

HCI Group, Inc.
Form 10-K
March 08, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2018

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	Name of Each Exchange on Which Registered
Common Shares, no par value	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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 market value of the common stock held by non-affiliates of the registrant as of June 30, 2018, computed by reference to the price at which the common stock was last sold on June 30, 2018, was \$308,240,719.

The number of shares outstanding of the registrant's common stock, no par value, on February 26, 2019 was 8,585,568.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Form 10-K is incorporated by reference from the registrant's definitive proxy statement which will be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

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PART I

ITEM 1 *Business*

General

Incorporated in 2006, HCI Group, Inc. is a Florida-based company that, through its subsidiaries is engaged in property and casualty insurance, reinsurance, real estate and information technology. References to we, our, us, the Company or HCI in this Form 10-K generally refer to HCI Group, Inc. and its subsidiaries. Our principal executive offices are located at 5300 West Cypress Street, Suite 100, Tampa, Florida 33607, and our telephone number is (813) 849-9500.

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

Insurance Operations

Property and Casualty Insurance

We sell our property and casualty insurance products through two insurance subsidiaries: Homeowners Choice Property & Casualty Insurance Company, Inc. (HCPCI) and TypTap Insurance Company (TypTap). HCPCI was incorporated and began operations in 2007. TypTap was incorporated and began operations in 2016. We provide various forms of residential insurance products such as homeowners insurance, flood insurance and wind-only insurance to homeowners, condominium owners and tenants for properties primarily located in Florida. HCPCI s and TypTap s operations are supported by HCI and the following wholly owned subsidiaries of HCI:

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Homeowners Choice Managers, Inc. a managing general agent providing marketing, underwriting, claims settlement, accounting and financial services to HCPCI;

Southern Administration, Inc. provides policy administration services to the policyholders with HCPCI;

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TypTap Management Company provides managerial and operational services to TypTap;

Griston Claim Services, Inc. currently provides claim adjusting services to HCPCI and TypTap; and

Claddaugh Casualty Insurance Company Ltd. provides reinsurance programs to HCPCI and TypTap.
(See *Reinsurance* below)

HCPCI began operations by participating in a take-out program through which we assumed insurance policies issued by Citizens Property Insurance Corporation (Citizens), a Florida state-supported insurer. The take-out program is a legislatively mandated program designed to reduce the State's risk exposure by encouraging private companies to assume policies from Citizens. Opportunities to acquire large numbers of policies from Citizens meeting our strict underwriting criteria have diminished in recent years. We may, however, selectively pursue additional assumption transactions with Citizens as opportunities arise.

HCPCI is also approved to write residential property and casualty insurance in the states of Arkansas, California, Maryland, North Carolina, New Jersey, Ohio, Pennsylvania, South Carolina and Texas. Written premium generated in these states during 2018 totaled approximately \$44,000.

Our operating and growth strategy for our property and casualty insurance business continues to focus on optimizing the existing book of business, developing and deploying new technologies to streamline operations, diversifying geographically and developing new product offerings. As part of that strategy, TypTap is expanding its homeowners insurance business in Florida.

Since we currently write policies that primarily insure homes in Florida, we cover losses that may arise from, among other things, hurricanes and other catastrophic events. The occurrence of any such catastrophes could have a significant adverse effect on our business, results of operations, and financial condition. To mitigate the risk associated with catastrophic events, we purchase reinsurance from other large insurance companies. Reinsurance is the largest cost to our property and casualty insurance business. Even without catastrophic events, we may incur losses and loss adjustment expenses that deviate substantially from our estimates and that may exceed our reserves, in which case our net income and capital would decrease. Our operating and growth strategies may also be impacted by regulation of our business by the State of Florida and other states in which we may operate. For example, insurance regulators must approve our policy forms and premium rates as well as monitor our compliance with financial and regulatory requirements. See Item 1A, Risk Factors, below.

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Competition

We operate in highly competitive markets where we face competition from national, regional and residual market insurance companies and, in the case of flood insurance, a program backed by the U.S. government. Based on September 30, 2018 annualized premiums written data produced by the Florida Office of Insurance Regulation (FLOIR) which excludes State Farm Florida Insurance Company, we are the sixth largest provider of homeowners property and casualty insurance in the state. We may also face competition from new entrants in our markets, and such entrants may create pricing pressure that could lead to overall premium reductions across the Florida market.

Our competitive strategies focus on the following key areas:

Exceptional service We are committed to maintaining superior service to our policyholders and agents.

Claims settlement practices We focus on fair and timely settlement of policyholder claims.

Disciplined underwriting We analyze exposures and utilize available underwriting data to ensure policies meet our selective criteria.

New product offerings We may cross-sell additional insurance products to our existing policyholders in order to broaden our lines of business and product mix or identify other lines of insurance to offer.

Effective and efficient use of technology We strive to add or improve technology that can effectively and efficiently enhance service to our policyholders and agents. For instance, we currently use our internally developed application, *Exzeo*[®], to increase the efficiency of our claims processing and settlement. In addition, our on-line platform for quoting and binding residential flood policies streamlines the underwriting and policy production processes.

Geographical expansion We continue to seek opportunities to expand our business within the state of Florida and into other states to increase overall geographic diversification. HCPCI was approved to write residential property and casualty insurance in the states of Arkansas, California, Maryland, North Carolina, New Jersey, Ohio, Pennsylvania, South Carolina and Texas.

Seasonality of Our Business

Our insurance business is seasonal. Hurricanes and tropical storms affecting Florida typically occur during the period from June 1 through November 30 each year. In addition, our reinsurance contracts are generally effective June 1 of each year, and 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 be reflected in our financial results beginning June 1 each year.

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Government Regulation

We are subject to the laws and regulations in any state in which we conduct our insurance business. The regulations cover all aspects of our business and are generally designed to protect the interests of insurance policyholders as opposed to the interests of shareholders. Such regulations relate to a wide variety of financial and non-financial matters including:

authorized lines of business;

capital and surplus requirements;

approval of allowable rates and forms;

approval of reinsurance contracts;

investment parameters;

underwriting limitations;

transactions with affiliates;

dividend limitations;

changes in control; and

market conduct.

Our failure to comply with certain provisions of applicable insurance laws and regulations could have a material, adverse effect on our business, results of operations or financial condition.

State Licensure and Approval

All states require licensure and regulatory approval prior to the marketing of insurance products. Typically, licensure review is comprehensive and includes a review of a company's business plan, solvency, reinsurance, rates, and forms, the character of its officers and directors and other of its financial and non-financial aspects. The regulatory authorities may prevent entry into a new market by not granting a license. In addition, regulatory authorities may preclude or delay our entry into markets by disapproving or withholding approval of our product filings.

Statutory Reporting and Examination

All insurance companies must file quarterly and annual statements with certain regulatory agencies in any state in which they are licensed to transact business and are subject to regular and special examinations by those agencies. The National Association of Insurance Commissioners mandates that all insurance companies be examined once every five years. However, the FLOIR has the authority to conduct an examination whenever it is deemed appropriate. With regard to Florida-domiciled insurance companies such as TypTap that have held a certificate of authority for less than three years, the FLOIR will conduct an examination at least once every year during the first three years of business. HCPCI's latest financial examination by the FLOIR related to the year ended December 31, 2015. TypTap's latest financial examination by the FLOIR related to the year ended December 31, 2016.

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Liability for Losses and Loss Adjustment Expenses

Our liability for losses and loss adjustment expenses represents our estimate of the total cost of (i) claims that have been incurred, but not yet paid (case reserves), (ii) losses that have been incurred but not yet reported (IBNR), and (iii) loss adjustment expenses (LAE) which are intended to cover the ultimate cost of adjusting, investigating and settling claims, including investigation and defense of lawsuits resulting from such claims. We base our estimates on various assumptions and actuarial data we believe to be reasonable under the circumstances. The process of estimating the liability is inherently subjective and is influenced by many variables such as past loss experience, current claim trends and the prevailing social, economic and legal environments.

Significant time can elapse between the occurrence of an insured loss, the reporting of the loss to us and our payment of that loss. Our liability for losses and LAE, which we believe represents the best estimate at a given point in time based on facts, circumstances and historical trends then known, may necessarily be adjusted to reflect additional facts that become available during the loss settlement period.

For a discussion and summary of the activity in the liability for losses and LAE for the years ended December 31, 2018, 2017 and 2016, see Note 16 Losses and Loss Adjustment Expenses to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Loss Development

Our liability for losses and LAE represents estimated costs ultimately required to settle all claims for a given period. The following table illustrates development of the estimated liability for losses and LAE as of December 31 for the years 2008 through 2018 (amounts in thousands):

Table of Contents**Schedule of Loss Development**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
net										
For										
d										
	\$ 14,763	\$ 19,178	\$ 22,146	\$ 27,424	\$ 41,168	\$ 43,686	\$ 48,908	\$ 51,690	\$ 70,492	\$ 97,818
ated										
s										
ter	10,879	18,399	26,776	27,309	38,712	47,344	57,807	72,229	89,199	110,286
ater	10,991	19,866	26,003	28,536	40,015	50,280	65,367	78,511	104,097	
ater	11,661	19,361	27,226	28,499	42,976	54,696	66,211	89,017		
ater	11,528	19,617	26,544	29,038	45,279	52,404	71,495			
ater	11,424	18,969	26,871	30,788	43,403	55,656				
ater	11,361	19,020	27,732	29,505	44,496					
ater	11,302	19,426	26,838	29,844						
ater	11,459	18,961	27,064							
ater	11,313	19,002								
	11,354									
ive										
ncy										
cy)	3,409	176	(4,918)	(2,420)	(3,328)	(11,970)	(22,587)	(37,327)	(33,605)	(12,468)
ive										
of										
ity										
f:										
ter	7,725	10,481	16,833	15,652	22,365	26,595	33,347	41,053	50,533	57,621
ater	9,229	15,336	20,708	21,707	31,824	38,695	49,122	61,947	80,279	
ater	10,339	17,065	23,732	25,350	37,041	45,655	58,141	77,876		
ater	10,947	17,992	25,063	26,772	40,152	49,924	66,558			
ater	11,121	18,375	25,681	28,052	42,303	53,678				
ater	11,167	18,465	26,238	29,967	43,789					
ater	11,302	18,506	26,478	29,297						
ater	11,305	18,653	26,628							
ater	11,309	18,668								
	11,309									
s	\$ 61,925	\$ 110,011	\$ 119,757	\$ 143,606	\$ 233,607	\$ 337,113	\$ 365,488	\$ 423,120	\$ 378,678	\$ 358,253

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Liability for claims and LAE	\$ 14,763	\$ 19,178	\$ 22,146	\$ 27,424	\$ 41,168	\$ 43,686	\$ 48,908	\$ 51,690	\$ 70,492	\$ 198,578
Liability for claims and LAE										(100,760)
Liability for unpaid claims and LAE	\$ 14,763	\$ 19,178	\$ 22,146	\$ 27,424	\$ 41,168	\$ 43,686	\$ 48,908	\$ 51,690	\$ 70,492	\$ 97,818

- (a) Represents management's original net estimated liability for (i) unpaid claims, (ii) IBNR, and (iii) loss adjustment expenses.
- (b) Represents the re-estimated net liabilities in later years for unpaid claims, IBNR and loss adjustment expenses for each of the respective years.
- (c) Represents the difference between the latest net re-estimate and the original net estimate. A redundancy indicates the original net estimate is higher than the current net estimate whereas a deficiency indicates the original net estimate is lower than the current net estimate.

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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.

For the years ended December 31, 2018, 2017 and 2016, revenues from insurance operations before intracompany elimination represented 95.0%, 96.2% and 95.5%, respectively, of total revenues of all operating segments. At December 31, 2018, 2017 and 2016, insurance operations total assets represented 85.9%, 87.1% and 87.9%, respectively, of the combined assets of all operating segments. See Note 17 Segment Information to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Other Operations

Real Estate

Our real estate operations consist of multiple properties we own and operate for investment purposes and also properties we own and use for our own operations.

Properties Used in Operations

Our real estate used in operations consists of our headquarters building which has a gross area of 122,000 square feet in Tampa, Florida, and our secondary insurance operations site with gross area of approximately 16,000 square feet in Ocala, Florida. At our headquarters, we lease available space to non-affiliates at various terms. The Ocala location, in addition to day-to-day operational use, serves as our alternative site in the event we experience any significant disruption at our headquarters building.

Investment Properties

Our investment properties consist of a combined 24 acres of waterfront properties that include one full-service restaurant and two marinas, three retail shopping centers, one office building, and one vacant shopping center recently acquired for redevelopment. We acquired the restaurant and marina operations in connection with our purchase of those properties and we continue to operate them to enhance the property values.

One retail shopping center with 61,400 square feet of net rentable space is located in Sorrento, Florida and is anchored by a large, well-known grocery retailer. We acquired this property in 2016. See Note 7 Business Acquisitions to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

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Another retail shopping center with 49,995 square feet of net rentable space is located in Melbourne, Florida and also anchored by a large, well-known grocery retailer. In 2016, we acquired full ownership of the property in which we had a 90% non-controlling interest from our 10% joint venture partner. This property had been developed through a limited liability company treated under U.S. GAAP as a joint venture. See *Investment in Unconsolidated Joint Venture* in Note 5 Investments to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Our portfolio of real estate investments also includes one commercial property with 68,867 square feet of net rentable space in Tampa, Florida. This property, which includes an office building fully leased to a major financial institution, was acquired in October 2017. See *Real Estate Investments* in Note 5 Investments to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

In January 2018, we acquired full ownership of one limited liability company which owns commercial real estate in Riverview, Florida. The commercial real estate includes a retail strip center with 8,400 square feet of net rentable space and a parcel of land adjacent to the retail center that is leased to a gas station and convenience store chain. See *Consolidated Variable Interest Entity* in Note 5 Investments to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K for additional information.

In June 2018 we purchased a vacant retail shopping center, with approximately 56,000 square feet of planned rentable space in Clearwater, Florida. The property is under redevelopment for a large, well known grocer, along with additional retailer space. See *Real Estate Investments* in Note 5 Investments to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Other Real Estate Investments

Melbourne FMA, LLC, our wholly owned subsidiary, has a 90% interest in a company which owns two outparcels aggregating approximately 2.1 acres for sale or ground lease. See *Investment in Unconsolidated Joint Venture* in Note 5 Investments to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K for additional information.

Information Technology

Our information technology operations include a team of experienced software developers with extensive knowledge in designing and creating web-based applications and products for mobile devices. The operations, which are located in Tampa, Florida and Noida, India, are focused on developing cloud-based, innovative products and services that support in-house operations as well as our third-party relationships with our agency partners and claim vendors. Products created thus far have been solely for internal use.

TypTap[®]

TypTap is an online website for quoting and binding residential flood policies for our subsidiary, TypTap. *TypTap* is designed to be accessible from a mobile phone or any other internet-capable device. With *TypTap*, customers can obtain a flood insurance quote in seconds and a policy in minutes.

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SAMSTM

SAMS is an online platform for supporting back-office policy and claims management for both of our insurance subsidiaries, HCPCI and TypTap. *SAMS* processes the full life cycle of a policy from policy quoting and issuance to agency management, cash receipts/disbursements, claims reserving and claim payments.

Harmony

Harmony is a new platform for both of our insurance subsidiaries, HCPCI and TypTap. *Harmony* will eventually replace both the *TypTap* and *SAMS* platforms with a single online platform for all new business. This platform provides a simplified user experience for quoting and binding, as well as back office policy management, agency management, cash receipts and disbursements, and claim payments.

CasaClueTM

CasaClue is our proprietary insurance geographical database containing residential property data.

Exzeo[®]

Exzeo is a cloud-based application available at Exzeo.com which provides a highly customizable environment to support automation and process management to high volume environments. Exzeo.com specifically supports property claim assignments, logistics, and accountability reporting with our third party partners. Exzeo.com has rich system integration through an application program interface (API), which allows hands-free data transfer from other API-capable applications such as *SAMS*.

AtlasViewerTM

AtlasViewer is our interactive cloud-based data mapping and visualization application. An industry agnostic product, *AtlasViewer* allows users to combine data from multiple sources and leverage location coordinates to make more informed business decisions. *AtlasViewer* allows system-to-system integration through an API or allows users to upload documents to view and securely share data on a customized map.

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The following table summarizes our financial performance during the years ended December 31, 2018, 2017 and 2016:

(Amounts in millions except per share amounts)	2018	2017	2016
For the year ended December 31:			
Net premium earned	\$ 213.4	\$ 224.6	\$ 243.6
Total revenue	\$ 231.3	\$ 244.4	\$ 264.4
Losses and loss adjustment expenses	\$ 109.3	\$ 165.6	\$ 124.7
Income (loss) before income taxes	\$ 26.9	\$ (15.6)	\$ 46.9
Net income (loss)	\$ 17.7	\$ (6.9)	\$ 29.0
Earnings (loss) per share:			
Basic	\$ 2.34	\$ (0.75)	\$ 2.95
Diluted	\$ 2.34	\$ (0.75)	\$ 2.92
Dividends per share	\$ 1.475	\$ 1.40	\$ 1.20
Net cash provided by operating activities	\$ 28.6	\$ 16.4	\$ 88.0
Cash dividends paid on common stock*	\$ 10.4	\$ 12.8	\$ 11.7
At December 31:			
Total investments	\$ 387.8	\$ 380.3	\$ 298.7
Cash and cash equivalents	\$ 239.5	\$ 255.9	\$ 280.5
Total assets	\$ 832.9	\$ 842.3	\$ 670.1
Total stockholders' equity	\$ 181.4	\$ 194.0	\$ 243.7
Common shares outstanding (in millions)	8.4	8.8	9.7

* Net of cash dividends received under share repurchase forward contract

Environmental Matters

As a property owner, we are subject to regulations under various federal, state, and local laws concerning the environment, including laws addressing the discharge of pollutants into the air and water and the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites.

