

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

HCI Group, Inc.

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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 September 30, 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

(State of Incorporation)

20-5961396

(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 October 29, 2020 was 7,982,057.

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

	September 30, 2020 <u>(Unaudited)</u>	December 31, 2019
Assets		
Fixed-maturity securities, available for sale, at fair value (amortized cost: \$ 91,166 and \$ 199,954, respectively and allowance for credit losses: \$ 596 and \$ 0, respectively)	\$ 92,743	\$ 202,839
Equity securities, at fair value (cost: \$ 39,861 and \$ 31,863, respectively)	42,702	35,285
Short-term investments, at fair value	—	491
Limited partnership investments	27,497	28,346
Investment in unconsolidated joint venture, at equity	716	762
Assets held for sale	4,519	—
Real estate investments	70,566	73,763
Total investments	238,743	341,486
Cash and cash equivalents	410,691	229,218
Restricted cash	2,400	700
Accrued interest and dividends receivable	916	1,616
Income taxes receivable	2,711	1,040
Premiums receivable	28,505	20,255
Prepaid reinsurance premiums	42,170	17,983
Reinsurance recoverable, net of allowance for credit losses:		
Paid losses and loss adjustment expenses (allowance: \$ 0 and \$ 0, respectively)	20,240	16,155
Unpaid losses and loss adjustment expenses (allowance: \$ 90 and \$ 0, respectively)	74,944	116,523
Deferred policy acquisition costs	29,701	21,663
Property and equipment, net	12,693	14,698
Intangible assets, net	3,723	4,192
Other assets	20,376	17,080
Total assets	\$ 887,813	\$ 802,609

(continued)

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

	September 30, 2020 (Unaudited)	December 31, 2019
Liabilities and Stockholders' Equity		
Losses and loss adjustment expenses	\$ 219,345	\$ 214,697
Unearned premiums	238,936	181,163
Advance premiums	17,083	5,589
Assumed reinsurance balances payable	92	76
Accrued expenses	15,855	10,059
Deferred income taxes, net	8,866	4,008
Revolving credit facility	8,750	9,750
Long-term debt	155,675	163,695
Other liabilities	23,479	28,029
Total liabilities	688,081	617,066
Commitments and contingencies (Note 21)		
Stockholders' equity:		
7% Series A cumulative convertible preferred stock (no par value, none and 1,500,000 shares authorized at September 30, 2020 and December 31, 2019, respectively, no shares issued or outstanding)	—	—
Series B junior participating preferred stock (no par value, none and 400,000 shares authorized at September 30, 2020 and December 31, 2019, respectively, no shares issued or outstanding)	—	—
Preferred stock (no par value, 20,000,000 and 18,100,000 shares authorized at September 30, 2020 and December 31, 2019, respectively, no shares issued or outstanding)	—	—
Common stock (no par value, 40,000,000 shares authorized, 7,793,677 and 7,764,564 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively)	—	—
Additional paid-in capital	—	—
Retained income	198,092	183,365
Accumulated other comprehensive income, net of taxes	1,640	2,178
Total stockholders' equity	199,732	185,543
Total liabilities and stockholders' equity	\$ 887,813	\$ 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		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Revenue				
Gross premiums earned	\$ 106,694	\$ 86,002	\$ 306,862	\$ 251,914
Premiums ceded	(44,231)	(31,568)	(109,304)	(94,298)
Net premiums earned	62,463	54,434	197,558	157,616
Net investment income	1,832	3,621	3,244	11,125
Net realized investment gains (losses)	177	(30)	(632)	(535)
Net unrealized investment gains (losses)	1,340	642	(581)	7,261
Credit losses on investments	(70)	—	(596)	—
Policy fee income	895	811	2,571	2,406
Gain on involuntary conversion	36,969	—	36,969	—
Other	421	501	1,591	1,370
Total revenue	<u>104,027</u>	<u>59,979</u>	<u>240,124</u>	<u>179,243</u>
Expenses				
Losses and loss adjustment expenses	51,743	27,327	119,664	78,616
Policy acquisition and other underwriting expenses	14,210	10,988	39,027	30,738
General and administrative personnel expenses	9,871	7,951	27,969	23,313
Interest expense	2,856	2,907	8,846	10,128
Loss on repurchases of convertible senior notes	—	—	150	—
Loss on extinguishment of debt	98	—	98	—
Other operating expenses	3,713	3,087	10,354	9,131
Total expenses	<u>82,491</u>	<u>52,260</u>	<u>206,108</u>	<u>151,926</u>
Income before income taxes	21,536	7,719	34,016	27,317
Income tax expense	6,146	1,866	9,143	7,173
Net income	<u>\$ 15,390</u>	<u>\$ 5,853</u>	<u>\$ 24,873</u>	<u>\$ 20,144</u>
Basic earnings per share	<u>\$ 1.97</u>	<u>\$ 0.73</u>	<u>\$ 3.21</u>	<u>\$ 2.49</u>
Diluted earnings per share	<u>\$ 1.70</u>	<u>\$ 0.73</u>	<u>\$ 3.03</u>	<u>\$ 2.49</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net income	\$ 15,390	\$ 5,853	\$ 24,873	\$ 20,144
Other comprehensive income:				
Change in unrealized gain (loss) on investments:				
Net unrealized gains arising during the period	247	447	56	4,777
Credit losses charged to income	70	—	596	—
Call and repayment gains charged to investment income	(15)	(2)	(231)	(1)
Reclassification adjustment for net realized losses (gains)	21	(26)	(1,133)	(59)
Net change in unrealized gains (losses)	323	419	(712)	4,717
Deferred income taxes on above change	(79)	(83)	174	(1,173)
Total other comprehensive income (loss), net of income taxes	244	336	(538)	3,544
Comprehensive income	\$ 15,634	\$ 6,189	\$ 24,335	\$ 23,688

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For the Three Months Ended September 30, 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 June 30, 2020	7,794,048	\$ —	\$ —	\$ 183,689	\$ 1,396	\$ 185,085
Net income	—	—	—	15,390	—	15,390
Total other comprehensive income, net of income taxes	—	—	—	—	244	244
Issuance of restricted stock	2,680	—	—	—	—	—
Forfeiture of restricted stock	(2,369)	—	—	—	—	—
Repurchase and retirement of common stock	(225)	—	(12)	—	—	(12)
Repurchase and retirement of common stock under share repurchase plan	(457)	—	(20)	—	—	(20)
Common stock dividends (\$0.40 per share)	—	—	—	(3,117)	—	(3,117)
Stock-based compensation	—	—	2,162	—	—	2,162
Additional paid-in capital shortfall allocated to retained income	—	—	(2,130)	2,130	—	—
Balance at September 30, 2020	<u>7,793,677</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 198,092</u>	<u>\$ 1,640</u>	<u>\$ 199,732</u>

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For the Three Months Ended September 30, 2019
(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 June 30, 2019	8,053,573	\$ —	\$ —	\$ 184,739	\$ 1,755	186,494
Net income	—	—	—	5,853	—	5,853
Total other comprehensive income, net of income taxes	—	—	—	—	336	336
Issuance of restricted stock	7,244	—	—	—	—	—
Forfeiture of restricted stock	(2,351)	—	—	—	—	—
Repurchase and retirement of common stock under share repurchase plan	(175,160)	—	(7,185)	—	—	(7,185)
Common stock dividends (\$0.40 per share)	—	—	—	(3,171)	—	(3,171)
Stock-based compensation	—	—	1,746	—	—	1,746
Tax basis adjustment on equity method investment	—	—	132	—	—	132
Additional paid-in capital shortfall allocated to retained income	—	—	5,307	(5,307)	—	—
Balance at September 30, 2019	<u>7,883,306</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 182,114</u>	<u>\$ 2,091</u>	<u>\$ 184,205</u>

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For the Nine Months Ended September 30, 2020
(Unaudited)
(Dollar amounts in thousands, except per share amount)

	Common Stock		Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2019	7,764,564	\$ —	\$ —	\$ 183,365	\$ 2,178	\$ 185,543
Net income	—	—	—	24,873	—	24,873
Total other comprehensive loss, net of income taxes	—	—	—	—	(538)	(538)
Cumulative effect on adoption of credit loss standard	—	—	—	(453)	—	(453)
Exercise of common stock options	10,000	—	63	—	—	63
Issuance of restricted stock	192,680	—	—	—	—	—
Forfeiture of restricted stock	(14,727)	—	—	—	—	—
Repurchase and retirement of common stock	(29,698)	—	(1,338)	—	—	(1,338)
Repurchase and retirement of common stock under share repurchase plan	(129,142)	—	(5,161)	—	—	(5,161)
Common stock dividends (\$1.20 per share)	—	—	—	(9,279)	—	(9,279)
Stock-based compensation	—	—	6,022	—	—	6,022
Additional paid-in capital shortfall allocated to retained income	—	—	414	(414)	—	—
Balance at September 30, 2020	<u>7,793,677</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 198,092</u>	<u>\$ 1,640</u>	<u>\$ 199,732</u>

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For the Nine Months Ended September 30, 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	—	—	—	20,144	—	20,144
Total other comprehensive income, net of income taxes	—	—	—	—	3,544	3,544
Exercise of common stock options	10,000	—	63	—	—	63
Issuance of restricted stock	180,404	—	—	—	—	—
Forfeiture of restricted stock	(271,243)	—	—	—	—	—
Repurchase and retirement of common stock	(24,849)	—	(1,023)	—	—	(1,023)
Repurchase and retirement of common stock under share repurchase plan	(367,736)	—	(15,191)	—	—	(15,191)
Common stock dividends (\$1.20 per share)	—	—	—	(9,599)	—	(9,599)
Stock-based compensation	—	—	4,694	—	—	4,694
Tax basis adjustment on equity method investment	—	—	132	—	—	132
Additional paid-in capital shortfall allocated to retained income	—	—	11,325	(11,325)	—	—
Balance at September 30, 2019	<u>7,883,306</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 182,114</u>	<u>\$ 2,091</u>	<u>\$ 184,205</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended	
	September 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 24,873	\$ 20,144
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	6,022	4,694
Net (accretion of discounts) amortization of premiums on investments in fixed-maturity securities	(21)	171
Depreciation and amortization	6,499	6,677
Deferred income tax expense	5,032	1,231
Net realized investment losses	632	535
Net unrealized investment losses (gains)	581	(7,261)
Credit loss expense	596	—
Loss from unconsolidated joint venture	46	71
Net loss (income) from limited partnership interests	2,058	(1,308)
Distributions received from limited partnership interests	650	3,647
Loss on repurchases of convertible senior notes	150	—
Loss on extinguishment of debt	98	—
Gain on involuntary conversion	(36,969)	—
Foreign currency remeasurement loss.	40	31
Other non-cash items	(306)	286
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	700	(282)
Income taxes	(1,671)	656
Premiums receivable	(8,250)	(8,982)
Prepaid reinsurance premiums	(24,187)	(14,826)
Reinsurance recoverable	37,404	(39,533)
Deferred policy acquisition costs	(8,038)	(6,628)
Other assets	(3,552)	(4,165)
Losses and loss adjustment expenses	4,648	30,335
Unearned premiums	57,773	47,026
Advance premiums	11,494	5,454
Assumed reinsurance balances payable	16	(14)
Accrued expenses and other liabilities	1,212	135
Net cash provided by operating activities	<u>77,530</u>	<u>38,094</u>

