with the applicable flood total insured value in force on the last day of the preceding quarter.

The Company remains liable for claims payments in the event that any reinsurer is unable to meet its obligations under the reinsurance agreements. Failure of reinsurers to honor their obligations could result in losses to the Company. 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 reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company contracts with a number of reinsurers to secure its annual reinsurance coverage, which generally becomes effective June 1st each year. The Company purchases reinsurance each year taking into consideration probable maximum losses and reinsurance market conditions.

The impact of the reinsurance contracts on premiums written and earned is as follows:

	Three Months Ended March 31,	
	2020	**2019**
Premiums Written:		
Direct	$ 76,572	$ 67,612
Assumed	(54)	(2)
Gross written	76,518	67,610
Ceded	(30,719)	(31,413)
Net premiums written	$ 45,799	$ 36,197
Premiums Earned:		
Direct	$ 90,767	$ 82,599
Assumed	1,598	(2)
Gross earned	92,365	82,597
Ceded	(30,719)	(31,413)
Net premiums earned	$ 61,646	$ 51,184

During the three months ended March 31, 2020 and 2019, ceded losses of $338 and $0, respectively, were recognized as a reduction in losses and loss adjustment expenses. At March 31, 2020 and December 31, 2019, there were 31 reinsurers participating in the Company's reinsurance program. Total gross amounts recoverable and receivable from reinsurers at March 31, 2020 and December 31, 2019 were $118,132 and $132,678, respectively. Approximately 61.1% of the reinsurance recoverable balance at March 31, 2020 was receivable from the Florida Hurricane Catastrophe Fund, a state trust fund. Based on all available information considered in the rating-based method described in Note 2 -- "Summary of Significant Accounting Policies," the Company recognized a decrease in credit loss expense of $24 for the three months ended March 31, 2020 as opposed to $0 for the same period in 2019. Allowances for credit losses related to the reinsurance recoverable balance were $429 and $0 at March 31, 2020 and December 31, 2019.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

One of the reinsurance contracts includes retrospective provisions that adjust premiums in the event losses are minimal or zero. For the three months ended March 31, 2020 and 2019, the Company recognized a reduction in premiums ceded of $2,520 and a net reduction in ceded premiums of $512, respectively, related to these adjustments in the consolidated statement of income.

Amounts receivable pursuant to retrospective provisions are reflected in other assets. At March 31, 2020 and December 31, 2019, other assets included $12,000 and $9,480 related to these adjustments, respectively. Management believes the credit risk associated with the collectability of these accrued benefits is minimal as the amount receivable is concentrated with one reinsurer and the Company monitors the creditworthiness of this reinsurer based on available information about the reinsurer's financial condition.

Note 12 -- Losses and Loss Adjustment Expenses

The liability for losses and loss adjustment expenses 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.

The Company primarily writes insurance in the state of Florida, which could be exposed to hurricanes or other natural catastrophes. The occurrence of a major catastrophe could have a significant effect on the Company's quarterly results and cause a temporary disruption of the 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.

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	Three Months Ended March 31,	
	2020	2019
Net balance, beginning of period*	$ 98,174	$ 94,826
Incurred, net of reinsurance, related to:		
Current period	25,803	24,321
Prior period	2,275	2,675
Total incurred, net of reinsurance	28,078	26,996
Paid, net of reinsurance, related to:		
Current period	(4,484)	(3,930)
Prior period	(15,892)	(19,439)
Total paid, net of reinsurance	(20,376)	(23,369)
Net balance, end of period	105,876	98,453
Add: reinsurance recoverable before allowance for credit losses	101,232	86,208
Gross balance, end of period	$ 207,108	$ 184,661

*Net balance represents beginning-of-period liability for unpaid losses and loss adjustment expenses less beginning-of-period reinsurance recoverable for unpaid losses and loss adjustment expenses.

The establishment of loss reserves is an inherently uncertain process and changes in loss reserve estimates are expected as these estimates are subject to the outcome of future events. Changes in estimates, or differences between estimates and amounts ultimately paid, are reflected in the operating results of the period during which such estimates are adjusted. During the three months ended March 31, 2020, the Company recognized losses related to prior periods of $2,275 for unfavorable development resulting from litigation for prior years as well as a hail related weather event in 2019.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Note 13 -- Segment Information

The Company identifies its operating divisions based on organizational structure and revenue source. Currently, the Company has three reportable segments: insurance operations, real estate operations, and corporate and other. Due to their economic characteristics, the Company's property and casualty insurance division and reinsurance division are grouped together into one reportable segment under insurance operations. The real estate operations segment includes companies engaged in operating commercial properties the Company owns for investment purposes or for use in its own operations. The corporate and other segment represents the activities of the holding companies, the information technology division, and other companies that do not meet the quantitative and qualitative thresholds for a reportable segment. The determination of segments may change over time due to changes in operational emphasis, revenues, and results of operations. The Company's chief executive officer, who serves as the Company's chief operating decision maker, evaluates each division's financial and operating performance based on revenue and operating income.

For the three months ended March 31, 2020 and 2019, revenues from the Company's insurance operations before intracompany elimination represented 94.2% and 94.5%, respectively, of total revenues of all operating segments. At March 31, 2020 and December 31, 2019, insurance operations' total assets represented 85.4% and 85.5%, respectively, of the combined assets of all operating segments. The following tables present segment information reconciled to the Company's consolidated statements of income. Intersegment transactions are not eliminated from segment results. However, intracompany transactions are eliminated in segment results below.

For Three Months Ended March 31, 2020	**Insurance Operations**	**Real Estate(a)**	**Corporate/ Other(b)**	**Reclassification/ Elimination**	**Consolidated**
Revenue:					
Net premiums earned	$ 61,646	$ —	$ —	$ —	$ 61,646
Net investment income (loss)	2,333	1	(2,370)	(156)	(192)
Net realized investment losses	(1,822)	—	(422)	—	(2,244)
Net unrealized investment losses	(4,097)	—	(708)	—	(4,805)
Credit losses on investments	(439)	—	—	—	(439)
Policy fee income	829	—	—	—	829
Other	275	2,559	1,372	(3,621)	585
Total revenue	58,725	2,560	(2,128)	(3,777)	55,380
Expenses:					
Losses and loss adjustment expenses	28,078	—	—	—	28,078
Amortization of deferred policy acquisition costs	10,857	—	—	—	10,857
Interest expense	—	473	2,717	(220)	2,970
Depreciation and amortization	31	656	402	(612)	477
Other	8,075	1,251	5,960	(2,945)	12,341
Total expenses	47,041	2,380	9,079	(3,777)	54,723
Income (loss) before income taxes	$ 11,684	$ 180	$ (11,207)	$ —	$ 657
Total revenue (investment loss) from non-affiliates(c)	$ 58,725	$ 2,094	$ (2,626)		

(a) Other revenue under real estate primarily consisted of rental income from investment properties.
(b) Other revenue under corporate and other primarily consisted of revenue from restaurant and marina businesses.
(c) Represents amounts before reclassification of certain revenue and expenses to conform with an insurance company's presentation .

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

For Three Months Ended March 31, 2019	Insurance Operations	Real Estate(a)	Corporate/ Other(b)	Reclassification/ Elimination	Consolidated
Revenue:					
Net premiums earned	$ 51,184	$ —	$ —	$ —	$ 51,184
Net investment income	2,628	—	507	143	3,278
Net realized investment gains	198	—	(570)	—	(372)
Net unrealized investment (losses) gains	4,310	—	983	—	5,293
Policy fee income	795	—	—	—	795
Other	176	2,312	1,551	(3,583)	456
Total revenue	59,291	2,312	2,471	(3,440)	60,634
Expenses:					
Losses and loss adjustment expenses	26,996	—	—	—	26,996
Amortization of deferred policy acquisition costs	8,656	—	—	—	8,656
Interest expense	1	383	4,083	(130)	4,337
Depreciation and amortization	27	583	268	(484)	394
Other	7,090	1,108	5,596	(2,826)	10,968
Total expenses	42,770	2,074	9,947	(3,440)	51,351
Income (loss) before income taxes	$ 16,521	$ 238	$ (7,476)	$ —	$ 9,283
Total revenue from non-affiliates(c)	$ 59,291	$ 1,903	$ 2,060		

(a) Other revenue under real estate primarily consisted of rental income from investment properties.
(b) Other revenue under corporate and other primarily consisted of revenue from restaurant and marina businesses.
(c) Represents amounts before reclassification of certain revenue and expenses to conform with an insurance company's presentation .