Cybersecurity

We rely on digital technology to conduct our businesses and interact with customers, policyholders, agents, and vendors. With this reliance on technology comes the associated security risks from using today's communication technology and networks.

To defend our computer systems from cyber-attacks, we utilize tools such as firewalls, anti-malware software, multifactor authentication, e-mail security services, virtual private networks, third party security experts, and timely applied software patches, among others. We engage third-party consultants to conduct penetration tests to identify potential security vulnerabilities. Although we believe our defenses against cyber-intrusions are sufficient, we

continually monitor our computer networks for new types of threats.

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Employees

As of February 23, 2019, we employed a total of 387 full-time individuals. In addition, we leased 78 employees through an employee leasing agency.

Available Information

We file annual, quarterly, and current reports with the U.S. Securities and Exchange Commission (SEC). These filings are accessible free of charge on our website, www.hcigroup.com (click SEC filings at the Investor Information tab), as soon as reasonably practicable after they have been electronically filed with or furnished to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, which can be accessed via the SEC s website at www.sec.gov. In addition, these filings are accessible at the SEC s Public Reference Room, which is located at 100 F Street, NE, Washington, DC 20549-0213. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

ITEM 1A Risk Factors

Our business is subject to a number of risks, including those described below, which could have a material effect on our results of operations, financial condition or liquidity and could cause our operating results to vary significantly from period to period.

Our historical revenue growth was derived primarily through policy assumptions and acquisitions. We cannot guarantee that future policy assumptions and acquisitions will be available to the extent they have in the past.

Substantially all of our historical revenue has been generated from policies assumed from Citizens, our acquisition of policies from one Florida insurance company and subsequent renewals of these policies. Our ability to grow our premium base may depend upon the availability of future policy assumptions and acquisitions upon acceptable terms. Opportunities to acquire large numbers of policies from Citizens meeting our strict underwriting criteria have diminished in recent years. We cannot provide assurance that such opportunities will arise in the future.

Although we began selling insurance products in other states, our insurance business is primarily in Florida. Thus, any catastrophic event or other condition affecting losses in Florida could adversely affect our financial condition and results of operations.

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Any catastrophic event, a destructive weather pattern, a general economic trend, regulatory developments or other conditions specifically affecting the state of Florida could have a disproportionately adverse impact on our business, financial condition, and results of operations. While we actively manage our exposure to catastrophic events through our underwriting process and the purchase of reinsurance, the fact that our business is concentrated in the state of Florida subjects it to increased exposure to certain catastrophic events and destructive weather patterns such as hurricanes, tropical storms, and tornados. Changes in the prevailing regulatory, legal, economic, political, demographic and competitive environment, and other conditions in the state of Florida could also make it less attractive for us to do business in Florida and would have a more pronounced effect on our business than it would on other insurance companies that are geographically diversified. Since our business is concentrated in this manner, the occurrence of one or more catastrophic events or other conditions affecting losses in the state of Florida could have an adverse effect on our business, financial condition, and/or results of operations.

Changing climate conditions could have an adverse impact on our business, results of operations or financial condition.

There is an emerging scientific consensus on climate change, which may affect the frequency and severity of storms and other weather events, and negatively affect our business, results of operations, and/or financial condition.

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

The insurance industry historically has been cyclical, characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favorable underwriting profits. As premium levels increase, there may be new entrants to the market, which could subsequently lead to a decrease in premium levels. Any of these factors could lead to a significant reduction in premium rates in future periods, less favorable policy terms and fewer opportunities to underwrite insurance risks, which could have a material, adverse effect on our results of operations and cash flows. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance business significantly.

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

Our business could be harmed if we lose the services of our key personnel.

Our operations are highly dependent on the efforts of our senior executive officers, particularly our chief executive officer, Paresh Patel, as well as our chief financial officer, Mark Harmsworth, and the President of our Real Estate Division, Anthony Saravanos. The loss of their leadership, industry knowledge and experience could negatively impact our operations. However, we have management succession plans to lessen any such negative impact. Apart from Mr. Patel and Mr. Harmsworth, we have no employment agreements with any of our personnel nor do we offer any guarantee of any employee's ongoing service. We maintain key-man life insurance on Mr. Patel although such policy may be insufficient to cover the damage resulting from the loss of Mr. Patel's services.

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Our information technology systems may fail or be disrupted, which could adversely affect our business.

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

The growth of our insurance business is dependent upon the successful development and implementation of advanced computer and data processing systems as well as the development and deployment of new information technologies to streamline our operations, including policy underwriting, production and administration and claim handling. The failure of these systems to function as planned could slow our growth and adversely affect our future business volume and results of operations.

We conduct our business primarily from offices located in Tampa, Florida where tropical storms could damage our facilities or interrupt our power supply. The loss or significant impairment of functionality in these facilities for any reason could have a material, adverse effect on our business although we believe we have sufficient redundancies to replace our facilities if functionality is impaired. We contract with a third-party vendor to maintain complete daily backups of our systems, which are stored at the vendor's facility in Atlanta, Georgia. We additionally use industry leading Internet cloud infrastructure providers to host some of our data processing systems. These cloud providers ensure redundancy across geographic regions with additional daily system backups. Access to these databases and hosted environments is strictly controlled and limited to authorized personnel. In the event of a disaster causing a complete loss of functionality at our Tampa location, we plan to temporarily use our secondary office in Ocala, Florida to continue our operations.

An unauthorized disclosure or loss of policyholder or employee information or other sensitive or confidential information, including by cyber-attack or other security breach, could cause a loss of data, give rise to remediation or other expenses, expose us to liability under federal and state laws, and subject us to litigation and investigations, which could have an adverse effect on our business, cash flows, financial condition and results of operations.

As part of our normal operations, we collect, process and retain certain sensitive and confidential information. We are subject to various federal and state privacy laws and rules regarding the use and disclosure of certain sensitive or confidential information, including the Gramm-Leach-Bliley Act and its state-law progeny. Despite the security measures we have implemented to help ensure data security and compliance with applicable laws and rules, which include firewalls, regular penetration testing and other measures, our facilities and systems, and those of our third-party service providers and vendors, may be vulnerable to cyber-attacks, security breaches, acts of vandalism, computer viruses, theft of data, misplaced or lost data, programming and human errors, physical break-ins, or other disruptions. In addition, we cannot ensure that we will be able to identify, prevent or contain the effects of possible cyber-attacks or other cybersecurity risks in the future that may bypass our security measures or disrupt our information technology systems or business.

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Noncompliance with any privacy or security laws and regulations, or any security breach, cyber-attack or cybersecurity breach, and any incident involving the misappropriation, loss or other unauthorized disclosure or use of, or access to, sensitive or confidential member information, could require us to expend significant capital and other resources to continue to modify or enhance our protective measures and to remediate any damage caused by such breaches. In addition, this could result in interruptions to our operations and damage to our reputation, and misappropriation of confidential information could also result in regulatory enforcement actions, material fines and penalties, litigation or other liability or actions which could have a material adverse effect on our business, cash flows, financial condition and results of operations. As the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs.

We rely on service providers and vendors to provide certain technology, systems and services that we use in connection with various functions of our business, including PCI DSS (Payment Card Industry Data Security Standard) compliant credit card processing, and we may entrust them with confidential information. The information systems of our third-party service providers and vendors are also vulnerable to an increasing threat of continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to these systems or our information through fraud or other means of deceiving our associates, third-party service providers or vendors. Hardware, software or applications we obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are also constantly changing and evolving and may be difficult to anticipate or detect for long periods of time. Ever-evolving threats mean our third-party service providers and vendors must continually evaluate and adapt their own respective systems and processes, and there is no assurance that they will be adequate to safeguard against all data security breaches or misuses of data. Any future significant compromise or breach of our data security via a third-party service provider or vendor could result in additional significant costs, lost revenues, fines, lawsuits, and damage to our reputation.

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

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

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Our ability to compete in the property and casualty insurance industry and our ability to expand our business may be negatively affected by the fact that we are not a long-established company. HCPCI and TypTap have each obtained a Demotech rating of A Exceptional, which is accepted by major mortgage companies operating in the state of Florida and many other states. Mortgage companies may require homeowners to obtain property insurance from an insurance company with an acceptable A.M. Best rating, which we do not currently have. Such a requirement could prevent us from expanding our business unless we obtain such rating, which may in turn limit our ability to compete with large, national insurance companies and certain regional insurance companies. A downgrade or loss of our Demotech rating could result in a substantial loss of business in the event insureds move their business to insurers with a sufficient financial strength rating.

There are inherent limitations and risks related to our projections and our estimates of claims and loss reserves. If our actual losses exceed our loss reserves, our financial results, our ability to expand our business, and our ability to compete in the property and casualty insurance industry may be negatively affected. In addition, industry developments could further increase competition in our industry. These developments could include

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

new programs or changes to existing programs in which federally or state-sponsored entities provide property insurance in catastrophe-prone areas or other alternative markets;

changes in Florida's or any other states' regulatory climate; and

the enactment of federal proposals for an optional federal charter that would allow some competing insurers to operate under regulations different or less stringent than those applicable to our insurance subsidiaries.

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

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

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

Our objective is to establish loss reserves that are adequate and represent management's best estimate of the ultimate cost to investigate and settle a specific claim. However, the process of establishing adequate reserves is complex and inherently uncertain, and the ultimate cost of a claim may vary materially from the amounts reserved. We regularly monitor and evaluate loss and loss adjustment expense reserve development to determine reserve adequacy.

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

Our failure to pay claims accurately could adversely affect our insurance business, financial results and capital requirements.

We rely on our claims personnel to accurately evaluate and pay the claims made under our policies. Many factors could affect our ability to accurately evaluate and pay claims, including the accuracy of our external independent adjusters as they make their assessments and submit their estimates of damages; the training, background, and experience of our claims representatives; the ability of our claims personnel to ensure consistent claims handling given the input by our external independent adjusters; the ability of our claims department to translate the information provided by our external independent adjusters into acceptable claims settlements; and the ability of our claims personnel to maintain and update our claims handling procedures and systems as they evolve over time based on claims and geographical trends in claims reporting. Any failure to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our corporate image and negatively affect our financial results.

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

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

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

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

HCI Group, Inc. depends on the ability of its subsidiaries to generate and transfer funds to meet its debt obligations.

HCI Group, Inc. does not have significant revenue generating operations of its own. Our ability to make scheduled payments on our debt obligations depends on the financial condition and operating performance of our subsidiaries. If the funds we receive from our subsidiaries, some of which are subject to regulatory restrictions on the payment of distributions, are insufficient to meet our debt obligations, we may be required to raise funds through the issuance of additional debt or equity securities, reduce or suspend dividend payments, or sell assets.

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

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that our present capital is insufficient to meet future operating requirements or to cover losses, we may need to raise additional funds through financings or curtail our growth. Based on our current operating plan, we believe current capital together with our anticipated retained income will support our operations. However, we cannot provide any assurance in that regard, since many factors will affect our capital needs and their amount and timing, including our growth and profitability, and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions and other unforeseeable developments. If we require additional capital, it is possible that equity or debt financing may not be available at all or may be available only on terms unfavorable to us. Equity financings could result in dilution to our shareholders, and in any case such securities may have rights, preferences and privileges that are senior to those of existing shareholders. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition or results of operations could be materially affected.

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There may be limited markets for and restrictions on certain holdings in our investment portfolio.

Certain holdings in our investment portfolio include limited partnership interests and a real estate joint venture. We may increase our holdings in these types of investments as we pursue diversification. These investments may be illiquid in the near term as they are privately placed and are subject to certain restrictions or conditions that may limit our ability to immediately dispose of the investments. If it becomes necessary to sell any of these investments at a time when the fair market value is below our carrying value, we may incur significant losses which could have a material adverse effect on our net income and financial position.

Our financial results may be negatively affected by the fact that a portion of our income is generated by the investment of our available cash.

A portion of our income is, and likely will continue to be, generated by the investment of our available cash. The amount of income so generated is a function of our investment policy, available investment opportunities, and the amount of available cash invested. We may alter our investment policy to accept higher levels of risk with the expectation of higher returns. Fluctuating interest rates and other economic factors make it difficult to estimate accurately the amount of investment income that will be realized. In fact, we have realized and may in the future realize losses on sales of our investments as well as other-than-temporary losses on our investment holdings. Any unfavorable change to the fair value of our equity securities will also impact our financial results.

Reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all and we risk non-collectability of reinsurance amounts due us from reinsurers with which we have contracted.

Reinsurance is a method of transferring part of an insurance company's liability under an insurance policy to another insurance company, or reinsurer. We use reinsurance arrangements to limit and manage the amount of risk we retain, to stabilize our underwriting results and to increase our underwriting capacity. The cost of such reinsurance is subject to prevailing market conditions beyond our control, such as the amount of capital in the reinsurance market and the occurrence of natural and man-made catastrophes. We cannot be assured that reinsurance will remain continuously available to us in the amounts we consider sufficient and at prices acceptable to us. As a result, we may determine to increase the amount of risk we retain or look for other alternatives to reinsurance, which could in turn have a material, adverse effect on our financial position, results of operations and cash flows.

With respect to the reinsurance contracts we currently have in effect, our ability to recover amounts due from reinsurers is subject to such reinsurers' ability and willingness to pay and to meet their obligations to us. We attempt to select financially strong reinsurers with an A.M. Best rating of A- or better or we require the reinsurer to fully collateralize its exposure. While we monitor from time to time the financial condition of our reinsurers, we rely principally on A.M. Best, our reinsurance broker, and other rating agencies in determining their ability to meet their obligations to us. Any failure on the part of any one reinsurance company to meet its obligations to us could have a material, adverse effect on our financial condition or results of operations.

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

We write insurance policies that cover homeowners, condominium owners, and tenants for losses that result from, among other things, catastrophes. We are therefore subject to losses, including claims under policies we have written, arising out of catastrophes that may have a significant effect on our business, results of operations, and financial condition. A significant catastrophe could also have an adverse effect on our reinsurers. Catastrophes can be caused by various events, including hurricanes, tropical storms, tornadoes, windstorms, earthquakes, hailstorms, explosions, power outages, fires and man-made events. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Our policyholders are currently concentrated in Florida, which is especially subject to adverse weather conditions such as hurricanes and tropical storms. Therefore, although we attempt to manage our exposure to catastrophes through our underwriting process and the purchase of reinsurance protection, an especially severe catastrophe or series of catastrophes could exceed our reinsurance protection and may have a material, adverse impact on our results of operations and financial condition.

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

Loss severity in the property and casualty insurance industry may increase and may be driven by larger court judgments. In the event legal actions and proceedings are brought on behalf of classes of complainants, this may increase the size of judgments. The propensity of policyholders and third party claimants to litigate and the willingness of courts to expand causes of loss and the size of awards may render our loss reserves inadequate for current and future losses.

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

We utilize a number of strategies to mitigate risk exposure within our insurance business, which include:

engaging in vigorous underwriting;

carefully evaluating terms and conditions of our policies;

focusing on our risk aggregations by geographic zones and other bases; and

ceding insurance risk to reinsurance companies.

However, there are inherent limitations in these tactics. We cannot provide assurance that an unanticipated event or series of events will not result in loss levels which could have a material, adverse effect on our financial condition or results of operations.

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

Our insurance underwriting process is generally designed to limit our exposure to known and manageable risks. Various provisions of our policies, such as limitations or exclusions from coverage, which have been negotiated to limit our risks, may not be enforceable in the manner we intend.

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

Now and in the future, we may rely on independent agents to write our insurance policies, and if we are not able to contract with and retain independent agents, our revenues would be negatively affected.

Although voluntary policies comprise a small percentage of our business, we expect to increase the number of voluntary policies (policies not assumed or acquired from another company) we write as our business and product lines expand. An inability to sell our products through independent agents would negatively affect our revenues.

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

Our growth may depend on the success of our residential flood offering.

Currently we offer residential flood insurance solely in Florida. We plan to expand our flood insurance business to other states and eventually establish ourselves as a leading alternative to the National Flood Insurance Program, administered by the Federal Emergency Management Agency.

We entered the residential flood market based upon our own analysis that in certain states and regions, with selective underwriting, we could profitably compete with the National Flood Insurance Program on the basis of lower rates. We are one of only a few private entrants into the flood insurance market. There is relatively little actuarial or historical data available relating to flood events. We have our own sophisticated underwriting algorithms for accepting flood insurance applications. Our algorithms, however, are untested.

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There can be no assurance that future laws and regulations relating to flood insurance will not materially and adversely impact our ability to profitably compete in the residential flood market. Further there can be no assurance that our original analysis regarding residential flood insurance and its risks and costs will be proven correct over time or that our algorithms will deliver the anticipated underwriting results.