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from investing activities:		
Investments in limited partnership interests	\$ (2,951)	\$ (1,899)
Distributions received from limited partnership interests	1,092	1,163
Purchase of property and equipment	(5,928)	(2,166)
Purchase of real estate investments	(3,052)	(10,475)
Purchase of fixed-maturity securities	(30,200)	(79,355)
Purchase of equity securities	(27,175)	(19,278)
Purchase of short-term and other investments	—	(689)
Compensation received for property condemned through eminent domain	44,000	—
Proceeds from sales of fixed-maturity securities	79,284	5,225
Proceeds from calls, repayments and maturities of fixed-maturity securities	60,870	50,738
Proceeds from sales of equity securities	17,385	34,345
Proceeds from sales, redemptions and maturities of short-term and other investments	475	66,902
Net cash provided by investing activities	<u>133,800</u>	<u>44,511</u>
Cash flows from financing activities:		
Cash dividends paid	(9,508)	(9,829)
Cash dividends received under share repurchase forward contract	229	230
Net (repayment) borrowing under revolving credit facility	(1,000)	9,750
Proceeds from exercise of common stock options	63	63
Proceeds from issuance of long-term debt	10,000	—
Repayment of long-term debt	(16,812)	(90,980)
Repurchases of convertible senior notes	(4,459)	—
Repurchases of common stock	(1,338)	(1,023)
Repurchases of common stock under share repurchase plan	(5,161)	(15,191)
Debt issuance costs	(165)	(459)
Net cash used in financing activities	<u>(28,151)</u>	<u>(107,439)</u>
Effect of exchange rate changes on cash	(6)	2
Net increase (decrease) in cash, cash equivalents, and restricted cash	183,173	(24,832)
Cash, cash equivalents, and restricted cash at beginning of period	229,918	240,158
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 413,091</u>	<u>\$ 215,326</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 6,137	\$ 5,285
Cash paid for interest	\$ 7,137	\$ 8,904
Non-cash investing and financing activities:		
Unrealized (loss) gain on investments in available-for-sale securities, net of tax	\$ (538)	\$ 3,544
Addition to property and equipment under capital lease	\$ —	\$ 18

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. In October 2020, TypTap began applying to offer homeowners coverage in 20 states outside of Florida. 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.

On February 5, 2020, HCPCI entered into a policy replacement agreement with Anchor Property & Casualty Insurance Company (“Anchor”). Under the agreement, Anchor cancelled all its policies as of April 1, 2020 and HCPCI offered short-term replacement policies to those policyholders, who were under no obligation to accept them. The replacement policies had substantially the same terms and rates as the cancelled policies and would 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, but is not obligated to offer, renewals to those policyholders at its own rates and terms. Total replacement policies issued by the Company on April 1, 2020 approximated 40,000.

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

On March 11, 2020, the World Health Organization (“WHO”) 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 have been 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. To prevent the U.S. economy from further deterioration, several state and local governments have relaxed or lifted some of these measures even though infection rates remain above five percent, the level at which the WHO recommends rates fall below for at least 14 days before reopening. In Florida where the Company’s headquarters is located, a statewide stay-at-home order was issued and later lifted in May 2020. In response to the pandemic, the Company temporarily closed its offices in Florida and asked employees to work from home. The Company also closed temporarily its restaurant, but later decided to exit the business permanently in October 2020. Since then, some employees who have gone through the Company’s health safety training are allowed to alternate their work location between home and office. 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

Notes to Consolidated Financial Statements (unaudited)*(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

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.

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 have increased 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 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 and any upcoming stimulus package in assisting targeted individuals and businesses and preventing further 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 September 30, 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 to Consolidated Financial Statements (unaudited)*(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

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

Notes to Consolidated Financial Statements (unaudited)*(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

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 default method. 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 to credit 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 States 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 and a significant adverse impact on the net asset value is expected as a result of a major economic event.

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

Notes to Consolidated Financial Statements (unaudited)*(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

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.

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 September 30, 2020 and December 31, 2019, allowances for uncollectible premiums were \$2,369 and \$528, respectively.

Deferred Policy Acquisition Costs

Deferred policy acquisition costs ("DAC") represent direct costs to acquire insurance contracts and consist of premium taxes and commissions paid to outside agents at the time of collection of the policy premium. DAC also includes a cash bonus and other related expenses in association with the successful transition of policies from Anchor for the replacement policies and issuance of renewal policies under the Company's own rates and terms. DAC is amortized over the life of the related policy in relation to the amount of gross premiums earned.

The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value, which gives effect to the gross premium earned, related investment income, unpaid losses and loss adjustment expenses and certain other costs expected to be incurred as the premium is earned.

DAC is reviewed to determine if it is recoverable from future premium income, including investment income. If such costs are determined to be unrecoverable, they are expensed at the time of determination. The amount of DAC considered recoverable could be reduced in the near term if the estimates of total revenues discussed above are reduced or permanently impaired as a result of the disposition of a line of business. The amount of amortization of DAC could be revised in the near term if any of the estimates discussed above are revised.

Note 3 – Recent Accounting Pronouncements

Accounting Standards Update No. 2020-01. In January 2020, the Financial Accounting Standards Board ("FASB") 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.

Notes to Consolidated Financial Statements (unaudited)

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

Accounting Standards Update No. 2020-06. In August 2020, the FASB issued Accounting Standards Update No. 2020-06 (“ASU 2020-06”) Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity’s Own Equity (Subtopic 815-40). ASU 2020-06 removes certain bifurcation models for convertible debt instruments and convertible preferred stock. Therefore, the embedded conversion features no longer are separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in-capital. The amendments also remove three settlement conditions that are required for equity contracts to qualify for the derivative scope exception and amend the derivative scope exception guidance for contracts in an entity’s own equity. In addition, the amendments expand disclosure requirements for convertible instruments and simplify areas of the guidance for diluted earnings-per-share calculations that are impacted by the amendments.

ASU 2020-06 is effective for the Company beginning with the first quarter of 2022 and will be applied prospectively. Early adoption is permitted. The Company is evaluating the impact of this update on its financial position.

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.

	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 410,691	\$ 229,218
Restricted cash	2,400	700
Total	<u>\$ 413,091</u>	<u>\$ 229,918</u>

Restricted cash primarily represents funds held by certain states in which the Company’s insurance subsidiaries conduct business to meet regulatory requirements. To facilitate TypTap’s expansion plan to other states, the Company increased its funds held at the State of Florida by \$1,700 during the third quarter of 2020.

Notes to Consolidated Financial Statements (unaudited)

(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 September 30, 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
<u>As of September 30, 2020</u>					
U.S. Treasury and U.S. government agencies	\$ 11,629	\$ —	\$ 253	\$ —	\$ 11,882
Corporate bonds	66,898	(564)	1,619	(128)	67,825
State, municipalities, and political subdivisions	5,818	—	90	—	5,908
Exchange-traded debt	6,786	(32)	342	(1)	7,095
Redeemable preferred stock	35	—	—	(2)	33
Total	<u>\$ 91,166</u>	<u>\$ (596)</u>	<u>\$ 2,304</u>	<u>\$ (131)</u>	<u>\$ 92,743</u>
<u>As of December 31, 2019</u>					
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	<u>\$ 199,954</u>	<u>\$ —</u>	<u>\$ 2,906</u>	<u>\$ (21)</u>	<u>\$ 202,839</u>

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 September 30, 2020 and December 31, 2019 are as follows:

	Amortized Cost	Estimated Fair Value
<u>As of September 30, 2020</u>		
Due in one year or less	\$ 34,594	\$ 34,814
Due after one year through five years	48,555	49,329
Due after five years through ten years	3,109	3,410
Due after ten years	4,908	5,190
	<u>\$ 91,166</u>	<u>\$ 92,743</u>
<u>As of December 31, 2019</u>		
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
	<u>\$ 199,954</u>	<u>\$ 202,839</u>

Notes to Consolidated Financial Statements (unaudited)

(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 and nine months ended September 30, 2020 and 2019 were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Three months ended September 30, 2020	\$ 1,098	\$ 13	\$ (34)
Three months ended September 30, 2019	\$ 2,240	\$ 27	\$ (1)
Nine months ended September 30, 2020	\$ 79,284	\$ 1,743	\$ (610)
Nine months ended September 30, 2019	\$ 5,225	\$ 61	\$ (2)

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

Securities with gross unrealized loss positions at September 30, 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	
	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value
As of September 30, 2020						
Corporate bonds	\$ (128)	\$ 4,759	\$ —	\$ —	\$ (128)	\$ 4,759
Exchange-traded debt	(1)	252	—	—	(1)	252
Redeemable preferred stock	(2)	33	—	—	(2)	33
Total	\$ (131)	\$ 5,044	\$ —	\$ —	\$ (131)	\$ 5,044

At September 30, 2020, there were 13 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	
	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value
As of December 31, 2019						
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.

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(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 and nine months ended on September 30, 2020:

	2020
Balance at January 1	\$ —
Credit loss expense	439
Balance at March 31	\$ 439
Credit loss expense	87
Balance at June 30	\$ 526
Credit loss expense	70
Balance at September 30	\$ 596

b) Equity Securities

The Company holds investments in equity securities measured at fair values which are readily determinable. At September 30, 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
September 30, 2020	\$ 39,861	\$ 3,903	\$ (1,062)	\$ 42,702
December 31, 2019	\$ 31,863	\$ 3,652	\$ (230)	\$ 35,285

Notes to Consolidated Financial Statements (unaudited)

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

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		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net gains (losses) recognized	\$ 1,521	\$ 586	\$ (2,363)	\$ 6,616
Exclude: Net realized gains (losses) recognized for securities sold	181	(56)	(1,782)	(645)
Net unrealized gains (losses) recognized	\$ 1,340	\$ 642	\$ (581)	\$ 7,261

Sales of Equity Securities

Proceeds received, and the gross realized gains and losses from sales of equity securities, for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Proceeds	Gross Realized	Gross Realized
		Gains	Losses
Three months ended September 30, 2020	\$ 4,930	\$ 244	\$ (63)
Three months ended September 30, 2019	\$ 1,504	\$ 43	\$ (99)
Nine months ended September 30, 2020	\$ 17,385	\$ 1,213	\$ (2,995)
Nine months ended September 30, 2019	\$ 34,345	\$ 2,230	\$ (2,875)

Notes to Consolidated Financial Statements (unaudited)

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

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:

Investment Strategy	September 30, 2020			December 31, 2019		
	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)	\$ 8,879	\$ 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)	5,633	—	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)	6,640	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)	4,355	406	0.47	1,602	3,106	0.47
Value-oriented investments in mature real estate private equity funds and portfolio globally. (b)(j)	1,990	8,286	2.24	1,912	8,548	2.24
Total	\$ 27,497	\$ 12,178		\$ 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.
- (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. The capital commitment period has expired but the general partner may request additional funding for follow-on investment.
- (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.