The following table presents segment assets reconciled to the Company's total assets in the consolidated balance sheets.

	March 31, 2020	December 31, 2019
Segment:		
Insurance Operations	$ 682,466	$ 663,280
Real Estate Operations	96,511	93,727
Corporate and Other	85,179	60,662
Consolidation and Elimination	(27,817)	(15,060)
Total assets	$ 836,339	$ 802,609

Note 14 -- Leases

The table below summarizes the Company's right-of-use ("ROU") assets and corresponding liabilities for operating and finance leases:

	March 31, 2020	December 31, 2019
Operating leases:		
ROU Assets	$ 410	$ 484
Liabilities	$ 425	$ 513
Finance leases:		
ROU Assets	$ 79	$ 79
Liabilities	$ 56	$ 60

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

The following table summarizes the Company's operating and finance leases in which the Company is a lessee:

Class of Assets	Initial Term	Renewal Option	Other Terms and Conditions
Operating lease:			
Office equipment	1 to 63 months	Yes	(a), (b)
Storage units	2 years	Yes	(b)
Office space	3 to 10 years	Yes	(b), (c)
Finance lease:			
Office equipment	3 to 5 years	Not applicable	(d)

(a) At the end of the lease term, the Company can purchase the equipment at fair market value.
(b) There are no variable lease payments.
(c) Rent escalation provisions exist.
(d) There is a bargain purchase option.

As of March 31, 2020, maturities of lease liabilities were as follows:

	Leases	
	Operating	Finance
Due in 12 months following March 31,		
2020	$ 318	$ 19
2021	126	19
2022	12	15
2023	—	7
Total lease payments	456	60
Less: interest and foreign taxes	31	4
Total lease obligations	$ 425	$ 56

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

The following table provides quantitative information with regard to the Company's operating and finance leases.

	Three Months Ended March 31,	
	2020	2019
Lease costs:		
Finance lease costs:		
Amortization – ROU assets*	$ 4	$ 3
Interest expense	1	1
Operating lease costs*	78	81
Short-term lease costs*	49	45
Total lease costs	$ 132	$ 130
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows – finance leases	$ 1	$ 1
Operating cash flows – operating leases	$ 80	$ 78
Financing cash flows – finance leases	$ 4	$ 2

	March 31, 2020
Weighted-average remaining lease term:	
Finance leases (in years)	3.2
Operating leases (in years)	1.5
Weighted-average discount rate:	
Finance leases	3.7%
Operating leases	4.0%

* Included in other operating expenses of the consolidated statement of income.

The following table summarizes the Company's operating leases in which the Company is a lessor:

Class of Assets	Initial Term	Renewal Option	Other Terms and Conditions
Operating lease:			
Office space	1 to 3 years	Yes	(e)
Retail space	3 to 20 years	Yes	(e)
Boat docks/wet slips	1 to 12 months	Yes	(e)

(e) There are no purchase options.

Note 15 -- Income Taxes

During the three months ended March 31, 2020 and 2019, the Company recorded approximately $110 and $2,545 respectively, of income taxes, which resulted in effective tax rates of 16.7% and 27.4%, respectively. The decrease in the effective tax rate in 2020 as compared with the corresponding period in the prior year was primarily attributable to the recognition of windfall tax benefits related to share-based awards in the first quarter of 2020. The Company's estimated annual effective tax rate differs from the statutory federal tax rate due to state and foreign income taxes as well as certain nondeductible and tax-exempt items. In addition, the Company determined there were no significant tax implications as a result of the CARES Act.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Note 16 -- Earnings Per Share

U.S. GAAP requires the Company to use the two-class method in computing basic earnings per share since holders of the Company's restricted stock have the right to share in dividends, if declared, equally with common stockholders. These participating securities affect the computation of both basic and diluted earnings per share during periods of net income or loss.

A summary of the numerator and denominator of the basic and diluted earnings per common share is presented below.

	Three Months Ended March 31, 2020			Three Months Ended March 31, 2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	$ 547			$ 6,738		
Less: Income attributable to participating securities	(13)			(408)		
Basic Earnings Per Share:						
Income allocated to common stockholders	534	7,369	$ 0.07	6,330	7,736	$ 0.82
Effect of Dilutive Securities: *						
Stock options	—	9		—	19	
Diluted Earnings Per Share:						
Income available to common stockholders and assumed conversions	$ 534	7,378	$ 0.07	$ 6,330	7,755	$ 0.82

* For the three months ended March 31, 2020 and 2019, convertible senior notes were excluded due to anti-dilutive effect.

Note 17 -- Stockholders' Equity

Common Stock

On December 19, 2019, the Board of Directors decided to extend the term of the 2019 stock repurchase plan to March 15, 2020. On March 13, 2020, the Board approved a new stock repurchase plan for 2020 to repurchase up to $20,000 of the Company's common shares before commissions and fees. During the three months ended March 31, 2020, the Company repurchased and retired a total of 76,851 shares at a weighted average price per share of $39.55 under these authorized repurchase plans. The total cost of shares repurchased, inclusive of fees and commissions, during the three months ended March 31, 2020 was $3,041 or $39.58 per share.

During the three months ended March 31, 2019, the Company repurchased and retired a total of 31,789 shares at a weighted average price per share of $42.06 under this authorized repurchase plan. The total cost of shares repurchased, inclusive of fees and commissions, during the three months ended March 31, 2019 was $1,338, or $42.09 per share.

On January 21, 2020, the Company's Board of Directors declared a quarterly dividend of $0.40 per common share. The dividends were paid on March 20, 2020 to stockholders of record on February 21, 2020.

Note 18 -- Stock-Based Compensation

Incentive Plans

The Company currently has outstanding stock-based awards granted under the 2007 Stock Option and Incentive Plan and the 2012 Omnibus Incentive Plan. Only the 2012 Plan is active and available for future grants. At March 31, 2020, there were 1,613,942 shares available for grant.

Stock Options

Stock options granted and outstanding under the incentive plans vest over periods ranging from immediately vested to five years and are exercisable over the contractual term of ten years.

A summary of the stock option activity for the three months ended March 31, 2020 and 2019 is as follows (option amounts not in thousands):

	Number of Options	Weighted Average Exercise Price		Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	
Outstanding at January 1, 2020	340,000	$	43.21	7.9 years	$	1,657
Granted	110,000	$	48.00			
Exercised	(10,000)	$	6.30			
Outstanding at March 31, 2020	440,000	$	45.25	8.3 years	$	—
Exercisable at March 31, 2020	165,000	$	42.17	7.5 years	$	—
Outstanding at January 1, 2019	240,000	$	37.19	8.8 years	$	3,278
Granted	110,000	$	53.00			
Outstanding at March 31, 2019	350,000	$	42.16	8.5 years	$	1,329
Exercisable at March 31, 2019	102,500	$	33.42	7.0 years	$	954

The following table summarizes information about options exercised for the three months ended March 31, 2020 and 2019 (option amounts not in thousands):

	Three Months Ended March 31,			
	2020		2019	
Options exercised		10,000		—
Total intrinsic value of exercised options	$	288	$	—
Tax benefits realized	$	71	$	—

For the three months ended March 31, 2020 and 2019, the Company recognized $283 and $205, respectively, of compensation expense which was included in general and administrative personnel expenses. Deferred tax benefits related to stock options were $19 for the three months ended March 31, 2020 and 2019. At March 31, 2020 and December 31, 2019, there was $2,785 and $1,835, respectively, of unrecognized compensation expense related to nonvested stock options. The Company expects to recognize the remaining compensation expense over a weighted-average period of 2.9 years.

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

The following table provides assumptions used in the Black-Scholes option-pricing model to estimate the fair value of the stock options granted during the three months ended March 31, 2020 and 2019:

	2020	2019
Expected dividend yield	3.48%	3.34%
Expected volatility	38.68%	40.17%
Risk-free interest rate	1.63%	2.53%
Expected life (in years)	5	5

Restricted Stock Awards

From time to time, the Company has granted and may grant restricted stock awards to its executive officers, other employees and nonemployee directors in connection with their service to the Company. The terms of the Company's outstanding restricted stock grants may include service, performance and market-based conditions. The determination of fair value with respect to the awards containing only service-based conditions is based on the market value of the Company's common stock on the grant date.