Our flood insurance offering features an on-line platform for quoting and binding residential flood policies that is designed to be quick and easy to use and accessible by any Internet capable device, such as a mobile phone. We have only recently begun to explore and develop methods to market our flood insurance and on-line platform. Since the federal flood program has dominated the flood insurance market for over 40 years, the market for private flood insurance is relatively new. There can be no assurance that our marketing efforts will be successful in producing substantial numbers of flood insurance policies for us or that prospective insureds will be receptive to our flood insurance or our on-line platform.

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

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

the availability of sufficient reliable data;

the uncertainties that inherently characterize estimates and assumptions;

our selection and application of appropriate rating and pricing techniques;

changes in legal standards, claim settlement practices, and restoration costs; and

legislatively imposed consumer initiatives.

In addition, we could underprice risks, which would negatively affect our profit margins. We could also overprice risks, which could reduce our retention, sales volume and competitiveness. The foregoing factors could materially and adversely affect our profitability.

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Use of current operating resources may be necessary to develop future new insurance products.

We may expand our product offerings by underwriting additional insurance products and programs. Expansion of our product offerings will result in increases in expenses due to additional costs incurred in actuarial rate justifications, software and personnel. Offering additional insurance products will also require regulatory approval, further increasing our costs and potentially affecting the speed with which we will be able to pursue new market opportunities. Claddaugh may offer reinsurance products to unaffiliated insurance companies. We cannot assure you that we will be successful bringing new insurance products to markets.

Use of current operating resources may be necessary to expand our insurance business geographically.

We are expanding our homeowners insurance business in other states. Geographic expansion of our insurance business will result in increases in expenses due to additional costs incurred in actuarial rate justifications, software, personnel and regulatory compliance. Although we plan to enter other states judiciously with attention to profitability, we cannot assure you that our entry into other states will be successful.

As an insurance holding company, we are currently subject to state regulation and in the future may become subject to federal regulation.

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

Insurance holding company regulations generally provide that transactions between an insurance company and its affiliates must be fair and equitable, allocated between the parties in accordance with customary accounting practices, and fully disclosed in the records of the respective parties. Many types of transactions between an insurance company and its affiliates, such as transfers of assets among such affiliated companies, certain dividend payments from insurance subsidiaries and certain material transactions between companies within the system may be subject to prior approval by, or prior notice to, state regulatory authorities. If we are unable to obtain the requisite prior approval for a specific transaction, we would be precluded from taking the action, which could adversely affect our operations. In addition, state insurance regulations also frequently impose notice or approval requirements for the acquisition of specified levels of ownership in the insurance company or insurance holding company.

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HCPCI is approved as an admitted carrier in the states of Arkansas, California, Florida, Maryland, North Carolina, New Jersey, Ohio, Pennsylvania, South Carolina and Texas. TypTap is approved as an admitted carrier in Florida only. In addition, HCPCI is approved as a non-admitted carrier in Virginia. We may in the future seek authorization to transact business in other states as well. We will therefore become subject to the laws and regulatory requirements of those states. These regulations may vary from state to state, and states occasionally may have conflicting regulations. Currently, the federal government's role in regulating or dictating the policies of insurance companies is limited. However, Congress, from time to time, considers proposals that would increase the role of the federal government in insurance regulation, either in addition to or in lieu of state regulation. The impact of any future federal insurance regulation on our insurance operations is unclear and may adversely impact our business or competitive position.

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

The insurance industry is highly regulated and supervised. Our insurance subsidiaries are subject to the supervision and regulation of the states in which they are domiciled and the states in which they transact insurance business. Such supervision and regulation is primarily designed to protect our policyholders rather than our shareholders. These regulations are generally administered by a department of insurance in each state and relate to, among other things

the content and timing of required notices and other policyholder information;

the amount of premiums the insurer may write in relation to its surplus;

the amount and nature of reinsurance a company is required to purchase;

participation in guaranty funds and other statutorily created markets or organizations;

business operations and claims practices;

approval of policy forms and premium rates;

standards of solvency, including risk-based capital measurements;

licensing of insurers and their products;

restrictions on the nature, quality and concentration of investments;

restrictions on the ability of insurance company subsidiaries to pay dividends to their holding companies;

restrictions on transactions between insurance companies and their affiliates;

restrictions on the size of risks insurable under a single policy;

requiring deposits for the benefit of policyholders;

requiring certain methods of accounting;

periodic examinations of our operations and finances;

the form and content of records of financial condition required to be filed; and

the level of reserves.

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

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In certain states including Florida, insurance companies are subject to assessments levied by the states where they conduct their business. While we can recover these assessments from Florida policyholders through policy surcharges, our payment of the assessments and our recoveries may not offset each other in the same reporting period in our financial statements and may cause a material, adverse effect on our cash flows and results of operations in a particular reporting period.

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

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

Our revenue from real estate investments may be affected by the success and economic viability of our anchor retail tenants. Our reliance on a single or significant tenant at certain properties may impact our ability to lease vacated space and adversely affect returns on the specific property.

At certain retail centers, we may have tenants, commonly referred to as anchor tenants, occupying all or a large portion of the gross leasable space. In the event an anchor tenant becomes insolvent, suffers a downturn in business, ceases its operations at the retail center, or otherwise determines not to renew its lease, any reduction or cessation of rental payments to us could adversely affect the returns on our real estate investments. A lease termination or cessation of operations by an anchor tenant could also lead to the loss of other tenants at the specific retail location. We may then incur additional expenses to make improvements and prepare the vacated space to be leased to one or more new tenants.

Similarly, the leases of some anchor tenants may permit the anchor tenant to transfer its lease to another retailer. The transfer to a new anchor tenant could cause customer traffic in the retail center to decrease and thereby reduce the income generated by that retail center. A lease transfer to a new anchor tenant could also allow other tenants to make reduced rental payments or to terminate their leases.

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Our retail and other real estate properties may be subject to impairment charges which can adversely affect our financial results.

We periodically evaluate our long-lived assets and related intangible assets to determine if there has been any impairment in their carrying values. If we determine an impairment has occurred, we are required to record an impairment charge equal to the excess of the asset's carrying value over its estimated fair value. As our real estate operations grow, there is an increased potential that the impairment of an asset could have a material adverse effect on our financial results. In addition, our fair value estimates are based on several assumptions that are subject to economic and market uncertainties including, but not limited to, demand for space, competition for tenants, changes in market rental rates and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter our assumptions, the future cash flows estimated in our impairment analysis may not be achieved.

Our real estate operations are subject to regulation under various federal, state, and local laws concerning the environment.

Our real estate operations own various properties including a restaurant, marina facilities, and commercial buildings. As a result, we are subject to regulation under various federal, state, and local laws concerning the environment, including laws addressing the discharge of pollutants into the air and water and the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. We could incur substantial costs, including remediation costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws relating to our real estate operations.

Our real estate operations include owning restaurant operations, which expose us to additional risks, which could negatively impact our operating results and financial condition.

Our restaurant operations expose us to unique business risks. For example, restaurant operations are dependent in large part on food, beverage, and supply costs that are not within our control. In addition, the restaurant industry is affected by changes in consumer preferences and discretionary spending patterns that could adversely affect revenues from restaurant operations. Moreover, the restaurant industry is affected by litigation and publicity concerning food quality, health, alcoholic beverages and other issues which can cause guests to avoid restaurants and that can result in liabilities. Any one of these risks, among others, could negatively impact our operating results and financial condition.

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Our operations in India expose us to additional risks, which could negatively impact our business, operating results, and financial condition.

Our India operations expose us to additional risks including income tax risks, currency exchange rate fluctuations and risks related to other challenges caused by distance, language, and compliance with Indian labor laws and other complex foreign and U.S. laws and regulations that apply to our India operations. These numerous and sometimes conflicting laws and regulations include anti-corruption laws, such as the Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, among others. Violations of these laws and regulations could result in fines and penalties, or criminal sanctions against us, our officers, or our employees. Although policies and procedures are designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

Our ongoing investments in real estate and information technology businesses have inherent risks, and could burden our financial and human resources.

We have invested and expect to continue to invest in real estate and information technology. Despite our due diligence, these investments may still involve significant risks and uncertainties, including distraction of management and employees from current operations, insufficient revenues to offset liabilities assumed and incurred expenses, inadequate return of capital, and failure to realize the anticipated benefits. There can be no assurance that such investments will be successful and will not adversely affect our financial condition and operating results.

ITEM 1B *Unresolved Staff Comments*

Not applicable.

ITEM 2 *Properties*

Real Estate Owned and Used in Operations

Tampa, Florida. The real estate consists of 3.5 acres of land, a three-story building with a gross area of 122,000 square feet, and a four-level parking garage. This facility is 60% occupied by us and serves as our headquarters. The remaining space is leased to non-affiliates.

Ocala, Florida. The real estate consists of 1.6 acres of land and an office building with gross area of approximately 16,000 square feet. The facility is 100% designated for our insurance operations and will be used as an alternative location in the event a catastrophic event impacts our operations in Tampa, Florida.

Investment Real Estate

Treasure Island, Florida. The real estate consists of approximately 10 acres of waterfront property and land improvements, a restaurant and a marina facility. The marina facility and the restaurant are currently owned and operated by us. In November 2018, this property was listed for sale.

Tierra Verde, Florida. The real estate consists of 7.1 acres of waterfront property, a dry rack storage building with gross area of 57,500 square feet, and two buildings with retail space having an aggregate gross area of approximately 23,000 square feet. This marina facility is owned and operated by us. Approximately 5% of the available retail space

is occupied by us, 65% of the retail space is leased to non-affiliates, and the remaining space is available for lease.

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Riverview, Florida. The real estate consists of 2.57 acres of land, 1.27 acres of which is leased to a gas station and convenience store chain. Our retail structure with 8,400 square feet of net rentable space is situated on the remaining land. Approximately 88% of the rentable space is leased to non-affiliates and the remaining space is available for lease.

Sorrento, Florida. The real estate includes 5.42 acres of outparcel land intended for ground lease or resale and a retail shopping center with 61,400 square feet of net rentable area. Approximately 74% of the rentable space is currently leased to a large, well-known grocery retailer. Approximately 94% of the rentable space is leased to non-affiliates and the remaining space is available for lease.

Melbourne, Florida. The real estate includes 2.26 acres of outparcel land intended for ground lease, resale or future development and a retail shopping center with 49,995 square feet of rentable area. Approximately 42% of the rentable space is currently leased to a large well-known grocery retailer. Approximately 95% of the rentable space is leased to non-affiliates and the remaining space is available for lease.

Tampa, Florida. The real estate consists of 7.86 acres of land and an office building with gross area of 68,867 square feet. The building is 100% leased to a non-affiliated financial institution.

Clearwater, Florida. The real estate consists of 5.33 acres of land and a vacant building with approximately 56,000 square feet of rentable space under redevelopment. Approximately 50% of the building is preleased to a large, well known grocery retailer and the remaining space will be available for multiple retailers.

Leased Property

Noida, India. We lease 15,000 square feet of office space for our information technology operations. The lease commenced in 2013 and has an initial term of nine years.

Miami Lakes, Florida. We lease approximately 5,565 square feet of office space for our claims related administration. The lease commenced March 1, 2018 and has an initial term of approximately three years.

Rental expense under all facility leases was \$407,000, \$336,000 and \$333,000 during the years ended December 31, 2018, 2017 and 2016, respectively.

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ITEM 3 *Legal Proceedings*

We are 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 asserted against us, we do not believe that any currently pending legal proceeding to which we are a party will have a material, adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 4 *Mine Safety Disclosures*

Not applicable.

Table of Contents**PART II****ITEM 5 *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*****Markets for Common Stock**

Our common stock trades on the New York Stock Exchange under the symbol HCI. The following table represents the high and low sales prices for our common stock as reported by the New York Stock Exchange for the periods indicated:

	Common Stock Price	
	High	Low
<u>Calendar Quarter 2018</u>		
First Quarter	\$ 42.80	29.88
Second Quarter	\$ 44.25	37.04
Third Quarter	\$ 43.80	38.66
Fourth Quarter	\$ 59.32	41.76
<u>Calendar Quarter 2017</u>		
First Quarter	\$ 50.93	38.49
Second Quarter	\$ 49.25	43.10
Third Quarter	\$ 49.12	27.11
Fourth Quarter	\$ 39.69	28.70

Holders

As of February 26, 2019, the market price for our common stock was \$46.26 and there were 234 holders of record of our common stock.

Table of Contents**Dividends**

The declaration and payment of dividends is at the discretion of our board of directors. Our ability to pay dividends depends on many factors, including the Company's operating results, financial condition, capital requirements, the availability of cash from our subsidiaries and legal and regulatory constraints and requirements on the payment of dividends and such other factors as our board of directors deems relevant. The following table represents the frequency and amount of all cash dividends declared on our common stock for the two most recent fiscal years:

Declaration Date	Payment Date	Date of Record	Per Share Amount
10/18/2018	12/21/2018	11/16/2018	\$ 0.375
7/6/2018	9/21/2018	8/17/2018	\$ 0.375
4/16/2018	6/15/2018	5/18/2018	\$ 0.375
1/15/2018	3/16/2018	2/16/2018	\$ 0.35
10/19/2017	12/15/2017	11/17/2017	\$ 0.35
7/6/2017	9/15/2017	8/18/2017	\$ 0.35
4/17/2017	6/16/2017	5/19/2017	\$ 0.35
1/16/2017	3/17/2017	2/17/2017	\$ 0.35

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its stockholders unless certain requirements, which are discussed in Note 25 Regulatory Requirements and Restrictions to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K, are met. Hence Florida law may limit the availability of cash from our insurance subsidiaries for the payment of dividends to our shareholders.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plans as of December 31, 2018. We currently have no equity compensation plans not approved by our stockholders.

Plan Category	(a) Number of Securities To be Issued Upon Exercise of Outstanding Options	(b) Weighted-Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Stockholders	240,000	\$37.19	1,752,432

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Performance Graph

The following graph compares the 5-year cumulative total dollar return to shareholders on our common stock relative to the cumulative total returns of the Russell 2000 Index and the NASDAQ Insurance Index. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each index on December 31, 2013 and its relative performance is tracked through December 31, 2018. The returns shown are based on historical results and are not intended to suggest future performance.

Table of Contents**Recent Sales of Unregistered Securities**

None

Issuer Purchases of Equity Securities

The table below summarizes the number of shares of common stock repurchased during the three months ended December 31, 2018 under the repurchase plan approved by our Board of Directors in December 2017 and also the number of shares of common stock surrendered by employees to satisfy minimum federal income tax liabilities associated with the vesting of restricted shares in December 2018 (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	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs
October 31, 2018	3,338	\$ 44.48	3,338	\$
November 30, 2018				\$
December 31, 2018	3,935	\$ 53.39		\$
	7,273	\$ 49.30	3,338	

In December 2018, our Board of Directors approved a one-year plan to repurchase up to \$20 million of our common shares during 2019. The approved amounts in each year exclude brokerage fees. See Note 20 Stockholders Equity to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Table of Contents**ITEM 6 Selected Financial Data**

The following selected consolidated financial data should be read in conjunction with Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2018, 2017, and 2016 and the consolidated balance sheet data at December 31, 2018 and 2017 are derived from our audited consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2015 and 2014, and the consolidated balance sheet data at December 31, 2016, 2015, and 2014, are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

	As of or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollar amounts in thousands, except per share amounts)				
Operating Revenue					
Gross premiums earned	\$ 343,065	\$ 358,253	\$ 378,678	\$ 423,120	\$ 365,488
Premiums ceded	(129,643)	(133,635)	(135,051)	(140,614)	(113,423)
Net premiums earned	213,422	224,618	243,627	282,506	252,065
Net investment income	16,581	11,439	9,087	3,978	4,888
Net realized investment gains (losses)	6,183	4,346	2,601	(608)	4,735
Net unrealized investment (losses) gains	(10,202)	92			
Net other-than-temporary impairment losses recognized in income:					
Total other-than-temporary impairment losses	(80)	(1,116)	(2,252)	(5,275)	(107)
Portion of loss recognized in other comprehensive income, before taxes		(351)	(230)	594	
Net other-than-temporary impairment losses	(80)	(1,467)	(2,482)	(4,681)	(107)
Policy fee income	3,389	3,622	3,914	3,496	2,820
Gain on repurchases of convertible senior notes			153		
Gain on bargain purchase			2,071		
Gain on remeasurement of previously held interest			4,005		
Other income	1,999	1,756	1,470	1,261	1,707
Total operating revenue	231,292	244,406	264,446	285,952	266,108
Operating Expenses					
Losses and loss adjustment expenses	109,328	165,629	124,667	87,224	79,468
Policy acquisition and other underwriting expenses	38,943	39,663	42,642	41,984	37,952
General and administrative personnel expenses*	25,908	25,127	26,200	28,276	26,960
Interest expense	18,096	16,767	11,079	10,754	10,453

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Loss on repurchases of senior notes		743			
Impairment losses		38		388	
Other operating expenses	12,115	12,063	12,614	11,522	10,313
Total operating expenses	204,390	260,030	217,590	179,760	165,146
Income (loss) before income taxes	26,902	(15,624)	46,856	106,192	100,962
Income tax expense (benefit)	9,177	(8,731)	17,835	40,331	38,298
Net income (loss)	\$ 17,725	\$ (6,893)	\$ 29,021	\$ 65,861	\$ 62,664
Preferred stock dividends					4
Income (loss) available to common stockholders	\$ 17,725	\$ (6,893)	\$ 29,021	\$ 65,861	\$ 62,668

* For the years ended December 31, 2016, 2015, and 2014, we reclassified certain payroll-related costs such as share-based compensation expense, payroll taxes and employee benefits previously reported in other operating expenses to general and administrative personnel expenses to conform with our 2018 and 2017 presentation.