Notes to Consolidated Financial Statements (unaudited)

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

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		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<i>Operating results:</i>				
Total income	\$ 259,635	\$ (100,043)	\$ (1,421,381)	\$ 147,858
Total expenses	(26,637)	(27,212)	(107,157)	(108,385)
Net (loss) income	\$ 232,998	\$ (127,255)	\$ (1,528,538)	\$ 39,473

	September 30,	December 31,
	2020	2019
<i>Balance Sheet:</i>		
Total assets	\$ 5,409,112	\$ 6,850,913
Total liabilities	\$ 638,784	\$ 549,562

For the three and nine months ended September 30, 2020, the Company recognized net investment income of \$89 and net investment loss of \$2,058, respectively, for these investments. During the three and nine months ended September 30, 2020, the Company received total cash distributions of \$850 and \$1,742, respectively, including returns on investment of \$72 and \$650, respectively.

For the three and nine months ended September 30, 2019, the Company recognized net investment income of \$176 and \$1,308, respectively. During the three and nine months ended September 30, 2019, the Company received total cash distributions of \$724 and \$4,810, respectively. Cash distributions representing return on investment were \$31 and \$3,647 for the three and nine months ended September 30, 2019, respectively. At September 30, 2020 and December 31, 2019, the Company's net cumulative contributed capital to the partnerships at each respective balance sheet date totaled \$28,976 and \$27,117, respectively, and the Company's maximum exposure to loss aggregated \$27,497 and \$28,346, respectively.

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 September 30, 2020 and December 31, 2019, the Company's maximum exposure to loss relating to the variable interest entity was \$716 and \$762, respectively, representing the carrying value of the investment. There were no cash distributions during the nine months ended September 30, 2020 and 2019. At September 30, 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		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
<i>Operating results:</i>				
Total revenues and gain	\$ —	\$ —	\$ —	\$ 2
Total expenses	(19)	(18)	(51)	(80)
Net loss	\$ (19)	\$ (18)	\$ (51)	\$ (78)
The Company's share of net loss*	\$ (18)	\$ (17)	\$ (46)	\$ (71)

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

Notes to Consolidated Financial Statements (unaudited)

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

	September 30, 2020	December 31, 2019
<i>Balance Sheet:</i>		
Property and equipment, net	\$ 714	\$ 741
Cash	90	102
Other	4	4
Total assets	\$ 808	\$ 847
Other liabilities	\$ 12	\$ —
Members' capital	796	847
Total liabilities and members' capital	\$ 808	\$ 847
Investment in unconsolidated joint venture, at equity**	\$ 716	\$ 762

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

e) Assets Held for Sale

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 of \$4,519 and, accordingly, no impairment loss was recognized on the classification of this property as held for sale.

f) Real Estate Investments

Real estate investments consist of the following as of September 30, 2020 and December 31, 2019.

	September 30, 2020	December 31, 2019
Land	\$ 36,239	\$ 39,511
Land improvements	11,422	11,907
Buildings	23,006	24,086
Tenant and leasehold improvements	1,263	1,487
Other	6,442	3,489
Total, at cost	78,372	80,480
Less: accumulated depreciation and amortization	(7,806)	(6,717)
Real estate investments	\$ 70,566	\$ 73,763

In July 2020, a portion of undeveloped land with a carrying value of \$443 was acquired by the Florida Department of Transportation ("FDOT") as part of the agreement described in Note 9 – "Property and Equipment, Net."

Notes to Consolidated Financial Statements (unaudited)

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

Depreciation and amortization expense related to real estate investments was \$431 and \$379 for the three months ended September 30, 2020 and 2019, respectively, and \$1,318 and \$1,133 for the nine months ended September 30, 2020 and 2019, respectively. During the second quarter of 2020, the Company classified the investment property as described earlier to assets held for sale.

g) Net Investment Income (Loss)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Available-for-sale fixed-maturity securities	\$ 771	\$ 1,637	\$ 3,529	\$ 4,794
Equity securities	336	305	970	979
Investment expense	(125)	(114)	(367)	(349)
Limited partnership investments	689	476	(2,058)	1,308
Real estate investments	(34)	(28)	(299)	173
Loss from unconsolidated joint venture	(18)	(17)	(46)	(71)
Cash and cash equivalents	212	1,354	1,513	3,908
Short-term investments	1	8	2	383
Net investment income	\$ 1,832	\$ 3,621	\$ 3,244	\$ 11,125

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			Three Months Ended		
	September 30, 2020			September 30, 2019		
	Before Tax	Income Tax Expense (Benefit)	Net of Tax	Before Tax	Income Tax Expense (Benefit)	Net of Tax
Unrealized gains arising during the period	\$ 247	\$ 61	\$ 186	\$ 447	\$ 90	\$ 357
Change in allowance for credit losses	70	17	53	—	—	—
Call and repayment (gains) losses charged to investment income	(15)	(4)	(11)	(2)	—	(2)
Reclassification adjustment for realized gains	21	5	16	(26)	(7)	(19)
Total other comprehensive gains	\$ 323	\$ 79	\$ 244	\$ 419	\$ 83	\$ 336

Notes to Consolidated Financial Statements (unaudited)

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	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Before Tax	Income Tax		Before Tax	Income Tax	
		Expense (Benefit)	Net of Tax		Expense (Benefit)	Net of Tax
Unrealized (losses) gains arising during the period	\$ 56	\$ 14	\$ 42	\$ 4,777	\$ 1,188	\$ 3,589
Change in allowance for credit losses	596	146	450	—	—	—
Call and repayment gains charged to investment income	(231)	(56)	(175)	(1)	—	(1)
Reclassification adjustment for realized gains	(1,133)	(278)	(855)	(59)	(15)	(44)
Total other comprehensive (losses) gains	\$ (712)	\$ (174)	\$ (538)	\$ 4,717	\$ 1,173	\$ 3,544

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.

Restricted cash

Restricted cash represents cash held by state authorities and the carrying value approximates fair value.

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

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

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.

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		Valuation Methodology
	Date		
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

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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 September 30, 2020 and December 31, 2019:

	Fair Value Measurements Using			Total
	(Level 1)	(Level 2)	(Level 3)	
<u>As of September 30, 2020</u>				
Financial Assets:				
Cash and cash equivalents	\$ 410,691	\$ —	\$ —	\$ 410,691
Restricted cash	\$ 2,400	\$ —	\$ —	\$ 2,400
Fixed-maturity securities:				
U.S. Treasury and U.S. government agencies	\$ 10,144	\$ 1,738	\$ —	\$ 11,882
Corporate bonds	67,825	—	—	67,825
State, municipalities, and political subdivisions	—	5,908	—	5,908
Exchange-traded debt	7,095	—	—	7,095
Redeemable preferred stock	33	—	—	33
Total available-for-sale securities	\$ 85,097	\$ 7,646	\$ —	\$ 92,743
Equity securities	\$ 42,702	\$ —	\$ —	\$ 42,702

	Fair Value Measurements Using			Total
	(Level 1)	(Level 2)	(Level 3)	
<u>As of December 31, 2019</u>				
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

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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 September 30, 2020 and December 31, 2019:

	Carrying Value	Fair Value Measurements Using			Estimated Fair Value
		(Level 1)	(Level 2)	(Level 3)	
As of September 30, 2020					
Financial Liabilities:					
Revolving credit facility	\$ 8,750	\$ —	\$ 8,750	\$ —	\$ 8,750
Long-term debt:					
4.25% Convertible senior notes	\$ 132,901	\$ —	\$ 141,984	\$ —	\$ 141,984
3.90% Promissory note	9,698	—	—	9,684	9,684
3.75% Callable promissory note	7,586	—	—	7,651	7,651
4.55% Promissory note	5,442	—	—	5,528	5,528
Total long-term debt	\$ 155,627	\$ —	\$ 141,984	\$ 22,863	\$ 164,847

	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

Note 8 – Deferred Policy Acquisition Costs

In connection with the transition of insurance policies from Anchor described in Note 1 – “Nature of Operations,” the Company incurred \$3,023 of direct costs, consisting of a bonus to Anchor of \$2,898 and other related expenses of \$125. The Company agreed to pay Anchor a cash bonus of \$50 per \$1,000 of premium for all policies in forces at June 1, 2020 that were in compliance with the conditions stated in the agreement.

Note 9 – Property and Equipment, Net

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 in cash. The building will be used as the Company’s secondary site in the Tampa Bay area. The transaction was completed on May 18, 2020 and accounted for as an asset acquisition.

On July 24, 2020, the FDOT exercised the power of eminent domain under the Florida Constitution in order to acquire for a highway expansion project the property in Tampa, Florida where the Company’s headquarters is located for compensation of \$44,000, net of \$3,500 in legal and related expenses. Under the terms of the agreement, the FDOT assumed all contracts associated with this property, including the leases with existing tenants. In addition, the Company agreed to donate a small portion of a separate tract of nearby undeveloped land it owns to the FDOT for the same expansion project. The Company will have no later than

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July 24, 2023 to vacate the property. In connection with this transaction, the Company recognized a gain from involuntary conversion of \$36,969. In addition, the Company used a portion of the proceeds to repay the 4% Promissory Note as described in Note 12–“Long-Term Debt.”

Note 10 – Other Assets

The following table summarizes the Company’s other assets.