Information with respect to the activity of unvested restricted stock awards during the three months ended March 31, 2020 and 2019 is as follows:

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	396,760	$ 41.71
Granted	45,000	$ 44.97
Vested	(31,250)	$ 40.97
Forfeited	(7,138)	$ 42.60
Nonvested at March 31, 2020	403,372	$ 42.12
Nonvested at January 1, 2019	632,296	$ 33.33
Granted	40,000	$ 47.94
Vested	(21,250)	$ 37.69
Forfeited	(4,681)	$ 42.79
Nonvested at March 31, 2019	646,365	$ 34.03

(Amounts in thousands, except share and per share amounts, unless otherwise stated)

The Company recognized compensation expense related to restricted stock, which is included ingeneral and administrative personnel expenses, of $1,558 and $1,254 for the three months endedMarch 31, 2020 and 2019, respectively. At March 31, 2020 and December 31, 2019, there was approximately $12,822 and $12,661, respectively, of total unrecognized compensation expense related to nonvested restricted stock arrangements. The Company expects to recognize the remaining compensation expense over a weighted-average period of 2.4 years. The following table summarizes information about deferred tax benefits recognized and tax benefits realized related to restricted stock awards and paid dividends, and the fair value of vested restricted stock for thethree months ended March 31, 2020 and 2019.

	Three Months Ended March 31,	
	2020	2019
Deferred tax benefits recognized	$ 284	$ 246
Tax benefits realized for restricted stock and paid dividends	$ 53	$ 61
Fair value of vested restricted stock	$ 1,280	$ 801

During 2019, all shares of restricted stock awards granted to employee and nonemployee directors with market-based vesting conditions were forfeited due to not meeting the vesting conditions. The dividend payments associated with these awards were expensed when declared. As a result, for the three months ended March 31, 2019, the Company recognized dividends of $114 in general and administrative personnel expenses for $85 and in other operating expenses for $29.

Note 19 -- Commitments and Contingencies

Obligations under Multi-Year Reinsurance Contract

As of March 31, 2020, the Company has a contractual obligation related to one multi-year reinsurance contract. This contract may be cancelled only with the other party's consent. The future minimum aggregate premium amounts payable to the reinsurer is $1,034 due in April 2020. The contract expires on June 30, 2020 unless extended.

Capital Commitment

As described in Note 5 -- "Investments" under *Limited Partnership Investments*, the Company is contractually committed to capital contributions for limited partnership interests. At March 31, 2020, there was an aggregate unfunded balance of $14,211.

Note 20 -- Subsequent Events

In connection with a policy replacement agreement between HCPCI and Anchor Property & Casualty Insurance Company ("Anchor") dated February 12, 2020, HCPCI issued approximately 41,000 short-term replacement policies, effective April 1, 2020, to Anchor policyholders whose policy coverages were cancelled by Anchor effective March 31, 2020. Under the agreement, HCPCI received $30,000 as of March 31, 2020 which is reflected in advanced premiums in the consolidated balance sheet. This amount will be adjusted in June 2020 according to the terms specified in the agreement.

On April 1, 2020, Gulf to Bay LM, LLC, the Company's wholly owned real estate subsidiary, sued Kroger Co. in federal district court to enforce a guaranty of a commercial lease executed between Gulf to Bay LM, LLC and Lucky's Market Operating Company, LLC. Lucky has filed for bankruptcy earlier this year.

On April 2, 2020, Greenleaf Capital, LLC entered into a purchase and sale agreement with Tampa-Coconut Palms Office Building Exchange, LLC to acquire an office building in Tampa, Florida for a purchase price of $4,000. The transaction is expected to be finalized in late May 2020.

On April 9, 2020, Greenleaf Capital, LLC decided to offer for sale its investment property in Riverview, Florida. The proceeds from the sale are expected to exceed the property's carrying value and, accordingly, no impairment loss was recognized on the classification of this property as held for sale.

On April 13, 2020, the Company's Board of Directors declared a quarterly dividend of $0.40 per common share. The dividends are payable on June 19, 2020 to stockholders of record on May 15, 2020.

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

You should read the following discussion under this Item 2 in conjunction with our consolidated financial statements and related notes and information included elsewhere in this quarterly report on Form 10-Q and in our Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 6, 2020. Unless the context requires otherwise, as used in this Form 10-Q, the terms "HCI," "we," "us," "our," "the Company," "our company," and similar references refer to HCI Group, Inc., a Florida corporation incorporated in 2006, and its subsidiaries. All dollar amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations are in whole dollars unless specified otherwise.

Forward-Looking Statements

In addition to historical information, this quarterly report contains forward-looking statements as defined under federal securities laws. Such statements 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. Typically, forward-looking statements can be identified by terminology such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions. The important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include but are not limited to the effects of governmental regulation; changes in insurance regulations; the frequency and extent of claims; uncertainties inherent in reserve estimates; catastrophic events; changes in the demand for, pricing of, availability of or collectability of reinsurance; restrictions on our ability to change premium rates; increased rate pressure on premiums; the severity and impact of the novel coronavirus ("COVID-19") pandemic; and other risks and uncertainties detailed herein and from time to time in our SEC reports.

OVERVIEW – ***General***

HCI Group, Inc. is a Florida-based InsurTech company that, through its subsidiaries, is engaged in property and casualty insurance, reinsurance, real estate and information technology. Based on our organizational structure, revenue sources, and evaluation of financial and operating performances by management, we manage the following operations:

a) Insurance Operations
   - *Property and casualty insurance*
   - *Reinsurance*

b) Real Estate Operations

c) Other Operations
   - *Information technology*
   - *Other auxiliary operations*

For the three months ended March 31, 2020 and 2019, revenues from insurance operations before intracompany elimination represented 94.2% and 94.5%, respectively, of total revenues of all operating segments. At March 31, 2020 and December 31, 2019, insurance operations' total assets represented 85.4% and 85.5%, respectively, of the combined assets of all operating segments. See Note 13 -- "Segment Information" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

Insurance Operations

Property and Casualty Insurance

Our insurance business is operated through two insurance subsidiaries: Homeowners Choice Property & Casualty Insurance Company, Inc. ("HCPCI"), our principal operating subsidiary, and TypTap Insurance Company ("TypTap"). We provide various forms of residential insurance products such as homeowners insurance, fire insurance, flood insurance and wind-only insurance. We are authorized to write residential property and casualty insurance in the states of Arkansas, California, Florida, Maryland, North Carolina, New Jersey, Ohio, Pennsylvania, South Carolina and Texas. Currently, Florida is our primary market.

TypTap has been the primary source of our growth in gross written premium since 2018. TypTap's policies in force have increased from 6,721 in January 2018 to 29,861 at March 31, 2020. TypTap has been successful in using internally developed proprietary technology to underwrite, select and write policies efficiently in Florida. We expect this expansion to continue and contribute to our future growth.

In February 2020, HCPCI entered into a policy replacement agreement with Anchor Property & Casualty Insurance Company ("Anchor"). Under the agreement, HCPCI offered short-term replacement policies for all policies cancelled by Anchor as of April 1, 2020. The replacement policies have substantially the same terms and rates as the cancelled polices and will expire on the same dates the cancelled policies would have expired had they not been cancelled. Upon expiration of the replacement policies, HCPCI will offer renewals to those policyholders at its own rates and terms. In connection with the agreement, we had received $30,000,000 of advanced premiums from Anchor on March 31, 2020.

Reinsurance

We have a Bermuda domiciled wholly-owned reinsurance subsidiary, Claddaugh Casualty Insurance Company Ltd. We selectively retain risk in Claddaugh, reducing the cost of third-party reinsurance. Claddaugh fully collateralizes its exposure to our insurance subsidiaries by depositing funds into a trust account. Claddaugh may mitigate a portion of its risk through retrocession contracts. Currently, Claddaugh does not provide reinsurance to non-affiliates.

Real Estate Operations

Our real estate operations consist of properties we own and use for our own operations and multiple properties we own and operate for investment purposes. Properties used in operations consist of our Tampa headquarters building and a secondary insurance operations site in Ocala, Florida. Our investment properties include one full-service restaurant, retail shopping centers, one office building, two marinas, and undeveloped land near our headquarters in Tampa, Florida.