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	As of or for the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollar amounts in thousands, except per share amounts)				
Per Share Data:					
Basic earnings (loss) per common share	\$ 2.34	\$ (0.75)	\$ 2.95	\$ 6.51	\$ 5.90
Diluted earnings (loss) per common share	\$ 2.34	\$ (0.75)	\$ 2.92	\$ 5.90	\$ 5.36
Dividends per common share	\$ 1.475	\$ 1.40	\$ 1.20	\$ 1.20	\$ 1.10
Ratios to Net Premium Earned:					
Loss Ratio	51.23%	73.74%	51.17%	30.88%	31.53%
Expense Ratio	44.54%	42.03%	38.14%	32.76%	33.99%
Combined Ratio	95.77%	115.77%	89.31%	63.64%	65.52%
Ratios to Gross Premiums Earned:					
Loss Ratio	31.87%	46.23%	32.92%	20.61%	21.74%
Expense Ratio	27.71%	26.35%	24.54%	21.87%	23.45%
Combined Ratio	59.58%	72.58%	57.46%	42.48%	45.19%
Consolidated Balance Sheet Data:					
Total investments	\$ 387,783	\$ 380,286	\$ 298,734	\$ 232,917	\$ 168,799
Total cash and cash equivalents	\$ 239,458	\$ 255,884	\$ 280,531	\$ 267,738	\$ 314,416
Total assets	\$ 832,863	\$ 842,264	\$ 670,064	\$ 636,986	\$ 598,557
Long-term debt	\$ 250,150	\$ 237,835	\$ 138,863	\$ 129,429	\$ 125,886
Total stockholders' equity	\$ 181,441	\$ 193,975	\$ 243,746	\$ 237,722	\$ 182,585

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ITEM 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report on Form 10-K.

Forward-Looking Statements

In addition to historical information, this annual report on Form 10-K contains forward-looking statements as defined under federal securities laws. Such statements, including statements about our plans, objectives, expectations, assumptions or future events, involve risks and uncertainties. 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 effect 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; and other risks and uncertainties and other factors listed under Item 1A Risk Factors and elsewhere in this annual report on Form 10-K and in our other Securities and Exchange Commission filings.

OVERVIEW

General

HCI Group, Inc. is a Florida-based company which through its subsidiaries is engaged in a variety of business activities, including property and casualty insurance, reinsurance, real estate and information technology. Its principal business is property and casualty insurance.

We began insurance operations in 2007 by participating in a take-out program which is a legislatively mandated program designed to encourage private companies to assume policies from Citizens, a Florida state sponsored insurance carrier. Our growth since inception has resulted primarily from a series of policy assumptions from Citizens and policies assumed from one Florida insurance company. This growth track was beneficial to us in terms of reduced policy acquisition costs and, depending on the timing of the transaction, temporarily lower reinsurance costs.

Our general operating and growth strategies are to continually optimize our existing book of insurance business, manage our costs and expenses, diversify our business operations, develop and deploy new technologies to streamline operational processes, and maintain a strong balance sheet so we can quickly pursue accretive opportunities when they arise.

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Recent Developments

On January 14, 2019, our Board of Directors declared a quarterly dividend of \$0.40 per common share. The dividends are to be paid March 15, 2019 to stockholders of record on February 15, 2019.

On January 15, 2019, we granted 40,000 shares of restricted stock and options to purchase 110,000 of our common shares at an exercise price of \$53 per share to our chief executive officer, Paresh Patel. The options will expire on January 15, 2029. These share-based awards were granted pursuant to our 2012 Omnibus Incentive Plan and will vest in equal annual installments over four years, so long as Mr. Patel remains employed by us. The grant date fair values of the restricted stock and options were approximately \$1,918,000 and \$1,345,000, respectively.

On February 27, 2019, we acquired approximately nine acres of undeveloped land located near our current headquarters in Tampa, Florida for a purchase price of \$8,500,000, which was primarily financed by our revolving credit facility. The land is a potential site for the construction of a new headquarters building. The transaction was accounted for as an asset acquisition. As such, all acquisition-related costs are capitalized.

Table of Contents**RESULTS OF OPERATIONS*****Comparison of the Year Ended December 31, 2018 with the Year Ended December 31, 2017***

Our results of operations for the year ended December 31, 2018 reflect net income of \$17,725,000, or \$2.34 earnings per diluted common share, compared with a net loss of \$6,893,000, or \$0.75 loss per common share, for the year ended December 31, 2017. Losses and loss adjustment expenses were approximately \$56,301,000 lower in 2018, attributable to lower catastrophe losses and decreased adverse development. Catastrophe losses in 2018 primarily included net losses of approximately \$16,520,000 from Hurricane Michael versus net losses of approximately \$54,000,000 from Hurricane Irma in 2017. The year-over-year improvement in losses and loss adjustment expenses was offset by a net \$11,196,000 decrease in net premiums earned, a net \$3,315,000 decrease in income from investment activities and a \$1,329,000 increase in interest expense. Income tax expense in 2018 was negatively impacted by the derecognition of deferred tax assets of approximately \$1,825,000 related to unvested restricted stock with market conditions and the nondeductible expense of approximately \$1,887,000 associated with the reclassified dividends on such restricted stock awards, offset by a lower federal corporate income tax rate effective January 1, 2018.

Revenue

Gross Premiums Earned for the years ended December 31, 2018 and 2017 were approximately \$343,065,000 and \$358,253,000, respectively. The decrease in 2018 was primarily attributable to a net decrease in policies in force offset by an increase in the average premium per policy.

Premiums Ceded for the years ended December 31, 2018 and 2017 were approximately \$129,643,000 and \$133,635,000, respectively, representing 37.8% and 37.3%, respectively, of gross premiums earned. The \$3,992,000 decrease was primarily attributable to an unfavorable adjustment of \$12,465,000 to premiums ceded in connection with retrospective provisions under certain reinsurance contracts due to losses incurred by Hurricane Irma during the third quarter of 2017, offset by the recognition of additional premiums ceded of approximately \$1,222,000 resulting from the termination of one reinsurance contract during the second quarter of 2018 (See Note 17 *Related Party Transactions* to our audited consolidated financial statements under Item 8 of this Annual Report on Form 10-K for additional information) and an increase in premiums ceded attributable to a lower retention level for the reinsurance contract year 2019/20.

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 defined in a quota share arrangement. The rates we pay for reinsurance are based primarily on policy exposures reflected in gross premiums earned. For the year ended December 31, 2018, premiums ceded included a net decrease of approximately \$485,000 versus a net increase of approximately \$5,740,000 for the year ended December 31, 2017 related to retrospective provisions. See *Economic Impact of Reinsurance Contracts with Retrospective Provisions* under *Critical Accounting Policies and Estimates*.

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Net Premiums Written for the years ended December 31, 2018 and 2017 totaled approximately \$206,813,000 and \$213,711,000, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less any applicable reinsurance costs. The decrease in 2018 resulted primarily from a decrease in gross premiums written during the period due to policy attrition, offset by the decrease in premiums ceded as described above. We had approximately 127,000 policies in force at December 31, 2018 versus approximately 139,000 policies in force at December 31, 2017.

Net Premiums Earned for the years ended December 31, 2018 and 2017 were approximately \$213,422,000 and \$224,618,000, respectively, and reflect the gross premiums earned less reinsurance costs as described above.

The following is a reconciliation of our Net Premiums Written to Net Premiums Earned for the years ended December 31, 2018 and 2017 (amounts in thousands):

	Years Ended December 31,	
	2018	2017
Net Premiums Written	\$ 206,813	\$ 213,711
Decrease in Unearned Premiums	6,609	10,907
Net Premiums Earned	\$ 213,422	\$ 224,618

Net Investment Income for the years ended December 31, 2018 and 2017 was approximately \$16,581,000 and \$11,439,000, respectively. The year-over-year increase was attributable to an increase in income from limited partnership investments of approximately \$2,096,000, an increase of approximately \$1,358,000 in income from real estate investments, and an increase in interest income from cash and short-term investments. See Note 5 Investments under *Net Investment Income* to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Net Realized Investment Gains for the years ended December 31, 2018 and 2017 were approximately \$6,183,000 and \$4,346,000, respectively. The gains in 2018 resulted primarily from sales intended to rebalance our investment portfolio to mitigate the impact from the rising interest rate trend and to decrease our holdings in municipal bonds as they become less attractive in a low tax rate environment.

Net Unrealized Investment Losses for the year ended December 31, 2018 were approximately \$10,202,000 versus approximately \$92,000 of net unrealized investment gains for the year ended December 31, 2017. Net unrealized investment gains or losses represent the net change in the fair value of equity securities. The decrease in 2018 primarily resulted from the adoption of the new accounting standard with regard to equity securities as described in Note 2 Summary of Significant Accounting Policies to our audited consolidated financial statements under Item 8 of this Annual Report on Form 10-K, combined with a general downturn in the U.S. securities markets in December 2018.

Net Other-Than-Temporary Impairment Losses for the years ended December 31, 2018 and 2017 were approximately \$80,000 and \$1,467,000, respectively. During 2018, we recognized impairment loss on one fixed-maturity security versus impairment losses specific to four fixed-maturity securities and six equity securities during 2017.

Table of Contents**Expenses**

Our *Losses and Loss Adjustment Expenses* amounted to approximately \$109,328,000 and \$165,629,000 for the years ended December 31, 2018 and 2017, respectively. During 2018, loss and loss adjustment expenses included net losses of approximately \$16,520,000 for Hurricane Michael as well as adverse development related to Hurricane Matthew of approximately \$2,100,000 and adverse development related to non-catastrophe claims of approximately \$9,900,000 primarily related to assignment of benefits litigation. Loss and loss adjustment expenses in 2017 included net losses related to Hurricane Irma of approximately \$54,000,000 as well as adverse development related to Hurricane Matthew of approximately \$2,500,000 and adverse development related to non-catastrophe claims of approximately \$16,200,000 primarily related to assignment of benefits litigation. See *Reserves for Losses and Loss Adjustment Expenses* under *Critical Accounting Policies and Estimates*.

Policy Acquisition and Other Underwriting Expenses for the years ended December 31, 2018 and 2017 were approximately \$38,943,000 and \$39,663,000, respectively. The decrease from 2017 was primarily attributable to decreased commissions and premium taxes resulting from the net decrease in policies in force.

General and Administrative Personnel Expenses for the years ended December 31, 2018 and 2017 were approximately \$25,908,000 and \$25,127,000, 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 Hurricane Irma claims which are recoverable from reinsurers under reinsurance contracts. The year-over-year increase of \$781,000 was primarily attributable to the recognition of approximately \$1,505,000 of cumulative dividends paid on unvested restricted stock awards of which market conditions will not be met and an increase of approximately \$606,000 in employee incentive bonus, offset by an increase in recoverable Hurricane Irma payroll costs of \$1,231,000 and lower share-based compensation expense during 2018.

Interest Expense for the years ended December 31, 2018 and 2017 was approximately \$18,096,000 and \$16,767,000, respectively. The increase primarily resulted from the 4.25% convertible debt offering completed in March 2017.

Loss on repurchases of Senior Notes for the year ended December 31, 2017 was approximately \$743,000, resulting from the early extinguishment of our 8% Senior Notes.

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Income Tax Expense for the year ended December 31, 2018 was approximately \$9,177,000 for state, federal, and foreign income taxes compared with income tax benefit of approximately \$8,731,000 for the year ended December 31, 2017, resulting in an effective tax rate of 34.1% for 2018 and 55.9% for 2017. The decrease was primarily attributable to the positive impact from a lower federal corporate income tax rate effective January 1, 2018, offset by the negative effect of the derecognition of deferred tax assets of approximately \$1,825,000 and the nondeductible expense of approximately \$1,887,000, both of which related to restricted stock awards with market conditions that will not be met. (see *Restricted Stock Awards* in Note 21 *Stock-Based Compensation* to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K).

Ratios:

The loss ratio applicable to the year ended December 31, 2018 (losses and loss adjustment expenses incurred related to net premiums earned) was 51.2% compared with 73.8% for the year ended December 31, 2017. The decrease was primarily due to the decrease in losses and loss adjustment expenses as described previously.

The expense ratio applicable to the year ended December 31, 2018 (defined as underwriting expenses, general and administrative personnel expenses, interest and other operating expenses related to net premiums earned) was 44.6% compared with 42.0% for the year ended December 31, 2017. The increase in our expense ratio was primarily attributable to the decrease in net premiums earned.

The combined ratio is the measure of overall underwriting profitability before other income. Our combined ratio for the year ended December 31, 2018 was 95.8% compared with 115.8% for the year ended December 31, 2017. The decrease was primarily to the decrease in losses and loss adjustment expenses as described earlier.

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 year ended December 31, 2018 was 59.6% compared with 72.6% for the year ended December 31, 2017. The decrease in 2018 was primarily attributable to the decrease in losses and loss adjustment expenses.

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Comparison of the Year Ended December 31, 2017 with the Year Ended December 31, 2016

Our results of operations for the year ended December 31, 2017 reflect net loss of \$6,893,000, or \$0.75 loss per common share, compared with net income of \$29,021,000, or \$2.92 earnings per diluted common share, for the year ended December 31, 2016. The year-over-year decline was primarily attributable to a \$40,962,000 increase in losses and loss adjustment expenses primarily from Hurricane Irma, a decrease in gross premiums earned of \$20,425,000 and an increase in interest expense of \$5,688,000 resulting from the issuance of long-term debt in March 2017. These factors contributed to \$15,624,000 pre-tax operating losses in 2017 and, as a result, we recognized \$8,731,000 of income tax benefit, the amount of which included net positive tax effects of approximately \$1,400,000 due to the 2017 Tax Act.

Revenue

Gross Premiums Earned for the years ended December 31, 2017 and 2016 were approximately \$358,253,000 and \$378,678,000, respectively. The decrease in 2017 was primarily attributable to policy attrition as well as a rate decrease effective on new and renewal policies beginning in January 2016.

Premiums Ceded for the years ended December 31, 2017 and 2016 were approximately \$133,635,000 and \$135,051,000, respectively, representing 37.3% and 35.7%, respectively, of gross premiums earned. The percentage increase from 2016 was primarily attributable to adjustments related to retrospective provisions under certain reinsurance contracts due to losses incurred by Hurricane Irma. The increase was offset in part by lower reinsurance costs during the first five months of 2017 as compared with the corresponding period in 2016.

For the year ended December 31, 2017, premiums ceded included a net increase of approximately \$5,740,000 related to retrospective provisions. For the year ended December 31, 2016, premiums ceded reflect a net reduction of approximately \$12,677,000. See *Economic Impact of Reinsurance Contracts with Retrospective Provisions* under *Critical Accounting Policies and Estimates*.

Net Premiums Written for the years ended December 31, 2017 and 2016 totaled approximately \$213,711,000 and \$232,140,000, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less any applicable reinsurance costs. We had approximately 139,000 policies in force at December 31, 2017 as compared with approximately 150,000 policies in force at December 31, 2016.

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Net Premiums Earned for the years ended December 31, 2017 and 2016 were approximately \$224,618,000 and \$243,627,000, respectively, and reflect the gross premiums earned less reinsurance costs as described above.

The following is a reconciliation of our Net Premiums Written to Net Premiums Earned for the years ended December 31, 2017 and 2016 (amounts in thousands):

	Years Ended December 31,	
	2017	2016
Net Premiums Written	\$ 213,711	\$ 232,140
Decrease in Unearned Premiums*	10,907	11,487
Net Premiums Earned	\$ 224,618	\$ 243,627

* Unearned premiums are impacted by the timing and size of any takeout completed during the year net of attrition. *Net Investment Income* for the years ended December 31, 2017 and 2016 was approximately \$11,439,000 and \$9,087,000, respectively. The increase in 2017 was primarily due to year-over-year increases in income from limited partnership investments and fixed-maturity securities. See Note 5 Investments under *Net Investment Income* to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Net Realized Investment Gains for the years ended December 31, 2017 and 2016 were approximately \$4,346,000 and \$2,601,000, respectively. The gains in 2017 resulted primarily from sales intended to take advantage of an upturn in the security market.

Net Other-Than-Temporary Impairment Losses for the years ended December 31, 2017 and 2016 were approximately \$1,467,000 and \$2,482,000, respectively. During 2017, we recognized impairment losses specific to four fixed-maturity securities and six equity securities. Three of these fixed-maturity securities were written down before being sold. Six equity securities were impaired because each of them had been in an unrealized loss position for a length of time with no near term prospect for recovery.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to approximately \$165,629,000 and \$124,667,000 for the years ended December 31, 2017 and 2016, respectively. Our 2017 losses and loss adjustment expenses included approximately \$54,000,000 of net losses related to Hurricane Irma and additional losses of approximately \$2,500,000 related to Hurricane Matthew. In addition, our losses and loss adjustment expenses included approximately \$16,200,000 of additional losses, which reflected the continuation of reserve strengthening in response to trends involving assignment of insurance benefits and related litigation. Our losses and loss adjustment expenses were also impacted by weather-related events. See Reserves for Losses and Loss Adjustment Expenses under Critical Accounting Policies and Estimates.