	September 30, 2020	December 31, 2019
Benefits receivable related to retrospective reinsurance contract	\$ 6,240	\$ 9,480
Prepaid expenses	2,735	2,107
Deposits	3,446	1,678
Lease acquisition costs, net	468	566
Right-of-use assets – operating leases	5,668	484
Other	1,819	2,765
Total other assets	<u>\$ 20,376</u>	<u>\$ 17,080</u>

Note 11 – Revolving Credit Facility

During the first quarter of 2020, the Company borrowed an additional amount of \$4,000 for general business purposes. On August 11, 2020, the Company repaid the amount of \$15,000 of its outstanding balance. For the three months ended September 30, 2020 and 2019, interest expense was \$108 and \$132, respectively, including \$39 of amortization of issuance costs in each of the periods. For the nine months ended September 30, 2020 and 2019, interest expense was \$423 and \$328, respectively, including \$118 of amortization of issuance costs in each of the periods. At September 30, 2020, the Company was in compliance with all required covenants, and there were \$8,750 of borrowings outstanding.

Note 12 – Long-Term Debt

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

	September 30, 2020	December 31, 2019
4.25% Convertible senior notes, due March 1, 2037	\$ 139,200	\$ 143,750
3.95% Promissory note, due through February 17, 2020	—	8,881
4% Promissory note, due through July 29, 2020	—	7,345
3.75% Callable promissory note, due through September 1, 2036	7,695	7,955
4.55% Promissory note, due through August 1, 2036	5,529	5,704
3.90% Promissory note, due through April 1, 2032	9,861	—
Finance lease liabilities, due through August 15, 2023	48	60
Total principal amount	162,333	173,695
Less: unamortized discount and issuance costs	(6,658)	(10,000)
Total long-term debt	<u>\$ 155,675</u>	<u>\$ 163,695</u>

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

The following table summarizes future maturities of long-term debt as of September 30, 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 September 30,	
2020	\$ 960
2021	140,198
2022	1,034
2023	1,063
2024	1,106
Thereafter	17,972
Total	<u>\$ 162,333</u>

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Interest Expense:				
Contractual interest	\$ 1,736	\$ 1,835	\$ 5,374	\$ 6,229
Non-cash expense (a)	1,053	1,018	3,174	3,807
Capitalized interest (b)	(41)	(78)	(125)	(236)
	<u>\$ 2,748</u>	<u>\$ 2,775</u>	<u>\$ 8,423</u>	<u>\$ 9,800</u>

(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 September 30, 2020, the conversion rate of the Company's 4.25% Convertible Notes was 16.42 shares of common stock for each \$1 in principal amount, which was the equivalent of approximately \$60.91 per share. In June 2020, the Company repurchased an aggregate of \$1,550 in principal of the 4.25% Convertible Notes and recognized a \$150 loss from the repurchases.

As of September 30, 2020, the remaining amortization period of the debt discount for 4.25% Convertible Notes was expected to be 1.4 years.

4% Promissory Note

On July 29, 2020, the Company made an early repayment of its 4% Promissory Note totaling \$7,062 in principal plus accrued interest. As a result, the Company incurred \$98 of loss on extinguishment of debt. The note was collateralized by the Company's Tampa, Florida headquarters which was acquired by the FDOT in the eminent domain proceedings as described in Note 9 – "Property and Equipment, Net."

3.95% Promissory Note

In February 2020, the Company repaid its 3.95% Promissory Note for \$8,891 including principal and unpaid interest payable at maturity date.

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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.

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 13 – 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 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		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Premiums Written:				
Direct	\$ 116,464	\$ 97,331	\$ 364,942	\$ 298,384
Assumed	(13)	—	(92)	(2)
Gross written	116,451	97,331	364,850	298,382
Ceded	(44,231)	(31,568)	(109,304)	(94,298)
Net premiums written	\$ 72,220	\$ 65,763	\$ 255,546	\$ 204,084
Premiums Earned:				
Direct	\$ 106,337	\$ 86,002	\$ 303,956	\$ 251,916
Assumed	357	—	2,906	(2)
Gross earned	106,694	86,002	306,862	251,914
Ceded	(44,231)	(31,568)	(109,304)	(94,298)
Net premiums earned	\$ 62,463	\$ 54,434	\$ 197,558	\$ 157,616

Notes to Consolidated Financial Statements (unaudited)*(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

During the three and nine months ended September 30, 2020, the Company recognized ceded losses of \$1,871 and \$2,220, respectively, as a reduction in losses and loss adjustment expenses, and ceded losses of \$113,888 were recognized in each of the three and nine months ended September 30, 2019. At September 30, 2020 and December 31, 2019, there were 38 and 31 reinsurers, respectively, participating in the Company's reinsurance program. Total gross amounts recoverable and receivable from reinsurers at September 30, 2020 and December 31, 2019 were \$95,274 and \$132,678, respectively. Approximately 58.6% of the reinsurance recoverable balance at September 30, 2020 was receivable from three reinsurers, including 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 \$14 and \$363 for the three and nine months ended September 30, 2020, respectively. Allowances for credit losses related to the reinsurance recoverable balance were \$90 and \$0 at September 30, 2020 and December 31, 2019, respectively.

One of the reinsurance contracts includes retrospective provisions that adjust premiums in the event losses are minimal or zero. For the three and nine months ended September 30, 2020, the Company recognized reductions in premiums ceded of \$4,680 and \$10,440, respectively, related to these adjustments in the consolidated statement of income. For the three and nine months ended September 30, 2019, the Company recognized net reductions in premiums ceded of \$2,520 and \$4,258, respectively, related to these adjustments.

Amounts receivable pursuant to retrospective provisions are reflected in other assets. At September 30, 2020 and December 31, 2019, other assets included \$6,240 and \$9,480 related to these adjustments, respectively. In June 2020, the Company received \$13,680 of premium refund under the retrospective reinsurance contract that ended May 31, 2020. 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 14 – 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.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net balance, beginning of period*	\$ 123,129	\$ 95,345	\$ 98,174	\$ 94,826
Incurred, net of reinsurance, related to:				
Current period	50,543	25,177	116,839	70,914
Prior period	1,200	2,150	2,825	7,702
Total incurred, net of reinsurance	51,743	27,327	119,664	78,616
Paid, net of reinsurance, related to:				
Current period	(21,175)	(15,111)	(36,988)	(32,819)
Prior period	(9,386)	(12,763)	(36,539)	(45,825)
Total paid, net of reinsurance	(30,561)	(27,874)	(73,527)	(78,644)
Net balance, end of period	144,311	94,798	144,311	94,798
Add: reinsurance recoverable before allowance for credit losses	75,034	143,123	75,034	143,123
Gross balance, end of period	\$ 219,345	\$ 237,921	\$ 219,345	\$ 237,921

*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 September 30, 2020, the Company recognized losses related to prior periods of \$1,200 primarily to increase the reserve for 2017, 2015 and prior loss years. For the nine months ended September 30, 2020, the Company recognized losses related to prior periods of \$2,825 for unfavorable development for 2019 and prior loss years resulting from litigation. Estimated losses of \$7,700, net of reinsurance, related to Hurricane Sally are included in the 2020 loss year.

Note 15 – 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.

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

For the three months ended September 30, 2020 and 2019, revenues from the Company's insurance operations before intracompany elimination represented 71.1% and 95.2%, respectively, of total revenues of all operating segments. For the nine months ended September 30, 2020 and 2019, revenues from the Company's insurance operations before intracompany elimination represented 86.2% and 95.0%, respectively, of total revenues of all operating segments. At September 30, 2020 and December 31, 2019, insurance operations' total assets represented 83.0% 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 September 30, 2020	Insurance Operations	Real Estate(a)	Corporate/ Other(b)	Reclassification/ Elimination	Consolidated
Revenue:					
Net premiums earned	\$ 62,463	\$ —	\$ —	\$ —	\$ 62,463
Net investment income (loss)	1,050	—	1,072	(290)	1,832
Net realized investment gains	131	—	46	—	177
Net unrealized investment gains	1,093	—	247	—	1,340
Credit losses on investments	(50)	—	(20)	—	(70)
Policy fee income	895	—	—	—	895
Gain on involuntary conversion	—	36,969	—	—	36,969
Other	285	2,384	510	(2,758)	421
Total revenue	<u>65,867</u>	<u>39,353</u>	<u>1,855</u>	<u>(3,048)</u>	<u>104,027</u>
Expenses:					
Losses and loss adjustment expenses	51,743	—	—	—	51,743
Amortization of deferred policy acquisition costs	12,200	—	—	—	12,200
Interest expense	—	463	2,631	(238)	2,856
Depreciation and amortization	28	566	452	(585)	461
Other	10,028	1,423	6,005	(2,225)	15,231
Total expenses	<u>73,999</u>	<u>2,452</u>	<u>9,088</u>	<u>(3,048)</u>	<u>82,491</u>
(Loss) income before income taxes	<u>\$ (8,132)</u>	<u>\$ 36,901</u>	<u>\$ (7,233)</u>	<u>\$ —</u>	<u>\$ 21,536</u>
Total revenue from non-affiliates(c)	<u>\$ 65,867</u>	<u>\$ 38,859</u>	<u>\$ 1,345</u>		

(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.

HCI GROUP, INC. AND SUBSIDIARIES

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For Three Months Ended September 30, 2019	Insurance Operations	Real Estate(a)	Corporate/ Other(b)	Reclassification/ Elimination	Consolidated
Revenue:					
Net premiums earned	\$ 54,434	\$ —	\$ —	\$ —	\$ 54,434
Net investment income (loss)	3,365	—	461	(205)	3,621
Net realized investment (loss) gains	(33)	—	3	—	(30)
Net unrealized investment gains	533	—	109	—	642
Policy fee income	811	—	—	—	811
Other	186	2,317	1,341	(3,343)	501
Total revenue	<u>59,296</u>	<u>2,317</u>	<u>1,914</u>	<u>(3,548)</u>	<u>59,979</u>
Expenses:					
Losses and loss adjustment expenses	27,327	—	—	—	27,327
Amortization of deferred policy acquisition costs	9,556	—	—	—	9,556
Interest expense	1	409	2,659	(162)	2,907
Depreciation and amortization	29	627	261	(530)	387
Other	7,978	1,292	5,669	(2,856)	12,083
Total expenses	<u>44,891</u>	<u>2,328</u>	<u>8,589</u>	<u>(3,548)</u>	<u>52,260</u>
Income (loss) before income taxes	\$ 14,405	\$ (11)	\$ (6,675)	\$ —	\$ 7,719
Total revenue from non-affiliates(c)	\$ 59,296	\$ 1,910	\$ 1,466		

- (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.