Other Operations

Information Technology

Our information technology operations include a team of experienced software developers with extensive knowledge in developing web-based products and applications for mobile devices. The operations, which are in Tampa, Florida and Noida, India, are focused on developing cloud-based, innovative products or services that support in-house operations as well as our third-party relationships with our agency partners and claim vendors. These products include *SAMS™*, *Harmony, and ClaimColony®*.

Impact of COVID-19 on Our Business

As of the date of this filing, the COVID-19 pandemic is likely to continue causing significant economic disruption and negatively affect almost every industry directly or indirectly. The long-term impact of the COVID-19 pandemic on our financial condition, results of operations and cash flows is difficult to predict (also see *Risks and Uncertainties Caused by COVID-19*in Note 1 -- "Nature of Operations" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q) as this global health crisis is still evolving. The severity of the impact of the COVID-19 pandemic on our business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic, the containment measures, the extent and severity of the impact on our patrons and business partners, and the size and effectiveness of the state and federal government's relief programs, of which we expect more to follow. With the use of our existing technologies and infrastructure, a majority of our workforce can stay at home and continue working without significant disruptions to our operations. At present, we have no plan to reduce our workforce. At March 31, 2020, the impact on our financial statements of COVOD-19 consists primarily of significant unrealized losses on our portfolio of investment securities and material losses from limited partnership investments. However, we may experience further material economic impacts in other areas of our business, such as in our real estate operations, in future periods.

Recent Events

On April 1, 2020, Gulf to Bay LM, LLC, our wholly owned real estate subsidiary, sued Kroger Co. in federal district court to enforce a guaranty of a commercial lease executed between Gulf to Bay LM, LLC and Lucky's Market Operating Company, LLC. Lucky has filed for bankruptcy earlier this year.

On April 2, 2020, we entered into a purchase and sale agreement with Tampa-Coconut Palms Office Building Exchange, LLC to acquire an office building in Tampa, Florida for a purchase price of $4,000,000. The transaction is expected to be finalized in late May 2020.

On April 9, 2020, we decided to offer our investment property in Riverview, Florida for sale.

On April 13, 2020, our Board of Directors declared a quarterly dividend of $0.40 per common share. The dividends are payable on June 19, 2020 to stockholders of record on May 15, 2020.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the three months ended March 31, 2020 and 2019 (dollar amounts in thousands, except per share amounts):

	Three Months Ended March 31,	
	2020	2019
Operating Revenue		
Gross premiums earned	$ 92,365	$ 82,597
Premiums ceded	(30,719)	(31,413)
Net premiums earned	61,646	51,184
Net investment (loss) income	(192)	3,278
Net realized investment losses	(2,244)	(372)
Net unrealized investment (losses) gains	(4,805)	5,293
Credit losses on investments	(439)	—
Policy fee income	829	795
Other income	585	456
Total operating revenue	55,380	60,634
Operating Expenses		
Losses and loss adjustment expenses	28,078	26,996
Policy acquisition and other underwriting expenses	11,826	9,673
General and administrative personnel expenses	8,367	7,364
Interest expense	2,970	4,337
Other operating expenses	3,482	2,981
Total operating expenses	54,723	51,351
Income before income taxes	657	9,283
Income tax expense	110	2,545
Net income	$ 547	$ 6,738
Ratios to Net Premiums Earned:		
Loss Ratio	45.55%	52.74%
Expense Ratio	43.22%	47.58%
Combined Ratio	88.77%	100.32%
Ratios to Gross Premiums Earned:		
Loss Ratio	30.40%	32.68%
Expense Ratio	28.85%	29.49%
Combined Ratio	59.25%	62.17%
Earnings Per Share Data:		
Basic	$ 0.07	$ 0.82
Diluted	$ 0.07	$ 0.82

Comparison of the Three Months ended March 31, 2020 to the Three Months ended March 31, 2019

Our results of operations for the three months ended March 31, 2020 reflect income available to common stockholders of approximately $547,000, or $0.07 earnings per diluted common share, compared with approximately $6,738,000, or $0.82 earnings per diluted common share, for the three months ended March 31, 2019. The quarter-over-quarter decrease in pre-tax income was primarily due to a net decrease in income from our investment portfolio (consisting of net investment income/loss and net realized and unrealized gains/losses) of $15,440,000, an increase in policy acquisition and underwriting expenses of $2,153,000, an increase in losses and loss adjustment expenses of $1,082,000, and increased payroll costs of $1,003,000, offset by an increase in net premiums earned of $10,462,000 and a $1,367,000 decrease in interest expense.

Revenue

Gross Premiums Earned for the three months ended March 31, 2020 and 2019 were approximately $92,365,000 and $82,597,000, respectively. The quarter-over-quarter increase was primarily attributable to increased policies in force from TypTap business.

Premiums Ceded for the three months ended March 31, 2020 and 2019 were approximately $30,719,000 and $31,413,000, respectively, representing 33.3% and 38.0%, respectively, of gross premiums earned. The $694,000 decrease was primarily attributable to a reduction in premiums ceded attributable to retrospective provisions under one reinsurance contract, offset by an increase in premiums ceded attributable to a lower retention level effective June 1, 2019.

Our premiums ceded represent costs of reinsurance to cover losses from catastrophes that exceed the retention levels defined by our catastrophe excess of loss reinsurance contracts or to assume a proportional share of losses as defined in a quota share agreement. The rates we pay for reinsurance are based primarily on policy exposures reflected in gross premiums earned. For the three months ended March 31, 2020, premiums ceded included a decrease of approximately $2,520,000 related to retrospective provisions compared with a net reduction of approximately $512,000 for the three months ended March 31, 2019. See "Economic Impact of Reinsurance Contracts with Retrospective Provisions" under "Critical Accounting Policies and Estimates."

Net Premiums Written for the three months ended March 31, 2020 and 2019 totaled approximately $45,799,000 and $36,197,000, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less any applicable reinsurance costs. The increase in 2020 resulted from an increase in gross premiums written from the growth of TypTap business. We had approximately 133,000 policies in force at March 31, 2020 as compared with approximately 125,000 policies in force at March 31, 2019.

Net Premiums Earned for the three months ended March 31, 2020 and 2019 were approximately $61,646,000 and $51,184,000, respectively, and reflect the gross premiums earned less reinsurance costs as described above.

The following is a reconciliation of our total Net Premiums Written to Net Premiums Earned for the three months ended March 31, 2020 and 2019 (amounts in thousands):

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net Premiums Written	$ 45,799	$ 36,197
Decrease in Unearned Premiums	15,847	14,987
Net Premiums Earned	$ 61,646	$ 51,184

Net Investment Loss for the three months ended March 31, 2020 was approximately $192,000 compared with approximately $3,278,000 of net investment income for the three months ended March 31, 2019. The $3,470,000 decrease was primarily attributable to $2,935,000 of loss from limited partnership investments during the first quarter of 2020.

Net Realized Investment Losses for the three months ended March 31, 2020 and 2019 were approximately $2,244,000 and $372,000, respectively. The losses in 2020 resulted primarily from sales intended to rebalance our investment portfolio.

Net Unrealized Investment Losses for the three months ended March 31, 2020 were approximately $4,805,000 versus approximately $5,293,000 of net unrealized investment gains for the three months ended

March 31, 2019, reflecting an adverse change in the fair value of equity securities resulting from the fear of economic recession caused by COVID-19.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to approximately $28,078,000 and $26,996,000 for the three months ended March 31, 2020 and 2019, respectively. The $1,082,000 increase primarily resulted from an increase in loss reserves related to the growth of TypTap premiums, offset by lower loss reserves related to a severe storm event in March 2019. See “Reserves for Losses and Loss Adjustment Expenses” under “Critical Accounting Policies and Estimates.”

Policy Acquisition and Other Underwriting Expenses for the three months ended March 31, 2020 and 2019 were approximately $11,826,000 and $9,673,000, respectively, and primarily reflect the amortization of deferred acquisition costs such as commissions payable to agents for production and renewal of policies, and premium taxes. The $2,153,000 increase was primarily attributable to higher agent commission rates and property inspection costs associated with the organic growth of TypTap business.