Policy Acquisition and Other Underwriting Expenses for the years ended December 31, 2017 and 2016 were approximately \$39,663,000 and \$42,642,000, respectively. The decrease from 2016 was primarily attributable to decreased commissions and premium taxes resulting from policy attrition and the effect of the rate decrease.

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General and Administrative Personnel Expenses for the years ended December 31, 2017 and 2016 were approximately \$25,127,000 and \$26,200,000, respectively. The \$1,073,000 decrease in 2017 was primarily attributable to the capitalization of payroll costs related to a software development project for internal use.

Loss on repurchases of Senior Notes for the year ended December 31, 2017 was approximately \$743,000, resulting from the early extinguishment of our 8% Senior Notes.

Income Tax Benefit for the year ended December 31, 2017 was approximately \$8,731,000 versus approximately \$17,835,000 of income tax expense for the year ended December 31, 2016, resulting in an effective tax rate of 55.9% for 2017 and 38.1% for 2016. The year-over-year change was primarily attributable to our 2017 operating losses and the recognition of \$1,400,000 in beneficial tax effects on our net deferred tax liabilities due to the lower future corporate income tax rates enacted by the 2017 Tax Act.

Ratios:

The loss ratio applicable to the year ended December 31, 2017 was 73.8% compared with 51.2% for the year ended December 31, 2016. The increase was primarily attributable to losses related to Hurricane Irma combined with the decrease in net premiums earned which was driven in large part by the increase in ceded premiums due to the aforementioned adjustments.

The expense ratio applicable to the year ended December 31, 2017 was 42.0% compared with 38.1% for the year ended December 31, 2016. The increase in our 2017 expense ratio was primarily attributable to the decrease in 2017 net premiums earned, an increase in interest expense, and the loss on repurchases of our senior notes, as described above.

Our combined ratio for the year ended December 31, 2017 was 115.8% compared with 89.3% for the year ended December 31, 2016. Our combined ratio was negatively impacted by increased expenses for losses and loss adjustment expenses, increased interest expense, the loss on repurchases of our senior notes and a reduction in 2017 net premiums earned.

Due to the impact our reinsurance costs have on net premiums earned from period to period, our management believes the combined ratio measured to gross premiums earned is more relevant in assessing overall performance. The combined ratio to gross premiums earned for the year ended December 31, 2017 was 72.6% compared with 57.5% for the year ended December 31, 2016. The increase in 2017 was primarily attributable to the factors described above.

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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 on June 1 each year, any variation in the cost of our reinsurance, whether due to changes in reinsurance rates or changes in the total insured value of our policy base, will occur and be reflected in our financial results beginning June 1 each year.

LIQUIDITY AND CAPITAL RESOURCES

Throughout our history, our liquidity requirements have been met through issuances of our common and preferred stock, debt offerings and funds from operations. We expect our future liquidity requirements will be met by funds from operations, primarily the cash received by insurance subsidiaries from premiums written and investment income. We may consider raising additional capital through debt and/or 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, excluding litigated claims, are fully settled and paid within approximately 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.

Furthermore, we will repay the holders of our 3.875% Convertible Senior Notes an aggregate amount of \$89,990,000 on the maturity date, March 15, 2019, if the notes are not yet converted prior to March 14, 2019.

Table of Contents**Senior Notes, Promissory Notes, and Capital Lease Obligation**

The following table summarizes the principal and interest payment obligations for our long-term debt at December 31, 2018:

	Maturity Date	Payment Due Date
3.875% Convertible Senior Notes	March 2019	March 15 and September 15
4.25% Convertible Senior Notes	March 2037	March 1 and September 1
4% Promissory Note	Through February 2031	1 st day of each month
3.75% Callable Promissory Note	Through September 2036	1 st day of each month
3.95% Promissory Note	Through February 2020	17 th of each month
4.55% Promissory Note	Through August 2036	1 st day of each month
Capital Lease	Through August 2023	February 15, May 15, August 15, November 15

See Note 14 Long-Term Debt to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Share Repurchase Plan

In December 2018, our Board of Directors approved a one-year plan for 2019 under which we may purchase up to \$20,000,000 of our common shares in open market purchases, block transactions and privately negotiated transactions in accordance with applicable federal securities laws. The approved amount excludes brokerage fees. See Note 20 Stockholders Equity to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Limited Partnership Investments

Our limited partnership investments consist of four private equity funds managed by their general partners. 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. At December 31, 2018, there was an aggregate unfunded capital balance of \$16,304,000. See *Limited Partnership Investments* under Note 5 Investment to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Real Estate Acquisition

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, the values of which have increased since the opening of an adjacent retail shopping center which we acquired in December 2016. 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.

Table of Contents***Sources and Uses of Cash***

Our cash flows from operating, investing and financing activities for the years ended December 31, 2018, 2017 and 2016 are summarized below.

Cash Flows for the Year ended December 31, 2018

Net cash provided by operating activities for the year ended December 31, 2018 was approximately \$28,595,000, which consisted primarily of cash received from net premiums written and reinsurance recoveries of approximately \$128,300,000 less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash used in investing activities of \$17,678,000 was primarily due to the purchases of fixed-maturity and equity securities of \$165,424,000, the purchases of short-term and other investments of \$201,538,000, the purchases of real estate investments of \$7,472,000, and the limited partnership investments of \$7,182,000, offset by the proceeds from sales of fixed-maturity and equity securities of \$148,248,000, the proceeds from redemptions and maturities of fixed-maturity securities of \$82,177,000, and the proceeds from sales and maturities of short-term and other investments of \$135,256,000. Net cash used in financing activities totaled \$27,288,000, which was primarily due to \$21,166,000 used in our share repurchases, \$10,351,000 of net cash dividend payments and the repayment of long-term debt of \$1,127,000, offset by the proceeds from the issuance of 4.55% promissory note of \$6,000,000.

Cash Flows for the Year ended December 31, 2017

Net cash provided by operating activities for the year ended December 31, 2017 was approximately \$16,635,000, which consisted primarily of cash received from net premiums written and reinsurance recoveries less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash used in investing activities of \$80,164,000 was primarily due to the purchases of fixed-maturity and equity securities of \$165,196,000, the limited partnership investments of \$4,226,000, and the real estate investments of \$11,878,000, offset by the proceeds from sales of fixed-maturity and equity securities of \$77,041,000, the distributions of \$11,758,000 from limited partnership investments and the redemptions and repayments of fixed-maturity securities of \$14,897,000. Net cash provided by financing activities totaled \$39,030,000, which was primarily due to the proceeds from issuance of 4.25% Convertible Senior Notes of \$143,750,000, offset by \$40,250,000 used in the repurchases of our 8% senior notes, \$4,975,000 of related underwriting and issuance costs, \$45,872,000 used in our share repurchases and \$12,833,000 of net cash dividend payments.

Cash Flows for the Year ended December 31, 2016

Net cash provided by operating activities for the year ended December 31, 2016 was approximately \$88,275,000, which consisted primarily of cash received from net premiums written less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash used in investing activities of \$49,028,000 was primarily due to the purchases of fixed-maturity and equity securities of \$107,964,000, \$12,056,000 of net cash used in acquiring one business, and the limited partnership investments of \$4,670,000, offset by the proceeds from sales of fixed-maturity and equity securities of \$63,581,000 and the \$10,200,000 proceeds from the acquisition, development and construction arrangement. Net cash used in financing activities totaled \$26,157,000, which was primarily due to \$11,347,000 used in the repurchases of our convertible senior notes, \$20,026,000 used in our share repurchase plan and \$11,691,000 of net cash dividend payments, offset by \$18,200,000 in aggregate proceeds from the issuance of two promissory notes.

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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 December 31, 2018, we had \$223,866,000 of fixed-maturity and equity investments, which are carried at fair value. Changes in the general interest rate environment affect the returns available on new fixed-maturity investments. While a rising interest rate environment enhances the returns available on new investments, it reduces the market value of existing fixed-maturity investments and thus the availability of gains on disposition. A decline in interest rates reduces the returns available on new fixed-maturity investments but increases the market value of existing fixed-maturity investments, creating the opportunity for realized investment gains on disposition.

In addition, we had short-term investments of \$66,479,000 at December 31, 2018. These investments consisted of certificates of deposit and zero-coupon commercial paper. Our shift toward more short-term investments during 2018 was primarily to reduce the impact of a rising interest rate environment.

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 December 31, 2018, we had unexpired capital commitments for four limited partnership 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 23 *Commitments and Contingencies* to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K and *Contractual Obligations and Commitments* below for additional information.

Table of Contents**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The following table summarizes our material contractual obligations and commitments as of December 31, 2018 (amounts in thousands):

	Total	Payment Due by Period			More than 5 Years
		Less than 1 Year	1-3 Years	3-5 Years	
Operating lease (1)	\$ 768	287	481		
Service agreement (1)	73	23	50		
Reinsurance contracts (2)	5,389	3,593	1,796		
Unfunded capital commitment (3)	16,304	16,304			
Long-term debt obligations (4)	296,412	100,407	25,078	150,718	20,209
Total	\$ 318,946	120,614	27,405	150,718	20,209

- (1) Represents the lease for office space in Miami Lakes, Florida, and the lease and maintenance service agreement for office space in Noida, India. Liabilities related to our India operations were converted from India Rupees to U.S. dollars using the January 2, 2019 exchange rate, the first available rate subsequent to December 31, 2018, which was a non-business day.
- (2) Represents the minimum payment of reinsurance premiums under one multi-year reinsurance contract. Reinsurance premiums payable after March 31, 2019 are estimated and subject to subsequent revision as the premiums are determined on a quarterly basis based on the premiums associated with the applicable flood total insured value on the last day of the preceding quarter.
- (3) Represents the unfunded balance of capital commitments under the subscription agreements related to four limited partnerships in which we hold interests.
- (4) Amounts represent principal and interest payments over the lives of various long-term debt obligations. See Note 14 Long-Term Debt to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

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.

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

Reserves represent estimates of the ultimate unpaid cost of all losses incurred, including losses for claims that have not yet been reported to our insurance companies. The amount of loss reserves for reported claims consist of case reserves established by our claims department (based on a case-by-case evaluation of the kind of risk involved, knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss) and bulk reserves for additional growth on carried case reserves on known claims established by senior management (based on historical patterns of development on aggregate claims grouped by loss date). The amounts of reserves for unreported claims and LAE (incurred but not reported claims, or IBNR) are determined using our historical information for each line of business adjusted to reflect current conditions. Inflation is ordinarily implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results over multiple years.

Reserves are closely monitored and are recalculated periodically using the most recent information on reported claims and a variety of actuarial techniques. Specifically, claims management personnel complete weekly and ongoing reviews of existing case reserves, new claims, changes to existing case reserves, and paid losses with respect to the current and prior years. As we continue to expand historical data regarding paid and incurred losses, we use this data to develop expected ultimate loss and loss adjustment expense ratios. We then apply these expected loss and loss adjustment expense ratios to earned premium to derive a reserve level for each line of business. In connection with the determination of these reserves, we will also consider other specific factors such as recent weather-related losses, trends in historical reported and paid losses, and litigation and judicial trends regarding liability. Therefore, we use the loss ratio method, among other methods, to project an ultimate loss expectation, and then the related loss history must be regularly evaluated and loss expectations updated, with the possibility of variability from the initial estimate of ultimate losses.

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

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

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

Reported loss development;

Paid loss development;

Reported Bornhuetter-Ferguson method;

Paid Bornhuetter-Ferguson method;

Loss ratio method; and

Frequency-Severity method.

Selected reserves are based on a review of the indications from these methods as well as other considerations such as emergence since the most recent evaluation and number of open claims for a given accident period.

Description of Ultimate Loss Estimation Methods. The reported loss development method relies on the assumption that, at any given state of maturity, ultimate losses can be reasonably predicted by multiplying cumulative reported losses (paid losses plus case reserves) by a cumulative development factor derived from development patterns observed in the historical reported data. The validity of the results of this method depends on the stability of claim reporting and settlement rates, as well as the consistency of case reserve levels. Case reserves do not have to be adequately stated for this method to be effective; they only need to have a fairly consistent level of adequacy for the historical experience that is considered. In order to derive loss development patterns that are predictive for our business, we compile and review loss development triangles of our experience on an accident quarter basis, and select loss development factors based on indications from this analysis of our data. We also consider industry data found in SNL Financial Property/Casualty Insurance as a reasonability measure for these selected development patterns.

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

The validity of the results from using a loss development approach can be affected by many conditions, such as internal claim department processing changes, a shift between single and multiple claim payments, legal changes, or variations in our mix of business from year to year. Also, since the percentage of losses paid for immature accident quarters is often low, development factors for these maturities can be volatile. A small variation in the number of

claims paid can have a leveraging effect that can lead to significant distortions in estimated ultimate losses for these highly leveraged accident quarters. Therefore, ultimate values for immature accident quarters are often based on alternative estimation techniques than more mature accident quarters.

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The loss ratio method used by us relies on the assumption that remaining unreported losses are a function of the total expected losses rather than a function of currently reported losses. The expected loss ratio is multiplied by earned premium to produce ultimate losses. Reported incurred losses are then subtracted from this estimate to produce expected unreported losses.

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

The paid and reported Bornhuetter-Ferguson methods are a weighting of the loss ratio method and the corresponding development method. Outstanding reserves or IBNR reserves are derived by applying the loss ratio estimate to the estimated unpaid or unreported percent of losses based on the development patterns from the development methods.

Finally, we employ the frequency/severity method for exposures that do not tend to follow historical payment and reported patterns, such as catastrophes. For such exposures, we estimate future development of reported claims and average severities on IBNR claims. We combine this estimate with our open claims in order to derive an estimate of expected unreported losses. Paid losses are added to this estimate in order to derive an estimate of ultimate losses. This method is based on the assumption that future unreported claims and the average severity of open claims and unreported claims can be reasonably estimated from the experience available.

While the property and casualty industry has incurred substantial aggregate losses from claims related to asbestos-related illnesses, environmental remediation, product and mold, and other uncertain or environmental exposures, we have not experienced significant losses from these types of claims. We have experienced material losses associated with sinkholes in past years, but the materiality of this hazard has decreased significantly since the passing of Florida Senate Bill 408. We continue to segregate this data in our derivation of estimated required reserves. While the losses we have experienced from exposures to catastrophes have not historically been material, we have experienced significant losses related to recent catastrophes. These losses have followed materially different development patterns than the balance of our experience. To address this situation, we separate this exposure from the remainder of the business and derive reserves specific to each catastrophe event. Total reserves are determined by adding the reserves related to each line of business.

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

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

Year Ended December 31, 2018		
Change in Reserves	Reserves	Percentage change in equity, net of tax
-20.0%	166,069	14.93%
-15.0%	176,448	11.20%
-10.0%	186,827	7.47%
-5.0%	197,207	3.73%
Base	207,586	
5.0%	217,965	- 3.73%
10.0%	228,345	- 7.47%
15.0%	238,724	- 11.20%
20.0%	249,103	- 14.93%

Reinsurance Recoverable. Our reinsurance recoverable balance represents an estimate of the amount of paid and unpaid losses and loss adjustment expenses that is recoverable from reinsurers. This estimate is determined in a manner consistent with the terms of the applicable reinsurance contracts and based on the ultimate losses and loss adjustment expenses we expect to incur. Given the uncertainty of the ultimate amounts of losses and loss adjustment expenses, the estimate may vary significantly from the eventual outcome.

Economic Impact of Reinsurance Contracts with Retrospective Provisions. Certain of our reinsurance contracts include retrospective provisions that adjust premiums, increase the amount of future coverage, or result in profit commissions in the event losses are minimal or zero. In accordance with U.S. GAAP, we will recognize an asset in the period in which the absence of loss experience gives rise to an increase in future coverage or 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.

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For the year ended December 31, 2018, we recognized a net increase in accrued benefits of \$743,000 and a net increase in ceded premiums of \$258,000. In contrast, for the year ended December 31, 2017, we derecognized \$3,413,000 of net accrued benefits. We also recognized ceded premiums of \$2,327,000, including the reversal of the majority of previously deferred reinsurance costs. The adjustments made in 2017 were attributable to the impact of Hurricane Irma. For the year ended December 31, 2016, we accrued benefits of \$13,610,000 and recognized net ceded premiums of \$933,000, representing amortization of \$1,219,000 of previously deferred reinsurance costs for increased coverage offset by \$2,152,000 of ceded premiums deferred for the period. In combination, for the year ended December 31, 2018, we recognized a net reduction in ceded premiums of \$485,000 as opposed to a net increase in ceded premiums of \$5,740,000 for the year ended December 31, 2017. For the year ended December 31, 2016, we recognized a net reduction in ceded premiums of \$12,677,000.