For Nine Months Ended September 30, 2020	Insurance Operations	Real Estate(a)	Corporate/ Other(b)	Reclassification/ Elimination	Consolidated
Revenue:					
Net premiums earned	\$ 197,558	\$ —	\$ —	\$ —	\$ 197,558
Net investment income (loss)	5,459	3	(1,194)	(1,024)	3,244
Net realized investment losses	(208)	—	(424)	—	(632)
Net unrealized investment losses	(531)	—	(50)	—	(581)
Credit losses on investments	(576)	—	(20)	—	(596)
Policy fee income	2,571	—	—	—	2,571
Gain on involuntary conversion	—	36,969	—	—	36,969
Other	880	7,362	2,400	(9,051)	1,591
Total revenue	<u>205,153</u>	<u>44,334</u>	<u>712</u>	<u>(10,075)</u>	<u>240,124</u>
Expenses:					
Losses and loss adjustment expenses	119,664	—	—	—	119,664
Amortization of deferred policy acquisition costs	35,568	—	—	—	35,568
Interest expense	1	1,434	8,090	(679)	8,846
Depreciation and amortization	86	1,862	1,263	(1,793)	1,418
Other	25,710	4,080	18,425	(7,603)	40,612
Total expenses	<u>181,029</u>	<u>7,376</u>	<u>27,778</u>	<u>(10,075)</u>	<u>206,108</u>
Income (loss) before income taxes	\$ 24,124	\$ 36,958	\$ (27,066)	\$ —	\$ 34,016
Total revenue (investment loss) from non-affiliates(c)	\$ 205,153	\$ 42,907	\$ (837)		

- (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.

Notes to Consolidated Financial Statements (unaudited)

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

For Nine Months Ended September 30, 2019	Insurance Operations	Real Estate(a)	Corporate/ Other(b)	Reclassification/ Elimination	Consolidated
Revenue:					
Net premiums earned	\$ 157,616	\$ —	\$ —	\$ —	\$ 157,616
Net investment income (loss)	9,381	—	2,064	(320)	11,125
Net realized investment gains (losses)	33	—	(568)	—	(535)
Net unrealized investment gains	5,951	—	1,310	—	7,261
Policy fee income	2,406	—	—	—	2,406
Other	524	7,009	4,590	(10,753)	1,370
Total revenue	<u>175,911</u>	<u>7,009</u>	<u>7,396</u>	<u>(11,073)</u>	<u>179,243</u>
Expenses:					
Losses and loss adjustment expenses	78,616	—	—	—	78,616
Amortization of deferred policy acquisition costs	26,982	—	—	—	26,982
Interest expense	2	1,174	9,374	(422)	10,128
Depreciation and amortization	82	1,878	791	(1,586)	1,165
Other	22,842	3,866	17,392	(9,065)	35,035
Total expenses	<u>128,524</u>	<u>6,918</u>	<u>27,557</u>	<u>(11,073)</u>	<u>151,926</u>
Income (loss) before income taxes	\$ 47,387	\$ 91	\$ (20,161)	\$ —	\$ 27,317
Total revenue from non-affiliates(c)	\$ 175,911	\$ 5,787	\$ 6,088		

- (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.

Segment:	September 30, 2020	December 31, 2019
Insurance Operations	\$ 738,141	\$ 663,280
Real Estate Operations	130,138	93,727
Corporate and Other	45,731	60,662
Consolidation and Elimination	<u>(26,197)</u>	<u>(15,060)</u>
Total assets	\$ 887,813	\$ 802,609

Note 16 -- Leases

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

	September 30, 2020	December 31, 2019
Operating leases:		
ROU Assets	\$ 5,668	\$ 484
Liabilities	\$ 5,682	\$ 513
Finance leases:		
ROU Assets	\$ 79	\$ 79
Liabilities	\$ 48	\$ 60

Notes to Consolidated Financial Statements (unaudited)

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

As a result of the change in ownership of the Company's headquarters building through the eminent domain proceeding described in Note 9 -- "Property and Equipment, Net," all existing intercompany operating leases related to this building that were previously eliminated on consolidation are now reflected on the balance sheet. These leases were determined to be at market rates on the date of the ownership change.

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

<u>Class of Assets</u>	<u>Initial Term</u>	<u>Renewal Option</u>	<u>Other Terms and Conditions</u>
Operating lease:			
Office equipment	1 to 63 months	Yes	(a), (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 September 30, 2020, maturities of lease liabilities were as follows:

	<u>Leases</u>	
	<u>Operating</u>	<u>Finance</u>
Due in 12 months following September 30,		
2020	\$ 2,223	\$ 19
2021	2,038	18
2022	1,651	13
Total lease payments	5,912	50
Less: interest and foreign taxes	230	2
Total lease obligations	\$ 5,682	\$ 48

Notes to Consolidated Financial Statements (unaudited)

(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		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Lease costs:				
Finance lease costs:				
Amortization – ROU assets*	\$ 4	\$ 4	\$ 13	\$ 10
Interest expense	1	1	2	2
Operating lease costs*	404	90	560	244
Short-term lease costs*	44	37	135	141
Total lease costs	\$ 453	\$ 132	\$ 710	\$ 397
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows – finance leases			\$ 1	\$ 2
Operating cash flows – operating leases			\$ 566	\$ 239
Financing cash flows – finance leases			\$ 13	\$ 9

	September 30, 2020
Weighted-average remaining lease term:	
Finance leases (in years)	2.8
Operating leases (in years)	2.9
Weighted-average discount rate:	
Finance leases	3.7%
Operating leases	2.9%

* 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 17 -- Income Taxes

During the three months ended September 30, 2020 and 2019, the Company recorded approximately \$1,146 and \$1,866 respectively, of income taxes, which resulted in effective tax rates of 28.5% and 24.2%, respectively. The increase in the effective tax rate as compared with the corresponding period in the prior year was primarily attributable to the non-deductibility of certain executive compensation. Furthermore, the Florida corporate income tax rate was reduced from 5.5% to 4.458% in September 2019. During the nine months ended September 30, 2020 and 2019, the Company recorded approximately \$9,143 and \$7,173, respectively, of income taxes, which resulted in effective tax rates of 26.9% and 26.3%, respectively. The slight increase in the effective tax rate in 2020 as compared with the corresponding period in the prior year was primarily attributable

Notes to Consolidated Financial Statements (unaudited)

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

to the non-deductibility of executive compensation, offset by the recognition of the tax refund from the State of Florida for 2018 income taxes, and the recognition of windfall tax benefits related to share-based awards. 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.

Note 18 -- 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 September 30, 2020			Three Months Ended September 30, 2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	\$ 15,390			\$ 5,853		
Less: Income attributable to participating securities	(865)			(325)		
Basic Earnings Per Share:						
Income allocated to common stockholders	14,525	7,356	\$ 1.97	5,528	7,531	\$ 0.73
Effect of Dilutive Securities:						
Stock options	—	37		—	8	
Convertible senior notes*	1,903	2,284		—	—	
Diluted Earnings Per Share:						
Income available to common stockholders and assumed conversions	\$ 16,428	9,677	\$ 1.70	\$ 5,528	7,539	\$ 0.73

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	\$ 24,873			\$ 20,144		
Less: Income attributable to participating securities	(1,309)			(1,114)		
Basic Earnings Per Share:						
Income allocated to common stockholders	23,564	7,350	\$ 3.21	19,030	7,644	\$ 2.49
Effect of Dilutive Securities:						
Stock options	—	17		—	14	
Convertible senior notes	5,787	2,330		6,828	2,745	
Diluted Earnings Per Share:						
Income available to common stockholders and assumed conversions	\$ 29,351	9,697	\$ 3.03	\$ 25,858	10,403	\$ 2.49

* For the three months ended September 30, 2019, convertible senior notes were excluded due to anti-dilutive effect.

Note 19 -- 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 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 September 30, 2020, the Company repurchased and retired a total of 457 shares at a weighted average price per share of \$43.76 under the plan for 2020. The total cost of shares repurchased, inclusive of fees and commissions, during the three months ended September 30, 2020 was \$20 or \$43.79 per share. During the nine months ended September 30, 2020, the Company repurchased and retired a total of 129,142 shares at a weighted average price per share of \$39.93 under these authorized repurchase plans. The total cost of shares repurchased, inclusive of fees and commissions, during the nine months ended September 30, 2020 was \$5,161 or \$39.96 per share.

In December 2018, the Company's Board of Directors authorized a plan for 2019 to repurchase up to \$20,000 of the Company's common shares before commissions and fees. During the three months ended September 30, 2019, the Company repurchased and retired a total of 175,160 shares at a weighted average price per share of \$40.99 under this authorized repurchase plan. The total cost of shares repurchased, inclusive of fees and commissions, during the three months ended September 30, 2019 was \$7,185, or \$41.02 per share. During the nine months ended September 30, 2019, the Company repurchased and retired a total of 367,736 shares at a weighted average price per share of \$41.28 under this authorized repurchase plan. The total cost of shares repurchased, inclusive of fees and commissions, during the nine months ended September 30, 2019 was \$15,191, or \$41.31 per share.

On July 2, 2020, the Company's Board of Directors declared a quarterly dividend of \$0.40 per common share. The dividends were paid on September 18, 2020 to stockholders of record on August 21, 2020.

Preferred Stock

On May 15, 2020, the Company amended its Articles of Incorporation, effective on the same date, to cancel the designation of 1,500,000 shares of the Company's authorized preferred stock as Series A Cumulative Redeemable Preferred Stock, and the designation of 400,000 shares of the Company's authorized preferred stock as Series B Junior Participating Preferred Stock. As a result, all 20,000,000 authorized shares of the Company's preferred stock are undesignated. Since the designation of these types of preferred stock, none have ever been issued by the Company.

Note 20 -- Stock-Based Compensation***Incentive Plans***

The Company currently has outstanding stock-based awards granted under the 2012 Omnibus Incentive Plan which is currently active and available for future grants. At September 30, 2020, there were 1,473,851 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 often years.

Notes to Consolidated Financial Statements (unaudited)

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

A summary of the stock option activity for the three and nine months ended September 30, 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	\$ —
Outstanding at June 30, 2020	440,000	\$ 45.25	8.1 years	\$ 1,184
Outstanding at September 30, 2020	440,000	\$ 45.25	7.8 years	\$ 2,321
Exercisable at September 30, 2020	165,000	\$ 42.17	7.0 years	\$ 1,334
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
Exercised	(10,000)	\$ 6.30		
Outstanding at June 30, 2019	340,000	\$ 43.21	8.4 years	\$ 445
Outstanding at September 30, 2019	340,000	\$ 43.21	8.1 years	\$ 1,057
Exercisable at September 30, 2019	92,500	\$ 36.36	7.0 years	\$ 627

The following table summarizes information about options exercised for the three and nine months ended September 30, 2020 and 2019 (option amounts not in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Options exercised	—	—	10,000	10,000
Total intrinsic value of exercised options	\$ —	\$ —	\$ 288	\$ 347
Tax benefits realized	\$ —	\$ (3)	\$ 71	\$ 85

For the three months ended September 30, 2020 and 2019, the Company recognized \$300 and \$222, respectively, of compensation expense which was included in general and administrative personnel expenses. For the nine months ended September 30, 2020 and 2019, the Company recognized \$880 and \$647, respectively, of compensation expense. Deferred tax benefits related to stock options were \$19 and \$18 for the three months ended September 30, 2020 and 2019, respectively, and \$57 for each of the nine months ended September 30, 2020 and 2019, respectively. The Company recognized a reduction in realized tax benefit of \$3 in September 2019 resulting from the change in the Florida corporate income tax rate described in Note 17 – “Income Taxes.” At September 30, 2020 and December 31, 2019, there was \$2,189 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 2.5 years.