General and Administrative Personnel Expenses for the three months ended March 31, 2020 and 2019 were approximately $8,367,000 and $7,364,000, respectively. Our general and administrative personnel expenses include salaries, wages, payroll taxes, share-based compensation expenses, and employee benefit costs. Factors such as merit increases, changes in headcount, and periodic restricted stock grants, among others, cause fluctuations in this expense. In addition, our personnel expenses are decreased by the capitalization of payroll costs related to a project to develop software for internal use and the payroll costs associated with the processing and settlement of certain catastrophe claims which are recoverable from reinsurers under reinsurance contracts. The period-over-period increase of $1,003,000 was primarily attributable to higher share-based compensation expense, an increase in the headcount of temporary and full-time employees, and merit increases for non-executive employees effective in late February 2020, and lower capitalized and recoverable payroll costs.

Interest Expense for the three months ended March 31, 2020 and 2019 was approximately $2,970,000 and $4,337,000, respectively. The decrease resulted from the repayment of our 3.875% Convertible Senior Notes in March 2019.

Income Tax Expense for the three months ended March 31, 2020 and 2019 was approximately $110,000 and $2,545,000, respectively, for state, federal, and foreign income taxes resulting in an effective tax rate of 16.7% for 2020 and 27.4% for 2019. The decrease in the effective tax rate was primarily due to windfall tax benefits on share-based awards recognized during the first quarter of 2020.

Ratios:

The loss ratio applicable to the three months ended March 31, 2020 (losses and loss adjustment expenses incurred related to net premiums earned) was 45.6% compared with 52.7% for the three months ended March 31, 2019. The decrease was primarily due to an increase in net premiums earned.

The expense ratio applicable to the three months ended March 31, 2020 (defined as underwriting expenses, general and administrative personnel expenses, interest and other operating expenses related to net premiums earned) was 43.2% compared with 47.6% for the three months ended March 31, 2019. The decrease in our expense ratio was primarily attributable to the increase in net premiums earned and the decrease in interest expense, offset by the increase in losses and loss adjustment expenses and the increase in policy acquisition, underwriting and personnel expenses.

The combined ratio (total of all expenses in relation to net premiums earned) is the measure of overall underwriting profitability before other income. Our combined ratio for the three months ended March 31, 2020 was 88.8% compared with 100.3% for the three months ended March 31, 2019. The decrease was primarily attributable to the increase in net premiums earned.

Due to the impact our reinsurance costs have on net premiums earned from period to period, our management believes the combined ratio measured to gross premiums earned is more relevant in assessing overall performance. The combined ratio to gross premiums earned for the three months ended March 31, 2020 was 59.3% compared with 62.2% for the three months ended March 31, 2019. The decrease in 2020 was attributable to the factors described above.

Seasonality of Our Business

Our insurance business is seasonal as hurricanes and tropical storms affecting Florida typically occur during the period from June 1 through November 30 each year. Also, with our reinsurance treaty year typically effective June 1 each year, any variation in the cost of our reinsurance, whether due to changes in reinsurance rates or changes in the total insured value of our policy base, will occur and be reflected in our financial results beginning June 1 each year.

LIQUIDITY AND CAPITAL RESOURCES

Throughout our history, our liquidity requirements have been met through issuances of our common and preferred stock, debt offerings and funds from operations. We expect our future liquidity requirements will be met by funds from operations, primarily the cash received by insurance subsidiaries from premiums written and investment income. We may consider raising additional capital through debt and equity offerings to support our growth and future investment opportunities.

Our insurance subsidiary requires liquidity and adequate capital to meet ongoing obligations to policyholders and claimants and to fund operating expenses. In addition, we attempt to maintain adequate levels of liquidity and surplus to manage any differences between the duration of our liabilities and invested assets. In the insurance industry, cash collected for premiums from policies written is invested, interest and dividends are earned thereon, and losses and loss adjustment expenses are paid out over a period of years. This period of time varies by the circumstances surrounding each claim. Substantially all of our losses and loss adjustment expenses are fully settled and paid within 100 days of the claim receipt date. Additional cash outflow occurs through payments of underwriting costs such as commissions, taxes, payroll, and general overhead expenses.

We believe that we maintain sufficient liquidity to pay claims and expenses, as well as to 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 our financial position.

In the future, we anticipate our primary use of funds will be to pay claims, reinsurance premiums, interest, and dividends and to fund operating expenses and real estate acquisitions.

Revolving Credit Facility, Senior Notes, Promissory Notes, and Finance Leases

The following table summarizes the principal and interest payment obligations of our indebtedness at March 31, 2020:

	Maturity Date	Interest Payment Due Date
4.25% Convertible senior notes	March 2037	March 1 and September 1
4% Promissory note	Through February 2031	1st day of each month
3.75% Callable promissory note	Through September 2036	1st day of each month
4.55% Promissory note	Through August 2036	1st day of each month
3.90% Promissory note	Through April 2032	1st day of each month
Finance leases	Through August 2023	Various
Revolving credit facility	Through December 2021	January 1, April 1, July 1, October 1

See Note 10 -- "Long-Term Debt" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

Share Repurchase Plan

In December 2019, our Board of Directors extended the expiry date of our 2019 share repurchase plan to March 15, 2020. On March 13, 2020, the Board approved a plan for 2020, effective March 16, 2020, to repurchase up to $20,000,000 of common shares under which we may purchase shares of common stock in open market purchases, block transactions and privately negotiated transactions in accordance with applicable federal securities laws. See Note 17 -- "Stockholders' Equity" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

Limited Partnership Investments

Our limited partnership investments consist of five private equity funds managed by their general partners. Three of these funds have unexpired capital commitments which are callable at the discretion of the fund's general partner for funding new investments or expenses of the fund. Although capital commitments for the remaining two funds have expired, the general partners may request additional funds under certain circumstances. At March 31, 2020, there was an aggregate unfunded capital balance of $14,211,000. See *Limited Partnership Investments* under Note 5 -- "Investments" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

Real Estate Investments

Real estate has long been a significant component of our overall investment portfolio. It diversifies our portfolio and helps offset the volatility of other higher-risk investments. Thus, we may consider increasing our real estate investment portfolio should an opportunity arise. For instance, we purchased an office building in Tampa, Florida in April 2020.

We currently have a 90% equity interest in FMKT Mel JV, LLC, a Florida limited liability company for which we are not the primary beneficiary. FMKT Mel JV's real estate portfolio consists of outparcels for ground lease or sale. We have the option to take full ownership of these outparcels by acquiring the remaining 10% interest. Alternatively, we may sell these outparcels and allocate the profits from the sale before liquidating FMKT Mel JV.

Sources and Uses of Cash

Cash Flows for the Three Months Ended March 31, 2020

Net cash provided by operating activities for the three months ended March 31, 2020 was approximately $55,403,000, which consisted primarily of cash received from net premiums written, reinsurance recoveries (of approximately $14,884,000) and $30,000,000 of advanced premiums from Anchor less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Due to the inclusion of the cash receipt from Anchor, net cash provided by operating activities was higher than usual. Net cash provided by investing activities of $23,923,000 was primarily due to the proceeds from redemptions and maturities of fixed-maturity securities of $27,914,000, and the proceeds from sales of fixed-maturity and equity securities of $13,056,000, offset by the purchases of fixed-maturity and equity securities of $13,637,000, the purchase of real estate investments of $2,452,000, limited partnership investments of $919,000, and the purchases of property and equipment of $353,000. Net cash provided by financing activities totaled $8,585,000, which was primarily due to $14,000,000 of borrowings from our revolving credit facility and the proceeds from issuance of a 3.90% promissory note of $10,000,000, offset by repayments of long-term debt of $9,160,000, and $3,095,000 of net cash dividend payments.

Cash Flows for the Three Months Ended March 31, 2019

Net cash provided by operating activities for the three months ended March 31, 2019 was approximately $10,595,000, which consisted primarily of cash received from net premiums written as well as reinsurance recoveries (of approximately $18,270,000) less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash provided by investing activities of $15,289,000 was primarily due to the proceeds from sales of fixed-maturity and equity securities of $30,785,000, the proceeds from redemptions and maturities of fixed-maturity securities of $41,403,000, and the proceeds from sales and maturities of short-term and other investments of $35,854,000, offset by the purchases of fixed-maturity and equity securities of $82,043,000, the purchase of real estate investments of $9,133,000, and limited partnership investments of $761,000. Net cash used in financing activities totaled $87,369,000, which was primarily due to the repayments of long-term debt of $90,318,000, $3,236,000 of net cash dividend payments, and $1,356,000 used in our share repurchases, offset by $8,000,000 of borrowings from our revolving credit facility.