As of December 31, 2018, we had \$3,136,000 of accrued benefits, the amount that would be charged to earnings in the event we experience a catastrophic loss that exceeds the coverage limits. As of December 31, 2017, we had \$2,393,000 of accrued benefits related to these agreements.

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

Income Taxes. We account for income taxes in accordance with U.S. GAAP, resulting in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. We determine deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Valuation allowances are provided against assets that are not likely to be realized, if any. We have elected to classify the related interest and penalties, if any, as income tax expense as permitted by current accounting standards.

Stock-Based Compensation. We account for stock-based compensation awards under our shareholder approved incentive plans in accordance with the fair value recognition provisions of U.S. GAAP, which require the measurement, and recognition of compensation for all stock-based awards made to employees and non-employee directors including stock options and restricted stock issuances based on estimated fair values. We recognize stock-based compensation in the consolidated statements of income on a straight-line basis over the vesting period. We use the Black-Scholes option-pricing model, which requires the following variables for input to calculate the fair value of each stock award on the option grant date: 1) expected volatility of our stock price, 2) the risk-free interest rate, 3) expected term of each award, 4) expected dividends, and 5) an expected forfeiture rate. For restricted stock awards with market-based conditions, we estimate their fair values by using a Monte Carlo simulation model, which requires the following variables for input: 1) expected dividends per share, 2) expected volatility, 3) risk-free interest rate, 4) estimated cost of capital, and 5) expected term of each award.

Table of Contents**ITEM 7A Quantitative and Qualitative Disclosures About Market Risk**

Our investment portfolios at December 31, 2018 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 and 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 December 31, 2018 (amounts in thousands):

Hypothetical Change in Interest Rates	Estimated Fair Value	Change in Estimated Fair Value	Percentage Increase (Decrease) in Estimated Fair Value
300 basis point increase	\$ 172,417	\$ (10,306)	(5.64)%
200 basis point increase	175,852	(6,871)	(3.76)%
100 basis point increase	179,287	(3,436)	(1.88)%
100 basis point decrease	186,159	3,436	1.88%
200 basis point decrease	189,596	6,873	3.76%
300 basis point decrease	192,734	10,011	5.48%

Table of Contents*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 December 31, 2018 (amounts in thousands):

Comparable Rating	Cost or Amortized Cost	% of Total Amortized Cost	Estimated Fair Value	% of Total Estimated Fair Value
AAA	\$ 5,380	3	\$ 5,379	3
AA+, AA, AA-	66,466	36	66,124	36
A+, A, A-	72,744	39	71,898	39
BBB+, BBB, BBB-	28,711	15	28,221	15
BB+, BB, BB-	4,925	3	4,867	3
CCC+, CC and Not rated	6,444	4	6,234	4
Total	\$ 184,670	100	\$ 182,723	100

Table of Contents*Equity Price Risk*

Our equity investment portfolio at December 31, 2018 included common stocks, perpetual preferred stocks, mutual funds and exchange traded funds. We may incur potential 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 December 31, 2018 (amounts in thousands):

	Estimated Fair Value	% of Total Estimated Fair Value
Stocks by sector:		
Financial	\$ 16,095	39
Consumer	4,908	12
Industrial	4,538	11
Utility	3,122	8
Energy	2,088	5
Other (1)	4,065	9
	34,816	84
Mutual funds and Exchange traded funds by type:		
Debt	3,533	9
Equity	2,794	7
	6,327	16
Total	\$ 41,143	100

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

Foreign Currency Exchange Risk

At December 31, 2018, we did not have any material exposure to foreign currency related risk.

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ITEM 8 *Financial Statements and Supplementary Data*

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

HCI Group, Inc. and Subsidiaries:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of HCI Group, Inc. and Subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 8, 2019 expressed an unqualified opinion.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2013.

Tampa, Florida

March 8, 2019

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Report of Independent Registered Public Accounting Firm on Internal Control

To the Board of Directors and Stockholders of

HCI Group, Inc. and Subsidiaries

Opinion on Internal Control Over Financial Reporting

We have audited HCI Group, Inc. and Subsidiaries (the Company's) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018, and our report dated March 8, 2019, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Dixon Hughes Goodman LLP

Tampa, Florida

March 8, 2019

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****(Dollar amounts in thousands)**

	December 31,	
	2018	2017
Assets		
Fixed-maturity securities, available for sale, at fair value (amortized cost: \$184,670 and \$235,633, respectively)	\$ 182,723	\$ 237,484
Equity securities, at fair value (cost: \$45,671 and \$54,282, respectively)	41,143	59,956
Short-term investments, at fair value	66,479	
Limited partnership investments, at equity	32,293	23,184
Investment in unconsolidated joint venture, at equity	845	1,304
Assets held for sale	9,810	
Real estate investments (Note 5 Consolidated Variable Interest Entity)	54,490	58,358
Total investments	387,783	380,286
Cash and cash equivalents	239,458	255,884
Restricted cash	700	809
Accrued interest and dividends receivable	1,792	1,983
Income taxes receivable	971	16,192
Premiums receivable	16,667	17,807
Prepaid reinsurance premiums	17,932	22,286
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	11,151	2,344
Unpaid losses and loss adjustment expenses	112,760	100,760
Deferred policy acquisition costs	16,507	16,712
Property and equipment, net	13,338	12,465
Intangible assets, net	4,800	4,995
Other assets (Note 5 Consolidated Variable Interest Entity)	9,004	9,741
Total assets	\$ 832,863	\$ 842,264

(continued)

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

	December 31,	
	2018	2017
Liabilities and Stockholders Equity		
Losses and loss adjustment expenses	\$ 207,586	\$ 198,578
Unearned premiums	157,729	164,896
Advance premiums	6,192	4,948
Assumed reinsurance balances payable	14	15
Accrued expenses (Note 5 Consolidated Variable Interest Entity)	6,483	6,035
Reinsurance recovered in advance on unpaid losses		13,885
Deferred income taxes, net	1,068	1,890
Long-term debt	250,150	237,835
Other liabilities (Note 5 Consolidated Variable Interest Entity)	22,200	20,207
Total liabilities	651,422	648,289
Commitments and contingencies (Note 23)		
Stockholders equity:		
7% Series A cumulative convertible preferred stock (no par value, 1,500,000 shares authorized, no shares issued and outstanding)		
Series B junior participating preferred stock (no par value, 400,000 shares authorized, no shares issued or outstanding)		
Preferred stock (no par value, 18,100,000 shares authorized, no shares issued or outstanding)		
Common stock (no par value, 40,000,000 shares authorized, 8,356,730 and 8,762,416 shares issued and outstanding in 2018 and 2017, respectively)		
Additional paid-in capital		
Retained income	182,894	189,409
Accumulated other comprehensive (loss) income, net of taxes	(1,453)	4,566
Total stockholders equity	181,441	193,975
Total liabilities and stockholders equity	\$ 832,863	\$ 842,264

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2018	2017	2016
Revenue			
Gross premiums earned	\$ 343,065	\$ 358,253	\$ 378,678
Premiums ceded	(129,643)	(133,635)	(135,051)
Net premiums earned	213,422	224,618	243,627
Net investment income	16,581	11,439	9,087
Net realized investment gains	6,183	4,346	2,601
Net unrealized investment (losses) gains	(10,202)	92	
Net other-than-temporary impairment losses recognized in income:			
Total other-than-temporary impairment losses	(80)	(1,116)	(2,252)
Portion of loss recognized in other comprehensive income, before taxes		(351)	(230)
Net other-than-temporary impairment losses	(80)	(1,467)	(2,482)
Policy fee income	3,389	3,622	3,914
Gain on repurchases of convertible senior notes			153
Gain on bargain purchase			2,071
Gain on remeasurement of previously held interest			4,005
Other	1,999	1,756	1,470
Total revenue	231,292	244,406	264,446
Expenses			
Losses and loss adjustment expenses	109,328	165,629	124,667
Policy acquisition and other underwriting expenses	38,943	39,663	42,642
General and administrative personnel expenses	25,908	25,127	26,200
Interest expense	18,096	16,767	11,079
Loss on repurchases of senior notes		743	
Impairment loss		38	388
Other operating expenses	12,115	12,063	12,614
Total operating expenses	204,390	260,030	217,590
Income (loss) before income taxes	26,902	(15,624)	46,856
Income tax expense (benefit)	9,177	(8,731)	17,835
Net income (loss)	\$ 17,725	\$ (6,893)	\$ 29,021
Basic earnings (loss) per share	\$ 2.34	\$ (0.75)	\$ 2.95

Diluted earnings (loss) per share	\$	2.34	\$	(0.75)	\$	2.92
Dividends per share	\$	1.475	\$	1.40	\$	1.20

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss)****(Amounts in thousands)**

	Years Ended December 31,		
	2018	2017	2016
Net income (loss)	\$ 17,725	\$ (6,893)	\$ 29,021
Other comprehensive income (loss):			
Change in unrealized gain (loss) on investments:			
Net unrealized (losses) gains arising during the period	(3,137)	5,996	7,317
Other-than-temporary impairment loss charged to investment income	80	1,467	2,482
Call and repayment (gains) losses charged to investment income	(18)	14	20
Reclassification adjustment for net realized gains	(723)	(4,346)	(2,601)
Net change in unrealized (losses) gains	(3,798)	3,131	7,218
Deferred income taxes on above change	963	(1,208)	(2,784)
Total other comprehensive (loss) income, net of income taxes	(2,835)	1,923	4,434
Comprehensive income (loss)	\$ 14,890	\$ (4,970)	\$ 33,455

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders Equity****For the Year Ended December 31, 2018****(Dollar amounts in thousands)**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders Equity
Balance at December 31, 2017	8,762,416	\$	\$	\$ 189,409	\$ 4,566	\$ 193,975
Net income				17,725		17,725
Total other comprehensive loss, net of income taxes					(2,835)	(2,835)
Cumulative effect adjustments for adoption of new accounting standards:						
Reclassification of after-tax net unrealized holding gains related to equity securities				4,168	(4,168)	
Reclassification of stranded tax effects related to available-for-sale fixed-maturity and equity securities				(984)	984	
Issuance of restricted stock	189,860					
Forfeiture of restricted stock	(56,637)					
Repurchase and retirement of common stock	(27,281)		(1,151)			(1,151)
Repurchase and retirement of common stock under share repurchase plan	(511,628)		(20,015)			(20,015)
Purchase of noncontrolling interest			(539)			(539)
Common stock dividends				(10,351)		(10,351)
Stock-based compensation			4,632			4,632
Additional paid-in capital shortfall allocated to retained income			17,073	(17,073)		
Balance at December 31, 2018	8,356,730	\$	\$	\$ 182,894	\$ (1,453)	\$ 181,441

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders Equity (Continued)****For the Year Ended December 31, 2017****(Dollar amounts in thousands)**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders Equity
Balance at December 31, 2016	9,662,761	\$	\$ 8,139	\$ 232,964	\$ 2,643	\$ 243,746
Net loss				(6,893)		(6,893)
Total other comprehensive income, net of income taxes					1,923	1,923
Issuance of restricted stock	154,936					
Exercise of common stock options	30,000		75			75
Forfeiture of restricted stock	(23,766)					
Repurchase and retirement of common stock	(437,240)		(21,318)			(21,318)
Repurchase and retirement of common stock under share repurchase plan	(433,175)		(15,154)			(15,154)
Repurchase of common stock under prepaid forward contract	(191,100)		(9,400)			(9,400)
Equity component on 4.25% convertible senior notes (net of offering costs of \$543)			15,151			15,151
Deferred taxes on debt discount			(5,845)			(5,845)
Common stock dividends				(12,833)		(12,833)
Stock-based compensation			4,523			4,523
Additional paid-in capital shortfall allocated to retained income			23,829	(23,829)		
Balance at December 31, 2017	8,762,416	\$	\$	\$ 189,409	\$ 4,566	\$ 193,975

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders Equity (Continued)****For the Year Ended December 31, 2016****(Dollar amounts in thousands)**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Stockholders Equity
Balance at December 31, 2015	10,292,256	\$	\$ 23,879	\$ 215,634	\$ (1,791)	\$ 237,722
Net income				29,021		29,021
Total other comprehensive income, net of income taxes					4,434	4,434
Issuance of restricted stock	142,440					
Exercise of common stock options	60,000		150			150
Forfeiture of restricted stock	(13,298)					
Cancellation of restricted stock	(160,000)					
Repurchase and retirement of common stock	(14,934)		(464)			(464)
Repurchase and retirement of common stock under share repurchase plan	(643,703)		(20,026)			(20,026)
Common stock dividends				(11,691)		(11,691)
Tax benefits on stock-based compensation			641			641
Tax shortfalls on stock-based compensation			(239)			(239)
Stock-based compensation			4,198			4,198
Balance at December 31, 2016	9,662,761	\$	\$ 8,139	\$ 232,964	\$ 2,643	\$ 243,746

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	\$ 17,725	\$ (6,893)	\$ 29,021
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock-based compensation	4,632	4,523	4,198
Net amortization of premiums on investments in fixed-maturity securities	761	1,252	726
Depreciation and amortization	10,996	9,591	5,408
Deferred income tax expense (benefit)	141	(4,913)	155
Net realized investment gains	(6,183)	(4,346)	(2,601)
Net unrealized investment losses (gains)	10,202	(92)	
Other-than-temporary impairment losses	80	1,467	2,482
(Income) loss from unconsolidated joint venture	(304)	234	
Distribution received from unconsolidated joint venture	68	147	
Gain on repurchases of convertible senior notes			(153)
Gain on bargain purchase			(2,071)
Loss on repurchases of senior notes		743	
Gain on remeasurement of previously held investment			(4,005)
Impairment loss		38	388
Net income from limited partnership interests	(4,430)	(2,334)	(1,207)
Distributions received from limited partnership interests	2,345	881	544
Foreign currency remeasurement loss (gain)	135	(60)	29
Other	72	134	18
Changes in operating assets and liabilities:			
Accrued interest and dividends receivable	191	(329)	(300)
Income taxes	15,221	(13,381)	(1,192)
Premiums receivable	1,140	(531)	2,355
Prepaid reinsurance premiums	4,354	2,268	16,193
Reinsurance recoverable	(20,807)	(103,104)	
Deferred policy acquisition costs	205	(73)	1,963
Other assets	408	783	29,354
Losses and loss adjustment expenses	9,008	128,086	18,802
Unearned premiums	(7,167)	(10,907)	(11,487)
Advance premiums	1,244	297	(332)
Assumed reinsurance balances payable	(1)	(3,279)	2,210
Reinsurance recovered in advance on unpaid losses	(13,885)	13,885	
Accrued expenses and other liabilities	2,444	2,548	(2,223)
Net cash provided by operating activities	28,595	16,635	88,275

(continued)

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Continued)****(Amounts in thousands)**

	Years Ended December 31,		
	2018	2017	2016
Cash flows from investing activities:			
Proceeds from investment in real estate under acquisition, development and construction arrangement			10,200
Acquisition of real estate business, net of cash acquired			(11,651)
Investments in limited partnership interests	(7,182)	(4,226)	(4,670)
Distributions received from limited partnership interests	158	11,758	
Investment in unconsolidated joint venture			(90)
Distribution from unconsolidated joint venture	695	417	
Purchase of property and equipment	(2,187)	(2,340)	(865)
Purchase of intangible assets	(409)	(637)	
Purchase of real estate investments	(7,472)	(11,878)	(2,261)
Purchase of fixed-maturity securities	(113,174)	(114,743)	(85,530)
Purchase of equity securities	(52,250)	(50,453)	(22,434)
Purchase of short-term and other investments	(201,538)		
Proceeds from sales of fixed-maturity securities	81,809	31,759	40,454
Proceeds from calls, repayments and maturities of fixed-maturity securities	82,177	14,897	4,692
Proceeds from sales of equity securities	66,439	45,282	23,127
Proceeds from sales, redemptions and maturities of short-term and other investments	135,256		
Net cash used in investing activities	(17,678)	(80,164)	(49,028)
Cash flows from financing activities:			
Net borrowing under revolving credit facility			1,238
Proceeds from the exercise of common stock options		75	150
Cash dividends paid	(11,318)	(13,906)	(12,438)
Cash dividends received under share repurchase forward contract	967	1,073	747
Proceeds from the issuance of long-term debt	6,000	143,859	18,200
Repurchases of convertible senior notes			(11,347)
Repurchases of senior notes		(40,250)	
Repayment of long-term debt	(1,127)	(974)	(455)
Repurchases of common stock	(1,151)	(30,718)	(464)
Repurchases of common stock under share repurchase plan	(20,015)	(15,154)	(20,026)
Purchase of non-controlling interest	(539)		(2,064)
Debt issuance costs	(105)	(4,975)	(339)
Tax benefits on stock-based compensation			641

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Net cash (used in) provided by financing activities	(27,288)	39,030	(26,157)
Effect of exchange rate changes on cash	(164)	61	3
Net (decrease) increase in cash, cash equivalents and restricted cash	(16,535)	(24,438)	13,093
Cash, cash equivalents and restricted cash at beginning of year	256,693	281,131	268,038
Cash, cash equivalents and restricted cash at end of year	\$ 240,158	\$ 256,693	\$ 281,131

(continued)

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Continued)****(Amounts in thousands)**

	Years Ended December 31,		
	2018	2017	2016
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	\$ 3,655	\$ 11,506	\$ 18,857
Cash paid for interest	\$ 10,720	\$ 8,906	\$ 7,222
Non-cash investing and financing activities:			
Unrealized (loss) gain on investments in available-for-sale securities, net of tax	\$ (2,835)	\$ 1,923	\$ 4,434
Details of business acquisition:			
Fair value of assets acquired	\$	\$	\$ 32,569
Less: Purchase price			(14,514)
Carrying value of previously held interest			(2,859)
Gain on remeasurement of previously held interest			(4,005)
Gain on bargain purchase			(2,071)
Liabilities assumed	\$	\$	\$ 9,120
Conversion of revolving credit facility to long-term debt	\$	\$ 9,441	\$
Receivable from sales of available-for-sale securities	\$	\$ 255	\$ 350
Payable on purchases of available-for-sale securities	\$	\$ 4	\$ 50
Addition to property and equipment under capital lease	\$ 61	\$	\$

See accompanying Notes to Consolidated Financial Statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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), its principal operating subsidiary, 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. During 2017, HCPCI received regulatory approval to write 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 major market. TypTap primarily offers standalone flood and homeowners multi-peril policies to Florida homeowners. HCPCI s and TypTap s operations are supported by HCI Group, Inc. and certain HCI subsidiaries.