Notes to Consolidated Financial Statements (unaudited)

(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 nine months ended September 30, 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 and nine months ended September 30, 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	<u>403,372</u>	\$ 42.12
Granted	145,000	\$ 45.59
Vested	(104,926)	\$ 41.16
Forfeited	(5,220)	\$ 43.75
Nonvested at June 30, 2020	<u>438,226</u>	\$ 43.48
Granted	2,680	\$ 54.36
Vested	(625)	\$ 41.02
Forfeited	(2,369)	\$ 45.60
Nonvested at September 30, 2020	<u>437,912</u>	\$ 43.54
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	<u>646,365</u>	\$ 34.03
Granted	133,160	\$ 41.30
Vested	(84,914)	\$ 41.58
Forfeited	(264,211)	\$ 23.81
Nonvested at June 30, 2019	<u>430,400</u>	\$ 41.06
Granted	7,244	\$ 41.76
Forfeited	(2,351)	\$ 41.97
Nonvested at September 30, 2019	<u>435,293</u>	\$ 41.07

Notes to Consolidated Financial Statements (unaudited)

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

The Company recognized compensation expense related to restricted stock, which is included in general and administrative personnel expenses, of \$1,862 and \$1,524 for the three months ended September 30, 2020 and 2019, respectively, and \$5,142 and \$4,047 for the nine months ended September 30, 2020 and 2019, respectively. At September 30, 2020 and December 31, 2019, there was approximately \$15,658 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 2.8 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 the three and nine months ended September 30, 2020 and 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Deferred tax benefits recognized	\$ 353	\$ 282	\$ 956	\$ 772
Tax benefits realized for restricted stock and paid dividends	\$ 47	\$ 1	\$ 1,286	\$ 986
Fair value of vested restricted stock	\$ 26	\$ —	\$ 5,625	\$ 4,331

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 September 30, 2019, the Company recognized dividends of \$10 related to these awards in other operating expenses. For the nine months ended September 30, 2019, the Company recognized dividends of \$237 in general and administrative personnel expenses for \$170 and in other operating expenses for \$67.

Note 21 -- Commitments and ContingenciesCapital Commitment

As described in Note 5 -- "Investments" under *Limited Partnership Investments*, the Company is contractually committed to capital contributions for limited partnership interests. At September 30, 2020, there was an aggregate unfunded balance of \$12,178.

Litigation

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's filed for bankruptcy earlier this year.

Note 22 -- Subsequent Events

On October 16, 2020, the Company's Board of Directors declared a quarterly dividend of \$0.40 per common share. The dividends are payable on December 18, 2020 to stockholders of record on November 20, 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 September 30, 2020 and 2019, revenues from insurance operations before intracompany elimination represented 71.1% and 95.2%, respectively, of total revenues of all operating segments. For the nine months ended September 30, 2020 and 2019, revenues from insurance operations before intracompany elimination represented 86.2% and 95.0%, respectively, of total revenues of all operating segments. At September 30, 2020 and December 31, 2019, insurance operations' total assets represented 83.0% and 85.5%, respectively, of the combined assets of all operating segments. See Note 15 -- "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.

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 had substantially the same terms and rates as the cancelled policies 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 may offer renewals to those policyholders at its own rates and terms but has no obligation to do so. In connection with the agreement, we received \$30,000,000 on February 13, 2020 representing an estimate of unearned premium on policies to be replaced.

TypTap has been the primary source of our organic growth in gross written premium since 2018. TypTap's policies in force have increased from 6,721 in January 2018 to 33,825 at September 30, 2020. TypTap has been successful in using internally developed proprietary technology to underwrite, select and write policies efficiently in Florida. In October 2020, TypTap began applying to offer homeowners coverage in other states. In addition to the expansion in TypTap business, we expect the Anchor transaction will contribute to our future growth.

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 one Tampa office 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.

In July 2020, the property in Tampa, Florida where our headquarters is located was acquired by the Florida Department of Transportation (“FDOT”) exercising the power of eminent domain for a highway expansion project. See Note 9 -- “Property and Equipment, Net” to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

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 *SAMSTM*, *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 work from home without significant disruptions to our operations. At present, we have no plan to reduce our workforce. At September 30, 2020, the impact on our financial statements of COVID-19 consists primarily of 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 October 16, 2020, our Board of Directors declared a quarterly dividend of \$0.40 per common share. The dividends are payable on December 18, 2020 to stockholders of record on November 20, 2020.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the three and nine months ended September 30, 2020 and 2019 (dollar amounts in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Revenue				
Gross premiums earned	\$ 106,694	\$ 86,002	\$ 306,862	\$ 251,914
Premiums ceded	(44,231)	(31,568)	(109,304)	(94,298)
Net premiums earned	62,463	54,434	197,558	157,616
Net investment income	1,832	3,621	3,244	11,125
Net realized investment gains (losses)	177	(30)	(632)	(535)
Net unrealized investment gains (losses)	1,340	642	(581)	7,261
Credit losses on investments	(70)	—	(596)	—
Policy fee income	895	811	2,571	2,406
Gain on involuntary conversion	36,969	—	36,969	—
Other income	421	501	1,591	1,370
Total revenue	104,027	59,979	240,124	179,243
Expenses				
Losses and loss adjustment expenses	51,743	27,327	119,664	78,616
Policy acquisition and other underwriting expenses	14,210	10,988	39,027	30,738
General and administrative personnel expenses	9,871	7,951	27,969	23,313
Interest expense	2,856	2,907	8,846	10,128
Loss on repurchase of convertible senior notes	—	—	150	—
Loss on extinguishment of debt	98	—	98	—
Other operating expenses	3,713	3,087	10,354	9,131
Total expenses	82,491	52,260	206,108	151,926
Income before income taxes	21,536	7,719	34,016	27,317
Income tax expense	6,146	1,866	9,143	7,173
Net income	\$ 15,390	\$ 5,853	\$ 24,873	\$ 20,144
Ratios to Net Premiums Earned:				
Loss Ratio	82.84%	50.20%	60.57%	49.88%
Expense Ratio	49.23%	45.80%	43.76%	46.51%
Combined Ratio	132.07%	96.00%	104.33%	96.39%
Ratios to Gross Premiums Earned:				
Loss Ratio	48.50%	31.78%	39.00%	31.21%
Expense Ratio	28.82%	28.99%	28.17%	29.10%
Combined Ratio	77.32%	60.77%	67.17%	60.31%
Earnings Per Share Data:				
Basic	\$ 1.97	\$ 0.73	\$ 3.21	\$ 2.49
Diluted	\$ 1.70	\$ 0.73	\$ 3.03	\$ 2.49

Comparison of the Three Months ended September 30, 2020 to the Three Months ended September 30, 2019

Our results of operations for the three months ended September 30, 2020 reflect income available to common stockholders of approximately \$15,390,000 or \$1.70 earnings per diluted common share, compared with approximately \$5,853,000, or \$0.73 earnings per diluted common share, for the three months ended September 30, 2019. The quarter-over-quarter increase in net income was primarily due to a gain on involuntary conversion of \$36,969,000 and a net increase in net premiums earned of \$8,029,000, offset by a decrease in income from our investment portfolio (consisting of net investment income/loss and net realized and unrealized gains/losses) of \$884,000, an increase in losses and loss adjustment expenses of \$24,416,000, an increase in policy acquisition and underwriting expenses of \$3,222,000, and increased payroll costs of \$1,920,000. Of the \$24,416,000 increase in losses and loss adjustment expenses, \$17,700,000 related to Hurricane Sally.

Revenue

Gross Premiums Earned for the three months ended September 30, 2020 and 2019 were approximately \$106,694,000 and \$86,002,000, respectively. The quarter-over-quarter increase was primarily attributable to the policies transitioned from Anchor and increased policies in force from the growth in TypTap's business. Gross premiums earned related to the Anchor policies were approximately \$9,300,000 for the quarter.

Premiums Ceded for the three months ended September 30, 2020 and 2019 were approximately \$44,231,000 and \$31,568,000, respectively, representing 41.5% and 36.7%, respectively, of gross premiums earned. The \$12,663,000 increase was primarily attributable to increased reinsurance costs effective June 1, 2020 and a higher level of reinsurance coverage, offset by a reduction in premiums ceded attributable to retrospective provisions under one reinsurance contract.

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 September 30, 2020, premiums ceded included a decrease of approximately \$4,680,000 related to retrospective provisions compared with a net reduction of approximately \$2,520,000 for the three months ended September 30, 2019. See "Economic Impact of Reinsurance Contracts with Retrospective Provisions" under "Critical Accounting Policies and Estimates."

Net Premiums Written for the three months ended September 30, 2020 and 2019 totaled approximately \$72,220,000 and \$65,763,000, 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 and the transition of policies from Anchor. We had approximately 157,000 policies in force at September 30, 2020 as compared with approximately 125,000 policies in force at September 30, 2019.

Net Premiums Earned for the three months ended September 30, 2020 and 2019 were approximately \$62,463,000 and \$54,434,000, 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 September 30, 2020 and 2019 (amounts in thousands):

	Three Months Ended	
	September 30,	
	2020	2019
Net Premiums Written	\$ 72,220	\$ 65,763
Increase in Unearned Premiums	(9,757)	(11,329)
Net Premiums Earned	\$ 62,463	\$ 54,434

Net Investment Income for the three months ended September 30, 2020 and 2019 was approximately \$1,832,000 and \$3,621,000, respectively. The \$1,789,000 decrease was primarily attributable to lower interest income from fixed-maturity securities and cash equivalent instruments.

Net Unrealized Investment gains for the three months ended September 30, 2020 and 2019 were approximately \$1,340,000 and \$642,000, respectively, reflecting an increase in the fair value of equity securities resulting from an improved economic outlook since the shock caused by COVID-19.