Investments

The main objective of our investment policy is to maximize our after-tax investment income with a reasonable level of risk given the current financial market. Our excess cash is invested primarily in money market accounts, certificates of deposit, and fixed-maturity and equity securities.

At March 31, 2020, we had $209,976,000 of fixed-maturity and equity investments, which are carried at fair value. Changes in the general interest rate environment affect the returns available on new fixed-maturity investments. While a rising interest rate environment enhances the returns available on new investments, it reduces the market value of existing fixed-maturity investments and thus the availability of gains on disposition. A decline in interest rates reduces the returns available on new fixed-maturity investments but increases the market value of existing fixed-maturity investments, creating the opportunity for realized investment gains on disposition.

In the future, we may alter our investment policy as to investments in federal, state and municipal obligations, preferred and common equity securities and real estate mortgages, as permitted by applicable law, including insurance regulations.

OFF-BALANCE SHEET ARRANGEMENTS

As of March 31, 2020, we had unexpired capital commitments for limited partnerships in which we hold interests. Such commitments are not recognized in the financial statements but are required to be disclosed in the notes to the financial statements. See Note 19 -- "Commitments and Contingencies" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q and *Contractual Obligations and Commitment* below for additional information.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes our material contractual obligations and commitments as of March 31, 2020 (amounts in thousands):

	Payment Due by Period				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating leases (1)	$ 456	$ 318	$ 138	$ —	$ —
Service agreement (1)	43	24	19	—	—
Reinsurance contracts (2)	1,034	1,034	—	—	—
Unfunded capital commitments (3)	14,211	14,211	—	—	—
Revolving credit facility	23,750	23,750	—	—	—
Long-term debt obligations (4)	197,131	8,735	155,227	5,339	27,830
Total	$ 236,625	$ 48,072	$ 155,384	$ 5,339	$ 27,830

(1) Represents a lease for office space in Miami Lakes, Florida, a lease and maintenance service agreement for office space in Noida, India, and leases for office equipment and storage space. Liabilities related to our India operations were converted from Indian Rupees to U.S. dollars using the March 31, 2020 exchange rate.
(2) Represents the minimum payment of reinsurance premiums under one multi-year reinsurance contract.
(3) Represents the unfunded balance of capital commitments under the subscription agreements related to limited partnerships in which we hold interests.
(4) Amounts represent principal and interest payments over the lives of various long-term debt obligations. See Note 10 -- "Long-Term Debt" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these consolidated financial statements requires us to make estimates and judgments to develop amounts reflected and disclosed in our financial statements. Material estimates that are particularly susceptible to significant change in the near term are related to our losses and loss adjustment expenses, which include amounts estimated for claims incurred but not yet reported. We base our estimates on various assumptions and actuarial data we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates.

We believe our accounting policies specific to losses and loss adjustment expenses, reinsurance recoverable, reinsurance with retrospective provisions, deferred income taxes, and stock-based compensation expense involve our most significant judgments and estimates material to our consolidated financial statements.

Reserves for Losses and Loss Adjustment Expenses

Our liability for losses and loss adjustment expense (“Reserves”) is specific to property insurance, which is our insurance division’s only line of business. The Reserves include both case reserves on reported claims and our reserves for incurred but not reported (“IBNR”) losses. At each period end date, the balance of our Reserves is based on our best estimate of the ultimate cost of each claim for those known cases and the IBNR loss reserves are estimated based primarily on our historical experience. Changes in the estimated liability are charged or credited to operations as the losses and loss adjustment expenses are adjusted.

The IBNR represents our estimate of the ultimate cost of all claims that have occurred but have not been reported to us, and in some cases may not yet be known to the insured, and future development of reported claims. Estimating the IBNR component of our Reserves involves considerable judgment on the part of management. At March 31, 2020, $165,651,000 of the total $207,108,000 we have reserved for losses and loss adjustment expenses is attributable to our estimate of IBNR. The remaining $41,457,000 relates to known cases which have been reported but not yet fully settled in which case we have established a reserve based on currently available information and our best estimate of the cost to settle each claim. At March 31, 2020, $36,564,000 of the $41,457,000 in reserves for known cases relates to claims incurred during prior years.

Our Reserves decreased from $214,697,000 at December 31, 2019 to $207,108,000 at March 31, 2020. The $7,589,000 decrease is comprised of reductions in our Reserves of $15,291,000 specific to Hurricane Irma in 2017 and Hurricane Michael in 2018 and reductions in our non-catastrophe Reserves of $7,189,000 for 2019 and $6,429,000 for 2018 and prior loss years, offset by $21,320,000 in reserves established for 2020 loss year. The $21,320,000 in Reserves established for 2020 claims is primarily driven by an allowance for those claims that have been incurred but not reported to the company as of March 31, 2020. The decrease of $28,909,000 specific to our 2019 and prior loss-year reserves is due to settlement of claims related to those loss years.

Based on all information known to us, we consider our Reserves at March 31, 2020 to be adequate to cover our claims for losses that have occurred as of that date including losses yet to be reported to us. However, these estimates are continually reviewed by management as they are subject to significant variability and may be impacted by trends in claim severity and frequency or unusual exposures that have not yet been identified. As part of the process, we review historical data and consider various factors, including known and anticipated regulatory and 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 loss adjustment expenses. 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.

Economic Impact of Reinsurance Contracts with Retrospective Provisions

One of our reinsurance contracts includes retrospective provisions that adjust premiums in the event losses are minimal or zero. In accordance with accounting principles generally accepted in the United States of America, we will recognize an asset in the period in which the absence of loss experience obligates the reinsurer to pay cash or other consideration under the contract. In the event that a loss arises, we will derecognize such asset in the period in which a loss arises. Such adjustments to the asset, which accrue throughout the contract term, will negatively impact our operating results when a catastrophic loss event occurs during the contract term.

For the three months ended March 31, 2020 and 2019, we accrued benefits of $2,520,000 and $278,000, respectively. For the three months ended March 31, 2020, there was no adjustment in ceded premiums whereas we recognized a reduction in premiums ceded of $234,000 for the three months ended March 31, 2019. In combination, for the three months ended March 31, 2020 and 2019, we recognized decreases in ceded premiums of $2,520,000 and $512,000, respectively. As of March 31, 2020, we had $12,000,000 of accrued benefits, the amount that would be charged to earnings in the event we experience a catastrophic loss that exceeds the coverage limit provided under such agreement. As of December 31, 2019, we had $9,480,000 of accrued benefits related to this agreement.

We believe the credit risk associated with the collectability of these accrued benefits is minimal based on available information about the reinsurer's financial position.

The above and other accounting estimates and their related risks that we consider to be our critical accounting estimates are more fully described in our Annual Report on Form 10-K, which we filed with the SEC on March 6, 2020. For the three months ended March 31, 2020, there have been no material changes with respect to any of our critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 3 to our Notes to Unaudited Consolidated Financial Statements.

ITEM 3 – *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Our investment portfolios at March 31, 2020 included fixed-maturity and equity securities, the purposes of which are not for speculation. Our main objective is to maximize after-tax investment income and maintain sufficient liquidity to meet our obligations while minimizing market risk, which is the potential economic loss from adverse fluctuations in securities prices. We consider many factors including credit ratings, investment concentrations, regulatory requirements, anticipated fluctuation of interest rates, durations and market conditions in developing investment strategies. Our investment securities are managed primarily by outside investment advisors and are overseen by the investment committee appointed by our board of directors. From time to time, our investment committee may decide to invest in low risk assets such as U.S. government bonds.

Our investment portfolios are exposed to interest rate risk, credit risk and equity price risk. Fiscal and economic uncertainties caused by any government action or inaction may exacerbate these risks and potentially have adverse impacts on the value of our investment portfolios.