In addition, HCI includes various subsidiaries predominantly engaged in the businesses of owning and leasing real estate, operating marina facilities and one restaurant, and developing software products. See Note 17 Segment Information.

The Company obtained a majority of its policies through participation in a take-out program with Citizens Property Insurance Corporation (Citizens), a Florida state supported insurer. Policies were obtained in separate assumption transactions with Citizens. The Company is required to offer renewals on the policies acquired for a period of three years subsequent to the initial expiration of the assumed policies. During the first full year after assumption, such renewals are required to have rates that are equivalent to or less than the rates charged by Citizens. Substantially all of the Company s premium revenue since inception comes from these assumptions and one additional assumption through which the Company acquired the Florida policies of another Florida insurance carrier.

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Note 2 Summary of Significant Accounting Policies

Basis of Presentation. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Adoption of New Accounting Standards.

The Company adopted the following accounting standards effective January 1, 2018.

Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company elected to use a modified retrospective method for transition to the new revenue recognition standard. The impact is limited to revenue from gift cards sold that is not material to the Company's results of operations.

Accounting Standards Update No. 2016-01 (ASU 2016-01), Financial Instruments Overall (Subtopic 825-10). ASU 2016-01 amends the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU 2016-01 requires all equity investments other than those accounted for under the equity method of accounting or those that result in consolidation of the investee to be measured at fair value with changes in the fair value recognized through income. ASU 2016-01 also supersedes the guidance that requires classification of equity securities with readily determinable fair values into either trading or available-for-sale. Upon adoption of this standard, the after-tax net unrealized holding gains of \$4,168 in accumulated other comprehensive income at December 31, 2017, which pertain to available-for-sale equity securities and represent a cumulative-effect amount, were reclassified to beginning retained income. Any subsequent changes in the fair value of equity securities have now been recognized in the Company's consolidated statement of income rather than in accumulated other comprehensive income. In addition, previously reported available-for-sale and trading equity securities of \$58,911 and \$1,045, respectively, at December 31, 2017 are combined and presented as equity securities on the consolidated balance sheet. Certain prior-period disclosures related to equity securities are reorganized to conform with current period presentation.

Accounting Standards Update No. 2016-18 (ASU 2016-18), Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 amends guidance on the classification and presentation of restricted cash in the statement of cash flows. Upon adoption of this standard, restricted cash is now included with cash and cash equivalents when the Company reconciles the beginning-of-period and end-of-period total amounts shown on the consolidated statement of cash flows. In addition, the consolidated statement of cash flows for the prior period presented is retrospectively restated to comply with the new standard. This change in classification and presentation of restricted cash increases the previously reported cash flows from operating activities from \$16,426 to \$16,635 for the year ended December 31, 2017 and from \$87,975 to \$88,275 for the year ended December 31, 2016.

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Accounting Standards Update No. 2017-09 (ASU 2017-09), Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an application of modification accounting. The adoption of this standard had no impact on the current or prior financial statements and will impact the Company's accounting for any future modification of its existing share-based awards.

Accounting Standards Update No. 2018-02 (ASU 2018-02), Income Statement – Reporting Comprehensive Income (Topic 220). ASU 2018-02 primarily allows a reclassification from accumulated other comprehensive income to retained income for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The Company elected to early adopt this standard in the first quarter of 2018. As a result, the Company decreased beginning retained income and increased accumulated other comprehensive income by \$984 of the net deferred tax effects pertaining to available-for-sale fixed-maturity and equity securities as of December 31, 2017.

Principles of Consolidation. The accompanying consolidated financial statements include the accounts of HCI Group, Inc. and its majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, the Company evaluates its relationships or investments for consolidation pursuant to authoritative accounting guidance related to the consolidation of variable interest entities under the Variable Interest Model prescribed by the Financial Accounting Standards Board (FASB). A variable interest entity is consolidated when the Company has the power to direct activities that most significantly impact the economic performance of the variable interest entity and has the obligation to absorb losses or the right to receive benefits from the variable interest entity that could potentially be significant to the variable interest entity. When a variable interest entity is not consolidated, the Company uses the equity method to account for the investment. Under this method, the carrying value is generally the Company's share of the net asset value of the unconsolidated entity, and changes in the Company's share of the net asset value are recorded in net investment income.

Use of Estimates. The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from these estimates. Material estimates that are particularly susceptible to significant change in the near term are primarily related to losses and loss adjustment expenses, reinsurance with retrospective provisions, reinsurance recoverable, deferred income taxes, and stock-based compensation expense.

Business Acquisitions. The Company accounts for business acquisitions using the acquisition method, which requires it to measure and recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at their acquisition date fair values. In the event that the fair value of net assets acquired exceeds the purchase price, a bargain purchase gain is recorded. In a step acquisition in which there is a change in ownership interest and control is obtained when there is a previously held equity interest, a gain or loss from remeasurement of the previously held equity interest to fair value is recorded.

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Before the adoption of Accounting Standards Update No. 2017-01, acquisitions of income-producing real properties were typically considered business acquisitions. As such, the Company allocated the purchase price to land, land improvements, buildings, tenant improvements, intangibles such as the value of significant tenant (i.e. anchor tenant) relationships, in-place leases, and assumed liabilities, if any. Tangible assets are presented as real estate investments on the Company's consolidated balance sheet. Buildings subject to leases are valued as if vacant. The value attributable to in-place leases reflects the costs we would have incurred to lease the property to the occupancy level that existed at the acquisition date. These costs include leasing commissions, tenant improvement allowances, and other direct costs required to lease the property. In addition, the estimated fair value of in-place leases reflects the value of base rental revenues that would have been earned during the assumed periods of vacancy and the related carrying costs that would have been incurred to lease the vacant property to its existing occupancy. The Company also reviews terms of the assumed leases to evaluate whether the terms are favorable or unfavorable relative to the market at the acquisition date. In the event the assumed leases are not at market terms, the Company recognizes an intangible asset for a lease with favorable terms and a liability if the terms of the lease are unfavorable.

After the adoption of Accounting Standards Update No. 2017-01 during the fourth quarter of 2017, the Company evaluates whether substantially all of the fair value of the gross assets acquired in a real estate transaction is concentrated in a single identifiable asset or group of similar identifiable assets. If such concentration is substantial, the transaction is accounted for as an asset acquisition. As a result, the cost of acquiring real estate is allocated to the individual assets based on the relative fair values of the individual assets. Acquisition related costs are capitalized and allocated among the assets acquired.

Cash and Cash Equivalents. The Company considers all short-term highly liquid investments with original maturities of less than three months to be cash and cash equivalents. At December 31, 2018 and 2017, cash and cash equivalents consisted of cash on deposit with financial institutions and securities brokerage firms, commercial paper, and certificates of deposit.

Available-for-Sale Fixed-Maturity Securities. Fixed-maturity securities include debt securities and redeemable preferred stock. The Company's available-for-sale securities are carried at fair value. Temporary changes in the fair value of available-for-sale securities are excluded from net investment income and reported in stockholders' equity as a component of accumulated other comprehensive income, net of deferred income taxes. Realized investment gains and losses from sales are recorded on the trade date and are determined using the first-in first-out (FIFO) method. Investment income is recognized as earned and discounts or premiums arising from the purchase of debt securities are recognized in investment income using the interest method over the estimated remaining term of the security. Gains and losses from call redemptions and repayments are charged to investment income.

The Company reviews fixed-maturity securities for other-than-temporary impairment on a monthly basis. When the fair value of any investment is lower than its cost, an assessment is made to determine whether the decline is temporary or other-than-temporary. If the decline is determined to be other-than-temporary, the investment is written down to fair value and an impairment loss is recognized in income in the period in which the Company makes such determination.

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When reviewing impaired securities, the Company considers its ability and intent to hold these securities and whether it is probable that the Company will be required to sell these securities prior to their anticipated recovery or maturity. For the fixed-maturity securities that the Company intends to sell or it is probable that the Company will have to sell before recovery or maturity, the unrealized losses are recognized as other-than-temporary losses in income. In instances where there are credit related losses associated with the impaired fixed-maturity securities for which the Company asserts that it does not have the intent to sell, and it is probable that the Company will not be required to sell until a market price recovery or maturity, the amount of the other-than-temporary impairment loss related to credit losses is recognized in income, and the amount of the other-than-temporary impairment loss related to other non-credit factors such as changes in interest rates or market conditions is recorded as a component of accumulated other comprehensive income.

When determining impairment due to a credit related loss, the Company carefully considers factors such as the issuer's financial ratios and condition, the security's current ratings and maturity date, and overall market conditions in estimating the cash flows expected to be collected. The expected cash flows discounted at the effective interest rate of the security implicit at the date of acquisition is then compared with the security's amortized cost at the measurement date. A credit loss is incurred when the present value of the expected cash flows is less than the security's amortized cost. The Company considers various factors in determining whether an individual security is other-than-temporarily impaired (see *Available-for-Sale Fixed-Maturity Securities* in Note 5 Investments).

Equity Securities. Equity securities represent ownership interests held by the Company in entities for investment purposes. Prior to January 1, 2018, these equity securities were classified as either available-for-sale or trading and were carried at fair value on the Company's consolidated balance sheet. Unrealized holding gains and losses from the changes in the fair values of available-for-sale equity securities were reported in accumulated other comprehensive income. Effective January 1, 2018, after adoption of ASU 2016-01, unrealized holding gains and losses are reported in the consolidated statement of income as net unrealized investment gains and losses. As a result, other-than-temporary impairments will no longer be considered for equity securities. Realized investment gains and losses from sales are recorded on the trade date and are determined using the first-in first-out method (see *Equity Securities* in Note 5 Investments).

Short-Term Investments. Short-term investments include certificates of deposit issued by financial institutions and commercial paper with original maturities of more than three months but less than one year at date of acquisition. These short-term investments are carried at cost or amortized cost, which approximates fair value.

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 did not elect the fair value option and, therefore, uses the equity method to account for these investments (see *Limited Partnership Investments* in Note 5 Investments). The Company generally recognizes its share of the limited partnership's earnings or losses on a three-month lag.

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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.

Investment in Unconsolidated Joint Venture. The Company has a 90% equity interest in a limited liability company (treated as a joint venture under U.S. GAAP) that owns land for lease or for sale and, until December 2016, owned and operated a retail shopping center. The joint venture was determined to be a variable interest entity as it lacks sufficient equity to finance its activities without additional subordinated financial support. Despite having a majority equity interest, the Company does not have the power to direct the activities that most significantly impact the economic performance of the joint venture and, accordingly, is not required to consolidate the joint venture as its primary beneficiary. As a result, the Company uses the equity method to account for this investment.

When evidence indicates an impairment may occur, the Company evaluates whether a decline in value is other than temporary. Evidence may include continuing operating losses of the joint venture, a declining occupancy rate, a decrease in real estate value, and an oversupply of rental property in close vicinity to the investment property. Should available evidence indicate the recovery of the initial investment is less likely, the Company would compare the carrying value of the investment with its expected residual value and recognize an impairment loss in earnings.

Assets Held for Sale. Assets held for sale are valued at the lower of the carrying value or fair value less costs to sell. Assets are classified as held for sale when the following criteria are met: (i) management has the authority and commits to a plan to sell the asset; (ii) the asset is available for immediate sale in its present condition; (iii) there is an active program to locate a buyer and the plan to sell the asset has been initiated; (iv) the sale of the asset is probable within one year; (v) the property is being actively marketed at a reasonable sale price relative to its current fair value; and (vi) it is unlikely that the plan to sell will be withdrawn or that significant changes to the plan will be made.

In determining the fair value of the assets less costs to sell, the Company primarily relies on the value determined by an independent appraiser. If the estimated fair value less costs to sell is less than the carrying value of the asset, the asset is written down to its estimated fair value less costs to sell and an impairment loss is recognized in the consolidated statement of income. Depreciation is not recorded while assets are classified as held for sale.

Real Estate Investments. Real estate investments include real estate and the related assets purchased for investment purposes (see Note 5 Investments). Real estate and the related depreciable assets are carried at cost, net of accumulated depreciation, which is included in net investment income and allocated over the estimated useful life of the asset using the straight-line method of depreciation. Land is not depreciated. Real estate is evaluated for impairment when events or circumstances indicate the carrying value of the real estate may not be recoverable.

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 is amortized over the life of the related policy in relation to the amount of gross premiums earned.

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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.

Property and Equipment. Property and equipment is stated at cost less accumulated depreciation and amortization, which is included in other operating expenses. Depreciation is calculated on a straight-line basis over the estimated useful lives as follows: building, 39 years; computer hardware and software, 3 years; and office and furniture equipment, 3 to 7 years. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life. Land is not depreciated. Expenditures for improvements are capitalized to the property accounts. Replacements and maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred. The Company capitalizes both internal and external costs for internally developed software during the application development stage. During the preliminary project and post-implementation stage, internal-use software development costs are expensed as incurred. Capitalized software costs are depreciated on a straight-line basis over the estimated useful life of 7 years.

Impairment of Long-Lived Assets. Long-lived assets, such as property and equipment, are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company assesses the recoverability of long-lived assets by determining whether the assets can be recovered from undiscounted future cash flows. Recoverability of long-lived assets is dependent upon, among other things, the Company's ability to maintain profitability, so as to be able to meet its obligations when they become due. In the opinion of management, based upon current information and projections, long-lived assets will be recovered over the period of benefit.

Intangible Assets. Intangibles consist of the value attributable to the acquired in-place leases and the primary, or anchor, tenant relationships. The value attributable to the anchor tenant relationship represents the economic benefits of having a nationally recognized retailer as the lead tenant, which draws consumer traffic and other tenants to the retail center. These intangibles are amortized to expense over the related lease term. Amortization of the intangibles related to real estate investments is reflected in net investment income in the consolidated statement of income. The Company reviews these intangible assets for impairment annually or when events or changes in circumstances indicate the carrying value may not be recoverable. In the event the Company determines the carrying value is not recoverable, an impairment loss is recorded in the Company's consolidated statement of income.

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Lease Acquisition Costs. Lease acquisition costs represent capitalized costs of finding and acquiring tenants such as leasing commissions, legal, and marketing expenses. The costs are included in Other assets in the consolidated balance sheet. The Company amortizes these costs in other operating expenses on a straight-line basis over the term of a lease.

Long-Term Debt. Long-term debt is generally classified as a liability and carried at amortized cost, net of any discount and issuance costs. At issuance, a debt instrument with embedded features such as conversion and redemption options is evaluated to determine whether bifurcation and derivative accounting is applicable. If such instrument is not subject to derivative accounting, it is further evaluated to determine if the Company is required to separately account for the liability and equity components.

To determine the carrying values of the liability and equity components at issuance, the Company measures the fair value of a similar liability, including any embedded features other than the conversion option, and assigns such value to the liability component. The liability component's fair value is then subtracted from the initial proceeds to determine the carrying value of the debt instrument's equity component, which is included in additional paid-in capital.

Any embedded feature other than the conversion option is evaluated at issuance to determine if it is probable that such embedded feature will be exercised. If the Company concludes that the exercisability of that embedded feature is not probable, the embedded feature is considered to be non-substantive and would not impact the initial measurement and expected life of the debt instrument's liability component.

Transaction costs related to issuing a debt instrument that embodies both liability and equity components are allocated to the liability and equity components in proportion to the allocation of the proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. Debt issuance costs are capitalized and presented as a deduction from the carrying value of the debt. Both debt discount and deferred debt issuance costs are amortized to interest expense over the expected life of the debt instrument using the effective interest method. Equity issuance costs are a reduction to the proceeds allocated to the equity component.

Prepaid Share Repurchase Forward Contract. A prepaid share repurchase forward contract is generally a contract that allows the Company to buy from the counterparty a specified number of common shares at a specific time at a given forward price. The Company entered into such a contract and evaluated the characteristics of the forward contract to determine whether it met the definition of a derivative financial instrument pursuant to U.S. GAAP. The Company determined the forward contract is an equity contract on the Company's common shares requiring physical settlement in common shares of the Company. As such, the transaction is recognized as a component of stockholders equity with a charge to additional paid-in capital equal to the prepayment amount, which represents the cash paid to the counterparty. There will be no recognition in earnings for changes in fair value in subsequent periods.