Gain on Involuntary Conversion for the three months ended September 30, 2020 was approximately \$36,969,000. This one-time gain resulted from the aforementioned transaction with the FDOT. See Note 9 -- "Property and Equipment, Net" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to approximately \$51,743,000 and \$27,327,000 for the three months ended September 30, 2020 and 2019, respectively. The \$24,416,000 increase primarily resulted from \$17,700,000 of reserves net of reinsurance recoverable for Hurricane Sally, losses from other weather-related events in the quarter, the increase in gross premiums earned, and change in premium mix, offset by a reduction in loss reserves related to 2019 and 2018 loss years. 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 September 30, 2020 and 2019 were approximately \$14,210,000 and \$10,988,000, 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 \$3,222,000 increase was primarily attributable to higher agent commission rates, property inspection costs associated with the organic growth of TypTap business, and \$605,000 of amortized transition costs related to Anchor policies.

General and Administrative Personnel Expenses for the three months ended September 30, 2020 and 2019 were approximately \$9,871,000 and \$7,951,000, 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 \$1,920,000 was primarily attributable to higher share-based compensation expense and employee incentive bonus, an increase in the headcount of temporary and full-time employees, merit increases for non-executive employees effective in late February 2020, and lower capitalized and recoverable payroll costs.

Income Tax Expense for the three months ended September 30, 2020 and 2019 was approximately \$6,146,000 and \$1,866,000, respectively, for state, federal, and foreign income taxes resulting in an effective tax rate of 28.5% for 2020 and 24.2% for 2019. The increase in the effective tax rate was primarily due to the non-deductibility of certain executive compensation.

Ratios:

The loss ratio applicable to the three months ended September 30, 2020 (losses and loss adjustment expenses incurred related to net premiums earned) was 82.8% compared with 50.2% for the three months ended September 30, 2019. The increase was primarily due to the increase in losses and loss adjustment expenses, offset in part by the increase in net premiums earned.

The expense ratio applicable to the three months ended September 30, 2020 (defined as underwriting expenses, general and administrative personnel expenses, interest and other operating expenses related to net premiums earned) was 49.2% compared with 45.8% for the three months ended September 30, 2019. The increase in our expense ratio was primarily attributable to the increase in policy acquisition, underwriting and personnel expenses, offset by the increase in net premiums earned.

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 September 30, 2020 was 132.0% compared with 96.0% for the three months ended September 30, 2019.

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 September 30, 2020 was 77.3% compared with 60.8% for the three months ended September 30, 2019. The increase in 2020 was attributable to the factors described above.

Comparison of the Nine Months ended September 30, 2020 to the Nine Months ended September 30, 2019

Our results of operations for the nine months ended September 30, 2020 reflect income available to common stockholders of approximately \$24,873,000, or \$3.03 earnings per diluted common share, compared with approximately \$20,144,000, or \$2.49 earnings per diluted common share, for the nine months ended September 30, 2019. The period-over-period increase was primarily due to an increase in gross premiums earned of \$54,948,000 and a \$36,969,000 gain on involuntary conversion, offset by a \$15,006,000 increase in reinsurance costs, a net decrease in income from our investment portfolio of \$15,820,000, an increase in losses and loss adjustment expenses of \$41,048,000, an increase in policy acquisition and other underwriting expense of \$8,289,000, and an increase in general and administrative personnel expenses of \$4,656,000.

Revenue

Gross Premiums Earned for the nine months ended September 30, 2020 and 2019 were approximately \$306,862,000 and \$251,914,000, respectively. The \$54,948,000 increase in 2020 compared with the corresponding period in 2019 was primarily attributable to a net increase in policies in force as described earlier.

Premiums Ceded for the nine months ended September 30, 2020 and 2019 were approximately \$109,304,000 and \$94,298,000, respectively, representing 35.6% and 37.4%, respectively, of gross premiums earned. The \$15,006,000 increase was primarily attributable to increased reinsurance cost per coverage limit effective June 1, 2020 and a higher level of reinsurance coverage, offset by a reduction in premiums ceded attributable to retrospective provisions under one reinsurance contract.

For the nine months ended September 30, 2020, premiums ceded included a reduction of approximately \$10,440,000 related to retrospective provisions. For the nine months ended September 30, 2019, premiums ceded included a net reduction of approximately \$4,258,000 related to retrospective provisions. See “Economic Impact of Reinsurance Contracts with Retrospective Provisions” under “Critical Accounting Policies and Estimates.”

Net Premiums Written for the nine months ended September 30, 2020 and 2019 totaled approximately \$255,546,000 and \$204,084,000, respectively. The \$51,462,000 increase in 2020 resulted primarily from the factors described earlier.

Net Premiums Earned for the nine months ended September 30, 2020 and 2019 were approximately \$197,558,000 and \$157,616,000, respectively, and reflect 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 nine months ended September 30, 2020 and 2019 (amounts in thousands):

	Nine Months Ended September 30,	
	2020	2019
Net Premiums Written	\$ 255,546	\$ 204,084
Increase in Unearned Premiums	(57,988)	(46,468)
Net Premiums Earned	<u>\$ 197,558</u>	<u>\$ 157,616</u>

Net Investment Income for the nine months ended September 30, 2020 and 2019 was approximately \$3,244,000 and \$11,125,000, respectively. The \$7,881,000 decrease was primarily attributable to a loss of \$2,058,000 from limited partnership investments in 2020 as opposed to income of \$1,308,000 in 2019. In addition, interest income from cash, cash equivalents, fixed-maturity securities, and short-term investments was lower by \$4,041,000 in 2020 compared with 2019 due to a lowering of investment yields, particularly on cash.

Net Unrealized Investment Losses for the nine months ended September 30, 2020 were approximately \$581,000 versus net unrealized investment gains of approximately \$7,261,000 for the nine months ended September 30, 2019, reflecting a deterioration in the fair value of equity securities caused by COVID-19 pandemic.

Gain on Involuntary Conversion for the nine months ended September 30, 2020 was approximately \$36,969,000, resulting from the transaction described earlier.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to approximately \$119,664,000 and \$78,616,000 for the nine months ended September 30, 2020 and 2019, respectively. The \$41,048,000 increase was primarily attributable to the increase in gross premiums earned, change in premium mix and reserves for Hurricane Sally and other weather-related losses, offset by lower prior year development. Losses after reinsurance recoverable for Hurricane Sally approximated \$17,700,000. See “Reserves for Losses and Loss Adjustment Expenses” under “Critical Accounting Policies and Estimates.”

Policy Acquisition and Other Underwriting Expenses for the nine months ended September 30, 2020 and 2019 were approximately \$39,027,000 and \$30,738,000, respectively. The \$8,289,000 increase was primarily attributable to the factors described earlier.

General and Administrative Personnel Expenses for the nine months ended September 30, 2020 and 2019 were approximately \$27,969,000 and \$23,313,000, respectively. The period-over-period increase of \$4,656,000 was primarily attributable to higher share-based compensation expense and employee incentive bonus, merit increases for non-executive employees, and lower capitalized and recoverable payroll costs.

Interest Expense for the nine months ended September 30, 2020 and 2019 was approximately \$8,846,000 and \$10,128,000, respectively. The decrease resulted from the repayment of our 3.875% Convertible Senior Notes in March 2019.

Income Tax Expense for the nine months ended September 30, 2020 and 2019 was approximately \$9,143,000 and \$7,173,000, respectively, for state, federal, and foreign income taxes resulting in an effective tax rate of 26.9% for 2020 and 26.3% for 2019.

Ratios:

The loss ratio applicable to the nine months ended September 30, 2020 was 60.6% compared with 49.9% for the nine months ended September 30, 2019.

The expense ratio applicable to the nine months ended September 30, 2020 was 43.7% compared with 46.5% for the nine months ended September 30, 2019. The decrease in our expense ratio was primarily attributable to the increase in net premiums earned.

The combined ratio is the measure of overall underwriting profitability before other income. Our combined ratio for the nine months ended September 30, 2020 was 104.3% compared with 96.4% for the nine months ended September 30, 2019. The increase was attributable to the increase in losses and loss adjustment expenses, offset by the increase in net premiums earned as described above.

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 nine months ended September 30, 2020 was 67.2% compared with 60.3% for the nine months ended September 30, 2019. The increase in 2020 was primarily attributable to the increase in losses and loss adjustment expenses, offset by the increase in gross premiums earned.

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 our 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 subsidiaries require 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 September 30, 2020:

	<u>Maturity Date</u>	<u>Interest Payment Due Date</u>
4.25% Convertible senior notes	March 2037	March 1 and September 1
3.75% Callable promissory note	Through September 2036	1 st day of each month
4.55% Promissory note	Through August 2036	1 st day of each month
3.90% Promissory note	Through April 2032	1 st 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 12 -- "Long-Term Debt" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

Share Repurchase Plan

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 19 -- "Stockholders' Equity" to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for more information.

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 September 30, 2020, there was an aggregate unfunded capital balance of \$12,178,000. 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.

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 Nine Months Ended September 30, 2020

Net cash provided by operating activities for the nine months ended September 30, 2020 was approximately \$77,530,000, which consisted primarily of cash received from net premiums written, reinsurance recoveries (of approximately \$39,624,000) and \$27,092,000 of net cash receipts 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 \$133,800,000 was primarily due to the proceeds from sales of fixed-maturity and equity securities of \$96,669,000, the proceeds from redemptions and maturities of fixed-maturity securities of \$60,870,000, and \$44,000,000 of compensation received for the property taken by the power of eminent domain, offset by the purchases of fixed-maturity and equity securities of \$57,375,000, the purchase of real estate investments of \$3,052,000, limited partnership investments of \$2,951,000, and the purchases of property and equipment of \$5,928,000. Net cash used in financing activities totaled \$28,151,000, which consisted of \$16,533,000 used to repay 3.95% and 4% promissory notes, \$9,279,000 of net cash dividend payments, \$4,459,000 used to repurchase our 4.25% convertible senior notes, \$6,499,000 used in our share repurchases, and net repayment of our revolving credit facility of \$1,000,000, offset by the proceeds from issuance of a 3.90% promissory note of \$10,000,000.

Cash Flows for the Nine Months Ended September 30, 2019

Net cash provided by operating activities for the nine months ended September 30, 2019 was approximately \$38,094,000, which consisted primarily of cash received from net premiums written as well as reinsurance recoveries (of approximately \$74,355,000) less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash provided by investing activities of \$44,511,000 was primarily due to the proceeds from redemptions and maturities of fixed-maturity securities of \$50,738,000, the proceeds from sales of fixed-maturity and equity securities of \$39,570,000, and the proceeds from sales and maturities of short-term and other investments of \$66,902,000, offset by the purchases of fixed-maturity and equity securities of \$98,633,000, the purchase of real estate investments of \$10,475,000, limited partnership investments of \$1,899,000, and the purchases of property and equipment of \$2,166,000. Net cash used in financing activities totaled \$107,439,000, which was primarily due to the repayments of long-term debt of \$90,980,000, \$9,599,000 of net cash dividend payments, and \$16,214,000 used in our share repurchases, offset by \$9,750,000 of borrowings from 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 September 30, 2020, we had \$135,445,000 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. To maximize the gains from fixed-maturity investments in a low interest rate environment, we have decreased our holdings in fixed-maturity securities since the beginning of 2020.