We classify our fixed-maturity securities as available-for-sale and report any unrealized gains or losses, net of deferred income taxes, as a component of other comprehensive income within our stockholders' equity. As such, any material temporary changes in their fair value can adversely impact the carrying value of our stockholders' equity. In addition, we recognize any unrealized gains or losses related to our equity securities in our statement of income. As a result, our results of operations can be materially affected by the volatility in the equity market.

Interest Rate Risk

Our fixed-maturity securities are sensitive to potential losses resulting from unfavorable changes in interest rates. We manage the risk by analyzing anticipated movement in interest rates and considering our future capital needs.

The following table illustrates the impact of hypothetical changes in interest rates to the fair value of our fixed-maturity securities at March 31, 2020 (amounts in thousands):

Hypothetical Change in Interest Rates	Estimated Fair Value	Change in Estimated Fair Value	Percentage Increase (Decrease) in Estimated Fair Value
300 basis point increase	$ 176,612	$ (10,112)	-5.42%
200 basis point increase	179,981	(6,743)	-3.61%
100 basis point increase	183,351	(3,373)	-1.81%
100 basis point decrease	189,877	3,153	1.69%
200 basis point decrease	192,442	5,718	3.06%
300 basis point decrease	193,822	7,098	3.80%

Credit Risk

Credit risk can expose us to potential losses arising principally from adverse changes in the financial condition of the issuers of our fixed-maturity securities. We mitigate the risk by investing in fixed-maturity securities that are generally investment grade, by diversifying our investment portfolio to avoid concentrations in any single issuer or business sector, and by continually monitoring each individual security for declines in credit quality. While we emphasize credit quality in our investment selection process, significant downturns in the markets or general economy may impact the credit quality of our portfolio.

The following table presents the composition of our fixed-maturity securities, by rating, atMarch 31, 2020 (amounts in thousands):

Comparable Rating	Amortized Cost	% of Total Amortized Cost	Estimated Fair Value	% of Total Estimated Fair Value
AA+, AA, AA-	$ 39,416	21.0	$ 40,085	22.0
A+, A, A-	110,799	59.0	111,592	60.0
BBB+, BBB, BBB-	25,620	14.0	25,290	14.0
BB+, BB, BB-	2,981	1.0	2,952	1.0
CCC+, CC and Not rated	7,408	5.0	5,926	3.0
Total	$ 186,224	100.0	$ 185,845	100.0

Equity Price Risk

Our equity investment portfolio at March 31, 2020 included common stocks, perpetual preferred stocks, mutual funds and exchange traded funds. We may incur losses due to adverse changes in equity security prices. We manage the risk primarily through industry and issuer diversification and asset mix.

The following table illustrates the composition of our equity securities at March 31, 2020 (amounts in thousands):

	Estimated Fair Value	% of Total Estimated Fair Value
Stocks by sector:		
Financial	$ 10,447	43
Industrial	1,423	6
Energy	409	2
Technology	2,274	9
Consumer	1,791	7
Other (1)	1,577	7
	17,921	74
Mutual funds and exchange traded funds by type:		
Debt	4,566	19
Equity	1,644	7
Total	$ 24,131	100

(1) Represents an aggregate of less than 5% sectors.

Foreign Currency Exchange Risk

At March 31, 2020, we did not have any material exposure to foreign currency related risk.

ITEM 4 – *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our chief executive officer (our principal executive officer) and our chief financial officer (our principal financial and accounting officer), we have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on this evaluation, our chief executive officer and our chief financial officer have concluded that these disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, implementation of possible controls and procedures depends on management's judgment in evaluating their benefits relative to costs.

PART II – OTHER INFORMATION

ITEM 1 – *LEGAL PROCEEDINGS*

The Company is a party to claims and legal actions arising routinely in the ordinary course of our business. Although we cannot predict with certainty the ultimate resolution of the claims and lawsuits asserted against us, we do not believe that any currently pending legal proceedings to which we are a party will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 1A – *RISK FACTORS*

With the exception of the item described below, there have been no material changes from the risk factors previously disclosed in the section entitled “Risk Factors” in our Form 10-K, which was filed with the SEC on March 6, 2020.

Our operations could be materially and adversely affected by measures implemented by federal, state and local governments to cope with public health issues such as the outbreak of COVID-19, resulting in a material impact to our financial position and results of operations.

The measures undertaken by governmental authorities to combat a serious public health issue could significantly disrupt or prevent us from operating our business in the ordinary course for an extended period and could materially affect our financial position and operating results.

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic. On March 13, 2020, the United States declared a national emergency to control the spread of COVID-19, which was followed by declarations of public health emergencies in several states and municipalities. Wide-ranging actions undertaken by international, federal, state and local government authorities include full lockdowns, airport shutdowns, travel restrictions, quarantines and stay-at-home orders. As a result, people are forced to substantially restrict daily activities resulting in businesses having to curtail or cease normal operations and furlough or terminate employees. Such measures cause concerns over the stability of global markets and threaten prospects for economic growth.

In response to the pandemic, we temporarily closed our offices and asked our employees to work from home until further notice. Since then, the State of Florida and local governments have issued stay at home orders. When we reopen our offices and when government orders will be rescinded is uncertain and will depend upon the severity and duration of the COVID-19 outbreak.

Furthermore, the disruption of global commercial activities across all market sectors and the significant declines and volatility in financial markets could result in a material adverse impact on our financial position, results of operations and cash flows. Possible effects may include, but are not limited to, disruption to cash inflows from our insurance business and rental properties, nonrenewal of insurance policies, uncollectibility of reinsurance recoverable, increased reinsurance costs and a decline in value of assets held by us, including real estate investments, limited partnership investments, equity and debt securities.

ITEM 2 – *UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*

(a) Sales of Unregistered Securities and Use of Proceeds

None

(b) Repurchases of Securities

The table below summarizes the number of common shares repurchased during the three months ended March 31, 2020 under the 2019 and 2020 repurchase plans approved by our Board of Directors and also the number of shares of common stock surrendered by employees to satisfy payroll tax liabilities associated with the vesting of restricted shares (dollar amounts in thousands, except share and per share amounts):

For the Month Ended	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (a)
January 31, 2020	18,376	$ 44.77	18,376	$ 340
February 29, 2020	7,836	$ 45.59	7,465	$ —
March 31, 2020	51,010	$ 36.78	51,010	$ 18,124
	77,222	$ 39.58	76,851	

(a) Represents the balances before commissions and fees at the end of each month.

Working Capital Restrictions and Other Limitations on Payment of Dividends

We are not subject to working capital restrictions or other limitations on the payment of dividends. Our insurance subsidiaries, however, are subject to restrictions on the dividends they may pay. Those restrictions could impact HCI's ability to pay future dividends.

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its stockholder 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. Additionally, a Florida domestic insurer may not make dividend payments or distributions to its stockholder without prior approval of the Florida Office of Insurance Regulation 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.

Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida Office of Insurance Regulation (1) if 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, (2) 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, (3) the insurer files a notice of the dividend or distribution with the Florida Office of Insurance Regulation at least ten business days prior to the dividend payment or distribution and (4) 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 (1) subject to prior approval by the Florida Office of Insurance Regulation or (2) 30 days after the Florida Office of Insurance Regulation has received notice of such dividend or distribution and has not disapproved it within such time.

During the three months ended March 31, 2020, our insurance subsidiaries paid dividends of $15,500,000 to HCI.

ITEM 3 – *DEFAULTS UPON SENIOR SECURITIES*

None.

ITEM 4 – *MINE SAFETY DISCLOSURES*

None.

ITEM 5 – *OTHER INFORMATION*

None.

ITEM 6 – *EXHIBITS*

The following documents are filed as part of this report:

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation, with amendments. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
3.1.1	Articles of Amendment to Articles of Incorporation designating the rights, preferences and limitations of Series B Junior Participating Preferred Stock. Incorporated by reference to Exhibit 3.1 to our Form 8-K filed October 18, 2013.
3.2	Bylaws, with amendments. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-Q filed September 13, 2019.
4.1	Form of common stock certificate. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed November 7, 2013.
4.8	Indenture, dated December 11, 2013, between HCI Group, Inc. and The Bank of New York Mellon Trust Company, N.A. (including Global Note). Incorporated by reference to Exhibit 4.1 to our Form 8-K filed December 12, 2013.
4.9	See Exhibits 3.1, 3.1.1 and 3.2 of this report for provisions of the Articles of Incorporation, as amended, and our Bylaws, as amended, defining certain rights of security holders.
4.10	Indenture, dated March 3, 2017, between HCI Group, Inc. and The Bank of New York Mellon Trust Company, N.A. Incorporated by reference to Exhibit 4.1 of our Form 8-K filed March 3, 2017.
4.11	Form of Global 4.25% Convertible Senior Note due 2037 (included in Exhibit 4.1). Incorporated by reference to Exhibit 4.1 of our Form 8-K filed March 3, 2017.
10.5**	Restated HCI Group, Inc. 2012 Omnibus Incentive Plan. Incorporated by reference to Exhibit 99.1 of our Form 8-K filed March 23, 2017.
10.6**	HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) 2007 Stock Option and Incentive Plan. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 29, 2008.
10.7**	Executive Employment Agreement dated November 23, 2016 between Mark Harmsworth and HCI Group, Inc. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
10.8	Working Layer Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2016, issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (National Fire). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 3, 2016.
10.20	Property Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.

EXHIBIT NUMBER	DESCRIPTION
10.21	Property Catastrophe Fifth Excess of Loss Reinsurance Contract (Odyssey Re) effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
10.22	Property Catastrophe First Excess of Loss Reinsurance Contract (Endurance) effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
10.23	Assumption Agreement effective October 15, 2014 by and between Homeowners Choice Property & Casualty Insurance Company, Inc. and Citizens Property Insurance Corporation. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed January 28, 2015.
10.24	Assumption Agreement effective November 9, 2017 by and between Homeowners Choice Property & Casualty Insurance Company, Inc. and Citizens Property Insurance Corporation. Incorporated by reference to Exhibit 10.24 of our Form 8-K filed December 21, 2017.
10.25	Property Catastrophe First Excess of Loss Reinsurance Contract (Ren Re) effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
10.26	Reinstatement Premium Protection Reinsurance Contract (For First Excess Cat U8GR0006) effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
10.27	Reinstatement Premium Protection Reinsurance Contract (For Working Layer Cat U8GR0008) effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
10.28	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
10.29	Working Layer Catastrophe Excess of Loss Reinsurance Contract (Endurance) effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.

EXHIBIT NUMBER	DESCRIPTION
10.30	Reimbursement Contract effective June 1, 2018 between Homeowners Choice Property & Casualty Insurance Company and the State Board of Administration which administers the Florida Hurricane Catastrophe Fund. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
10.31	Property Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2019 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.
10.32	Property Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2019 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.
10.33	Property Catastrophe First Excess of Loss Reinsurance Contract effective June 1, 2019 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.
10.40	Top Layer Property Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2019 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.
10.41	Working Layer Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2019 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.
10.42	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2019 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.
10.43	Reinstatement Premium Protection Reinsurance Contract (For Excess Cat U8GR000D) effective June 1, 2019 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.

EXHIBIT NUMBER	DESCRIPTION
10.44	Reinstatement Premium Protection Reinsurance Contract (For Excess Cat U8GR0008) effective June 1, 2019 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.
10.45	Reimbursement Contract effective June 1, 2019 between Homeowners Choice Property & Casualty Insurance Company and the State Board of Administration which administers the Florida Hurricane Catastrophe Fund. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 7, 2019.
10.46**	Written Description of Non-Employee Director Compensation Arrangement adopted September 9, 2019 establishing compensation of our non-employee directors.
10.47	Policy Replacement Agreement, dated February 12, 2020, by and between Homeowners Choice Property & Casualty Insurance Company, Inc. and Anchor Property & Casualty Insurance Company together with Anchor Insurance Managers, Inc. Incorporated by reference to Exhibit 99.1 of our Form 8-K filed February 14, 2020.
10.57	Form of executive restricted stock award contract. Incorporated by reference to Exhibit 10.57 of our Form 10-Q for the quarter ended March 31, 2014 filed May 1, 2014.
10.58	Purchase Agreement, dated February 28, 2017, by and between HCI Group, Inc. and JMP Securities LLC and SunTrust Robinson Humphrey, Inc., as representatives of the several initial purchasers named therein. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed February 28, 2017.
10.59	Prepaid Forward Contract, dated February 28, 2017 and effective as of March 3, 2017, between HCI Group, Inc. and Societe Generale. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed March 3, 2017.
10.60	Credit Agreement, Promissory Note, Security and Pledge Agreement, dated December 5, 2018, between HCI Group, Inc. and Fifth Third Bank. Incorporated by reference to Exhibits 99.1, 99.2, and 99.3 of our Form 8-K filed December 6, 2018.
10.88**	Nonqualified Stock Option Agreement between Paresh Patel and HCI Group, Inc. dated January 7, 2017. Incorporated by reference to exhibit 99.2 to our Form 8-K filed January 11, 2017.
10.89**	Employment Agreement between Paresh Patel and HCI Group, Inc. dated December 30, 2016. Incorporated by reference to the exhibit numbered 99.1 to our Form 8-K filed December 30, 2016.
10.99**	Restricted Stock Award Contract between Paresh Patel and HCI Group, Inc. dated January 7, 2017. Incorporated by reference to exhibit 99.1 to our Form 8-K filed January 11, 2017.
10.100**	Restricted Stock Award Contract between Mark Harmsworth and HCI Group, Inc. dated December 5, 2016. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
10.101**	Restricted Stock Award Contract between Paresh Patel and HCI Group, Inc. dated February 8, 2018. Incorporated by reference to exhibit 99.1 to our Form 8-K filed February 14, 2018.
10.102**	Nonqualified Stock Option Agreement between Paresh Patel and HCI Group, Inc. dated February 8, 2018. Incorporated by reference to exhibit 99.2 to our Form 8-K filed February 14, 2018.

EXHIBIT NUMBER	DESCRIPTION
10.103**	Restricted Stock Award Contract between Paresh Patel and HCI Group, Inc. dated January 15, 2019. Incorporated by reference to exhibit 99.1 to our Form 8-K filed January 22, 2019.
10.104**	Nonqualified Stock Option Agreement between Paresh Patel and HCI Group, Inc. dated January 15, 2019. Incorporated by reference to exhibit 99.2 to our Form 8-K filed January 22, 2019.
10.105**	Restricted Stock Award Contract between Paresh Patel and HCI Group, Inc. dated January 16, 2020. Incorporated by reference to Exhibit 99.1 to our Form 8-K filed January 23, 2020.
10.106**	Nonqualified Stock Option Agreement between Paresh Patel and HCI Group, Inc. dated January 16, 2020. Incorporated by reference to Exhibit 99.2 to our Form 8-K filed January 23, 2020.
31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C.ss.1350
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

** Management contract or compensatory plan.

SIGNATURES

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

		HCI GROUP, INC.
May 8, 2020	By:	/s/ Paresh Patel
		Paresh Patel Chief Executive Officer (Principal Executive Officer)
May 8, 2020	By:	/s/ James Mark Harmsworth
		James Mark Harmsworth Chief Financial Officer (Principal Financial and Accounting Officer)

A signed original of this document has been provided to HCI Group, Inc. and will be retained by HCI Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paresh Patel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HCI Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Paresh Patel

May 8, 2020

Paresh Patel
Chief Executive Officer
(Principal Executive Officer)

A signed original of this document has been provided to HCI Group, Inc. and will be retained by HCI Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James Mark Harmsworth, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HCI Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

	/s/ James Mark Harmsworth
May 8, 2020	James Mark Harmsworth *Chief Financial Officer* *(Principal Financial and Accounting Officer)*

A signed original of this document has been provided to HCI Group, Inc. and will be retained by HCI Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

Written Statement of the Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Executive Officer of HCI Group, Inc. (the “Company”), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on May 8, 2020 (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paresh Patel

Paresh Patel
Chief Executive Officer
May 8, 2020

A signed original of this document has been provided to HCI Group, Inc. and will be retained by HCI Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Written Statement of the Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Financial Officer of HCI Group, Inc. (the "Company"), hereby certify, based on my knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2020 as filed with the Securities and Exchange Commission on May 8, 2020 (the "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James Mark Harmsworth
James Mark Harmsworth
Chief Financial Officer
May 8, 2020

A signed original of this document has been provided to HCI Group, Inc. and will be retained by HCI Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.