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 September 30, 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 21 -- "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 September 30, 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)	\$ 5,912	\$ 2,223	\$ 3,689	\$ —	\$ —
Service agreement (1)	32	19	13	—	—
Unfunded capital commitments (2)	12,178	12,178	—	—	—
Revolving credit facility	8,750	8,750	—	—	—
Long-term debt obligations (3)	179,447	7,785	145,889	3,700	22,073
Total	<u>\$ 206,319</u>	<u>\$ 30,955</u>	<u>\$ 149,591</u>	<u>\$ 3,700</u>	<u>\$ 22,073</u>

- (1) Represents leases for office space in Tampa and 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 September 30, 2020 exchange rate.
- (2) Represents the unfunded balance of capital commitments under the subscription agreements related to limited partnerships in which we hold interests.
- (3) Amounts represent principal and interest payments over the lives of various long-term debt obligations. See Note 12 -- "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 September 30, 2020, \$165,274,000 of the total \$219,345,000 we have reserved for losses and loss adjustment expenses is attributable to our estimate of IBNR. The remaining \$54,071,000 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 September 30, 2020, \$31,125,000 of the \$54,071,000 in reserves for known cases relates to claims incurred during prior years.

Our Reserves increased from \$214,697,000 at December 31, 2019 to \$219,345,000 at September 30, 2020. The \$4,648,000 increase is comprised of \$81,691,000 in reserves established for the 2020 loss year, of which \$18,628,000 related to Hurricane Sally, offset by reductions in our Reserves of \$43,328,000 specific to Hurricane Irma in 2017 and Hurricane Michael in 2018 and reductions in our non-catastrophe Reserves of \$19,058,000 for 2019 and \$14,657,000 for 2018 and prior loss years. The \$81,691,000 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 September 30, 2020. The decrease of \$77,043,000 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 September 30, 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 September 30, 2020 and 2019, we accrued benefits of \$4,680,000 and \$2,520,000, respectively. For the three months ended September 30, 2020 and 2019, there was no adjustment in ceded premiums. In combination, for the three months ended September 30, 2020 and 2019, we recognized decreases in ceded premiums of \$4,680,000 and \$2,520,000, respectively.

For the nine months ended September 30, 2020 and 2019, we accrued benefits of \$10,440,000 and \$3,824,000, respectively. There was no adjustment in ceded premiums for the nine months ended September 30, 2020. For the nine months ended September 30, 2019, we recognized a decrease in premiums ceded of \$434,000. In combination, for the nine months ended September 30, 2020 and 2019, we recognized decreases in ceded premiums of \$10,440,000 and \$4,258,000, respectively.

As of September 30, 2020, we had \$6,240,000 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. In June 2020, we received a \$13,680,000 premium refund under the retrospective reinsurance contract that ended May 31, 2020. Accrued benefits related to this expired contract were \$9,480,000 at December 31, 2019. 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 and the reinsurer's demonstrated ability to comply with contract terms.

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 nine months ended September 30, 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 September 30, 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 September 30, 2020 (amounts in thousands):

<u>Hypothetical Change in Interest Rates</u>	<u>Estimated Fair Value</u>	<u>Change in Estimated Fair Value</u>	<u>Percentage Increase (Decrease) in Estimated Fair Value</u>
300 basis point increase	\$ 88,775	\$ (3,968)	-4.28%
200 basis point increase	90,097	(2,646)	-2.85%
100 basis point increase	91,420	(1,323)	-1.43%
100 basis point decrease	93,562	819	0.88%
200 basis point decrease	93,961	1,218	1.31%
300 basis point decrease	94,237	1,494	1.61%

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, at September 30, 2020 (amounts in thousands):

Comparable Rating	Amortized Cost	% of Total Amortized Cost	Estimated Fair Value	% of Total Estimated Fair Value
AA+, AA, AA-	\$ 16,110	17.0	\$ 16,455	17.0
A+, A, A-	43,952	48.0	44,743	48.0
BBB+, BBB, BBB-	20,011	22.0	20,876	23.0
BB+, BB, BB-	4,229	5.0	4,357	5.0
CCC+, CC and Not rated	6,864	8.0	6,312	7.0
Total	\$ 91,166	100.0	\$ 92,743	100.0

Equity Price Risk

Our equity investment portfolio at September 30, 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 September 30, 2020 (amounts in thousands):

	Estimated Fair Value	% of Total Estimated Fair Value
Stocks by sector:		
Financial	\$ 13,691	32
Technology	2,550	6
Consumer	4,151	10
Other (1)	4,517	10
	<u>24,909</u>	<u>58</u>
Mutual funds and exchange traded funds by type:		
Debt	15,382	36
Equity	2,411	6
Total	\$ <u>42,702</u>	<u>100</u>

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

Foreign Currency Exchange Risk

At September 30, 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 September 30, 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

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's filed for bankruptcy earlier this year.

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. Currently, stay at home orders initially issued by the State of Florida and local governments are lifted. We allow some employees who have gone through health safety training to alternate working from home and in the offices. When we can fully reopen our offices 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 September 30, 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)
July 31, 2020	457	\$ 43.76	457	\$ 16,006
August 31, 2020	225	\$ 55.59	—	\$ 16,006
September 30, 2020	—	\$ —	—	\$ 16,006
	682	\$ 47.66	457	

(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 nine months ended September 30, 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.
10.9	Reinstatement Premium Protection Reinsurance Contract (For First Excess Cat) (Arch), effective: June 1, 2020, 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, 2020.

**EXHIBIT
NUMBER****DESCRIPTION**

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- | EXHIBIT
NUMBER | DESCRIPTION |
|---------------------------|--|
| 10.10 | <u>Reinstatement Premium Protection Reinsurance Contract (Chubb), effective: June 1, 2020, 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, 2020.</u> |
| 10.11 | <u>Property Catastrophe First Excess of Loss Reinsurance Contract, effective: June 1, 2020, 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, 2020.</u> |
| 10.12 | <u>Reinstatement Premium Protection Reinsurance Contract (For First Excess Cat), effective: June 1, 2020, 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, 2020.</u> |
| 10.13 | <u>Reinstatement Premium Protection Reinsurance Contract (For Working Layer Cat), effective: June 1, 2020, 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, 2020.</u> |
| 10.14 | <u>Property Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2020, 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, 2020.</u> |
| 10.15 | <u>Property Catastrophe First Excess of Loss Reinsurance Contract (Endurance), effective: June 1, 2020, 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, 2020.</u> |
| 10.16 | <u>Reinstatement Premium Protection Reinsurance Contract (Fidelis), effective: June 1, 2020, 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, 2020.</u> |
| 10.17 | <u>Property Catastrophe First Excess of Loss Reinsurance Contract, effective: June 1, 2020, 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, 2020.</u> |

**EXHIBIT
NUMBER****DESCRIPTION**

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- | EXHIBIT
NUMBER | DESCRIPTION |
|---------------------------|---|
| 10.18 | <u>Reinstatement Premium Protection Reinsurance Contract (For First Excess Cat) (Hiscox), effective: June 1, 2020, 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, 2020.</u> |
| 10.19 | <u>Reinstatement Premium Protection Reinsurance Contract (For Cat Excess) (Hiscox), effective: June 1, 2020, 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, 2020.</u> |
| 10.20 | <u>Reinstatement Premium Protection Reinsurance Contract (For Working Layer Cat) (Hiscox), effective: June 1, 2020, 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, 2020.</u> |
| 10.21 | <u>Reinstatement Premium Protection Reinsurance Contract (Horseshoe), effective: June 1, 2020, 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, 2020.</u> |
| 10.22 | <u>Property Catastrophe Excess of Loss Reinsurance Contract (Munich), effective: June 1, 2020, 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, 2020.</u> |
| 10.23 | <u>Reinstatement Premium Protection Reinsurance Contract (For First Excess Cat), effective: June 1, 2020, 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, 2020.</u> |
| 10.24 | <u>Reinstatement Premium Protection Reinsurance Contract, effective: June 1, 2020, 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, 2020.</u> |
| 10.25 | <u>Top Layer Property Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2020, 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, 2020.</u> |

**EXHIBIT
NUMBER****DESCRIPTION**

10.26	<u>Reinstatement Premium Protection Reinsurance Contract (Transatlantic), effective: June 1, 2020, 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, 2020.</u>
10.27	<u>Endorsement No. 1 to the Flood Catastrophe Excess of Loss Reinsurance Contract, effective: July 1, 2020, issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by National Liability and Fire Insurance Company. 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, 2020.</u>
10.28	<u>Working Layer Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2020, 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, 2020.</u>
10.29	<u>Reimbursement Contract effective June 1, 2020 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, 2020.</u>
10.30	<u>Reimbursement Contract effective June 1, 2020 between TypTap 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, 2020.</u>
10.31	<u>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.</u>
10.32	<u>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.</u>
10.33	<u>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.</u>
10.40	<u>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.</u>

**EXHIBIT
NUMBER****DESCRIPTION**

10.41	<u>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.</u>
10.42	<u>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.</u>
10.43	<u>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.</u>
10.44	<u>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.</u>
10.45	<u>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.</u>
10.46**	<u>Written Description of Non-Employee Director Compensation Arrangement adopted September 9, 2019 establishing compensation of our non-employee directors. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed November 6, 2019.</u>
10.47	<u>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.</u>
10.57	<u>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.</u>
10.58	<u>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.</u>
10.59	<u>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.</u>
10.60	<u>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.</u>

**EXHIBIT
NUMBER****DESCRIPTION**

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.
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	Inline XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL documents.
101.SCH	Inline XBRL Taxonomy Extension Schema.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

** 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.

November 6, 2020

By: /s/ Paresh Patel
Paresh Patel
Chief Executive Officer
(Principal Executive Officer)

November 6, 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.

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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.

November 6, 2020

/s/ Paresh Patel
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.

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.

November 6, 2020

/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.

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 September 30, 2020 as filed with the Securities and Exchange Commission on November 6, 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

November 6, 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.

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 September 30, 2020 as filed with the Securities and Exchange Commission on November 6, 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

November 6, 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.