Losses and Loss Adjustment Expenses. Reserves for losses and loss adjustment expenses (LAE) are determined by establishing liabilities in amounts estimated to cover incurred losses and LAE. Such reserves are determined based on the assessment of claims reported and the development of pending claims. These reserves are based on individual case

estimates for the reported losses and LAE and estimates of such amounts that are incurred but not reported. Changes in the estimated liability are charged or credited to income as the losses and LAE are settled.

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The estimates of unpaid losses and LAE are subject to trends in claim severity and frequency and are continually reviewed. As part of the process, the Company reviews historical data and considers various factors, including known and anticipated 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 LAE. Adjustments are reflected in the results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates. Losses and LAE ceded to or recovered from reinsurers are recorded as a reduction to losses and LAE on the consolidated statement of income.

Advance Premiums. Premium payments received prior to the policy effective date are recorded as advance premiums. Once the policy is in force, the premiums are recorded as described under *Premium Revenue* below.

Reinsurance. In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. 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. Amounts recoverable from reinsurers are estimated in a manner consistent with the applicable reinsurance contract or contracts. Reinsurance premiums and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of gross premiums earned. Prepaid reinsurance premiums represent the unexpired portion of premiums ceded to reinsurers.

Certain of the Company's current reinsurance contracts contain retrospective provisions including terms and conditions that adjust premiums, increase the amount of future coverage, or result in profit commissions based on the loss experience under the contracts. In such cases, a with-and-without method is used to estimate the asset or liability amount to be recognized at each reporting date. The amount of the estimate is the difference between the net contract costs before and after the loss experience under the contract. Estimates related to premium adjustments, profit commissions and coverage changes are recognized in ceded premiums earned. These estimates are reviewed monthly based on the loss experience to date and as adjustments become necessary. Such adjustments are reflected in the Company's current operations and recorded in other assets until received upon the expiration of the contracts.

The Company receives ceding commissions from ceding gross written premiums to a third-party reinsurer under one flood quota share reinsurance contract. The ceding commissions represent the reimbursement of the Company's policy acquisition, underwriting and other operating expenses. Ceding commissions received cover a portion of premium taxes and agent commissions capitalized by the Company and a portion of non-capitalized acquisition costs and other underwriting expenses. Ceding commissions are recognized to income on a pro-rata basis over the terms of the policies reinsured, the amount of which is included in policy acquisition and other underwriting expenses in the consolidated statement of income. The unearned portion of ceding commissions that represents recovery of capitalized acquisition costs is classified as a reduction of deferred policy acquisition costs whereas the remaining unearned balance is classified as deferred revenue in other liabilities.

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Reinsurance Recovered in Advance on Unpaid Losses. Reinsurance recovered in advance on unpaid losses represents cash received in advance from reinsurers under reinsurance contracts to reimburse the Company's losses and LAE. The Company is contractually permitted to apply these funds to offset the paid portion of reinsurance recoverable only.

Premium Revenue. Premium revenue is earned on a daily pro-rata basis over the term of the policies and is included in gross premiums earned. Unearned premiums represent the portion of the premiums attributable to the unexpired policy term. The Company reviews its policy detail and establishes an allowance for any amount outstanding for more than 90 days. At December 31, 2018 and 2017, there was no allowance required.

Policy Fees. Policy fees represent nonrefundable fees for insurance coverage, which are intended to reimburse a portion of the costs incurred to underwrite the policy. Policy fees are recognized ratably over the policy coverage period.

Florida Insurance Guaranty Association Assessments. The Company's Florida insurance subsidiaries may be assessed by the state guaranty association. The assessments are intended to be used for the payment of covered claims of insolvent insurance entities. The assessments are generally based on a percentage of premiums written during or following the year of insolvency. Liabilities are recognized when the assessments are probable to be imposed on the premiums on which they are expected to be based and the amounts can be reasonably estimated. The insurer is permitted by Florida statutes to recover the entire amount of assessments from in-force and future policyholders through policy surcharges. U.S. GAAP provides that the Company should record an asset based on the amount of written or obligated-to-write premiums and limited to the amounts recoverable over the life of the in-force policies.

Foreign Currency. The functional currency of the Company's Indian subsidiary is the U.S. dollar. As such, the monetary assets and liabilities of this subsidiary are remeasured into U.S. dollars at the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities are remeasured using historical rates. Expenses recorded in the local currency are remeasured at the prevailing exchange rate. Exchange gains and losses resulting from these remeasurements are included in other operating expenses.

Income Taxes. The Company files consolidated federal and state income tax returns and allocates taxes among its wholly owned subsidiaries in accordance with a written tax-allocation agreement.

The Company accounts for income taxes in accordance with U.S. GAAP, resulting in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term *more likely than not* means a likelihood of more than fifty percent; the terms *examined* and *upon examination* also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. As of December 31, 2018, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

Fair Value of Financial Instruments. The carrying amounts for the Company's cash and cash equivalents approximate their fair values at December 31, 2018 and 2017. Fair values for securities or financial instruments are based on the framework for measuring fair value established by U.S. GAAP (see Note 8 *Fair Value Measurements*).

Stock-Based Compensation. The Company accounts for stock-based compensation under the fair value recognition provisions of U.S. GAAP which requires the measurement and recognition of compensation for all stock-based awards made to employees and directors including stock options and restricted stock issuances based on estimated fair values. In accordance with U.S. GAAP, the fair value of stock-based awards to employees is generally recognized as compensation expense over the requisite service period, which is defined as the period during which an employee is required to provide service in exchange for an award. The Company uses a straight-line attribution method for all grants that include only a service condition. The Company's restricted stock awards include service and market conditions. As a result, restricted stock grants with market conditions are expensed over the derived service period for each separately vesting tranche. Compensation expense related to all awards is included in general and administrative personnel expenses. The Company receives a windfall tax benefit for certain stock option exercises during the period of exercise and for restricted stock awards if these awards vest at a higher value than the value used to recognize compensation expense. In the event the restricted stock awards vest at a lower value than the value used to recognize compensation expense, the Company experiences a tax shortfall. The Company recognizes tax windfalls and shortfalls in the consolidated statement of income. Prior to January 1, 2017, the windfall tax benefit was recognized in additional paid-in-capital in the consolidated statements of stockholders' equity whereas the shortfall was charged to additional paid-in-capital to the extent of the Company's pool of windfall tax benefits with any remainder recognized in income tax expense. For 2016, all shortfall amounts were charged to additional paid-in-capital with no additional income tax expense recognized for these shortfalls.

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Basic and diluted earnings (loss) per common share. Basic earnings (loss) per common share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding for the period. U.S. GAAP requires the inclusion of restricted stock as participating securities since holders of the Company's restricted stock have the right to share in dividends, if declared, equally with common stockholders. In addition, the intrinsic value of restricted stock declines when the Company experiences operating losses. As a result, holders of the Company's restricted stock are allocated a proportional share of net income and loss determined by dividing total weighted-average shares of restricted stock by the sum of total weighted-average common shares and shares of restricted stock (the two-class method). Diluted earnings (loss) per common share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted as well as participating equities. During loss periods, common stock equivalents such as stock options and convertible debt are excluded from the calculation of diluted loss per share, as the inclusion would have an anti-dilutive effect. See Note 19 Earnings Per Share for potentially dilutive securities at December 31, 2018, 2017 and 2016.

Statutory Accounting Practices. The Company's U.S. insurance subsidiaries comply with statutory accounting practices prescribed by the National Association of Insurance Commissioners. There are no state prescribed or permitted practices that have been adopted by the Company's U.S. subsidiaries. In addition, the Company's Bermuda insurance subsidiary prepares and files financial statements in accordance with the prescribed regulatory accounting practices of the Bermuda Monetary Authority.

Reclassifications. Certain reclassifications of prior year amounts have been made to conform to the current year presentation. For example, certain payroll-related costs such as share-based compensation expense, payroll taxes and employee benefits, which were previously reported in other operating expenses totaling \$7,163 for the year ended December 31, 2016 were reclassified to general and administrative personnel expenses to conform with the 2018 and 2017 presentation.

Note 3 Recent Accounting Pronouncements

Accounting Standards Update No. 2018-13. In August 2018, the FASB issued Accounting Standards Update No. 2018-13 (ASU 2018-13), Fair Value Measurement (Topic 820): Disclosure Framework, which removes, modifies and adds certain disclosure requirements about recurring and nonrecurring fair value measurements. ASU 2018-13 is effective for the Company beginning with the first quarter of 2020. Early adoption is permitted. This guidance will impact the Company's future fair value disclosures in the notes to the consolidated financial statements.

Accounting Standard to be Adopted in Fiscal Year 2019

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842). The guidance establishes new principles that lessees and lessors will apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. ASU 2016-02 supersedes accounting for leases prescribed in Topic 840, Leases. ASU 2016-02 leaves lessor accounting substantially

unchanged. The key change affecting the Company is the requirement that operating leases be recorded on the balance sheet. The Company was initially required to use a modified retrospective method and apply this standard at the beginning of the earliest comparative period presented in the financial statements. The FASB later issued Accounting Standards Update No. 2018-11, Transition and Lessor Improvements, which provides a new alternative transition method. Under the alternative transition method, the Company is permitted to apply this standard at the beginning of the adoption period. The Company has identified lease contracts that will be affected by this standard and chosen to apply the practical expedients related to the identification and classification of leases that commenced before the effective date, initial direct cost for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease. The Company has elected to use the alternative transition method. In 2019, ASU 2016-02 will result in the Company recording right-of-use assets of approximately \$755 and lease liabilities of approximately \$796. As such, the Company does not anticipate a material impact on its financial position.

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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 consolidated statements of cash flows.

	December 31,	
	2018	2017
Cash and cash equivalents	\$ 239,458	\$ 255,884
Restricted cash	700	809
Total	\$ 240,158	\$ 256,693

Restricted cash primarily represents funds held by certain states in which the Company's insurance subsidiaries conduct business to meet regulatory requirements. In August 2018, a \$109 deposit related to a mortgage loan with one regional bank was released to the Company.

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 December 31, 2018 and 2017, the cost or amortized cost, gross unrealized gains and losses, and estimated fair value of the Company's available-for-sale securities by security type were as follows:

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	Cost or Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
<i>As of December 31, 2018</i>				
U.S. Treasury and U.S. government agencies	\$ 61,979	\$ 24	\$ (206)	\$ 61,797
Corporate bonds	103,580	134	(1,809)	101,905
State, municipalities, and political subdivisions	10,567	98	(3)	10,662
Exchange-traded debt	8,426	82	(261)	8,247
Redeemable preferred stock	118		(6)	112
Total	\$ 184,670	\$ 338	\$ (2,285)	\$ 182,723
<i>As of December 31, 2017</i>				
U.S. Treasury and U.S. government agencies	\$ 42,313	\$ 1	\$ (287)	\$ 42,027
Corporate bonds	106,897	1,110	(904)	107,103
State, municipalities, and political subdivisions	78,954	1,816	(75)	80,695
Exchange-traded debt	7,469	197	(7)	7,659
Total	\$ 235,633	\$ 3,124	\$ (1,273)	\$ 237,484

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 at December 31, 2018 and 2017 are as follows:

	December 31,			
	2018		2017	
	Cost or Amortized Cost	Estimated Fair Value	Cost or Amortized Cost	Estimated Fair Value
Available-for-sale				
Due in one year or less	\$ 50,659	\$ 50,574	\$ 35,386	\$ 35,364
Due after one year through five years	117,826	116,498	116,378	115,766
Due after five years through ten years	11,602	11,253	57,415	58,984
Due after ten years	4,583	4,398	26,454	27,370
	\$ 184,670	\$ 182,723	\$ 235,633	\$ 237,484

Sales of Available-for-Sale Fixed-Maturity Securities

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Proceeds received, and the gross realized gains and losses from sales of available-for-sale fixed-maturity securities, for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Year ended December 31, 2018	\$ 81,809	\$ 1,293	\$ (570)
Year ended December 31, 2017	\$ 31,759	\$ 2,176	\$ (181)
Year ended December 31, 2016	\$ 40,454	\$ 604	\$ (79)

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)****Other-than-temporary Impairment***

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

the financial condition and near-term prospects of the issuer, including any specific events that may affect its operations or earnings;

the length of time and 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.

For the year ended December 31, 2018, the Company recognized \$80 of impairment loss on one fixed-maturity security in the consolidated statement of income. For the year ended December 31, 2017, the Company recognized impairment losses of \$428 related to the sale of four intent-to-sell fixed-maturity securities. For the year ended December 31, 2016, the Company recognized \$1,565 of impairment losses on four fixed-maturity securities, representing \$1,335 of additional losses recorded during the period and \$230 of the net change recorded in other comprehensive income.

The following table presents a rollforward of the cumulative credit losses in other-than-temporary impairments recognized in income for available-for-sale fixed-maturity securities:

	2017	2016
Balance at January 1	\$ 475	\$ 111
Credit impairments on impaired securities		475
Additional credit impairments on previously impaired securities		293

Credit impaired security fully disposed of for which there was no prior intent or requirement to sell	(475)	(385)
Reduction due to increase in expected cash flows recognized over the remaining life of the previously impaired security		(19)
Balance at December 31	\$	\$ 475

There was no activity related to cumulative credit losses during 2018. During 2017, the Company sold two fixed-maturity securities with cumulative credit losses totaling \$475. The decision to sell these securities before their maturity was primarily driven by the impact of the Tax Cut and Jobs Act signed into law in 2017. Of two fixed-maturity securities with credit related losses existing at January 1, 2016, one matured with full payment of principal and interest and one was sold due to uncertainties surrounding the issuer's restructuring plan during 2016.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

Securities with gross unrealized loss positions at December 31, 2018 and 2017, 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 December 31, 2018						
U.S. Treasury and U.S. government agencies	\$ (59)	\$ 21,031	\$ (147)	\$ 35,393	\$ (206)	\$ 56,424
Corporate bonds	(542)	19,932	(1,267)	36,682	(1,809)	56,614
State, municipalities, and political subdivisions	(3)	715			(3)	715
Exchange-traded debt	(261)	5,275			(261)	5,275
Redeemable preferred stock	(6)	112			(6)	112
Total available-for-sale securities	\$ (871)	\$ 47,065	\$ (1,414)	\$ 72,075	\$ (2,285)	\$ 119,140

At December 31, 2018, there were 82 securities in an unrealized loss position. Of these securities, 35 securities 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, 2017						
U.S. Treasury and U.S. government agencies	\$ (246)	\$ 40,587	\$ (41)	\$ 1,938	\$ (287)	\$ 42,525
Corporate bonds	(174)	40,627	(730)	30,563	(904)	71,190
State, municipalities, and political subdivisions	(30)	9,775	(45)	2,297	(75)	12,072
Exchange-traded debt	(6)	2,481	(1)	36	(7)	2,517
Total available-for-sale securities	\$ (456)	\$ 93,470	\$ (817)	\$ 34,834	\$ (1,273)	\$ 128,304

At December 31, 2017, there were 77 securities in an unrealized loss position. Of these securities, 15 securities had been in an unrealized loss position for 12 months or longer.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

b) Equity Securities

The Company holds investments in equity securities measured at fair values which are readily determinable. At December 31, 2018 and 2017, 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
December 31, 2018	\$ 45,671	\$ 1,059	\$ (5,587)	\$ 41,143
December 31, 2017	\$ 54,282	\$ 6,383	\$ (709)	\$ 59,956

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.

	Year Ended December 31, 2018
Net losses recognized	\$ (4,811)
Less: Net realized gains recognized for securities sold	5,391
Net unrealized losses recognized*	\$ (10,202)

* Unrealized holding gains and losses for the comparative years in 2017 and 2016 were reported in accumulated other comprehensive income. See *Adoption of New Accounting Standards* in Note 2 – Summary of Significant Accounting Policies for additional information.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)****Sales of Equity Securities***

Proceeds received, and the gross realized gains and losses from sales of equity securities, for the years ended December 31, 2018 and 2017 were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Year ended December 31, 2018	\$ 66,439	\$ 7,324	\$ (1,933)
Year ended December 31, 2017	\$ 45,282	\$ 3,993	\$ (1,642)
Year ended December 31, 2016	\$ 23,127	\$ 2,656	\$ (580)

Other-than-temporary Impairment before 2018

Prior to the adoption of ASU 2016-01 as described in Note 2 – Summary of Significant Accounting Policies, equity securities classified as available-for-sale were evaluated for other-than-temporary impairment. When the impairment existed, an impairment loss was recognized in the consolidated statement of income. For the years ended December 31, 2017 and 2016, the Company recognized impairment losses of \$1,039 and \$917, respectively, related to available-for-sale equity securities.

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. In February 2018, the Company entered into a subscription agreement to invest \$5,000 with a limited partnership specializing in real estate private equity funds and portfolios. Subsequently, in September 2018, the Company increased its aggregate investment commitment with this limited partnership to \$10,000. The following table provides information related to the Company's investments in limited partnerships:

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

	December 31, 2018			December 31, 2017		
	Carrying Value	Unfunded Balance	(%)(a)	Carrying Value	Unfunded Balance	(%)(a)
Investment Strategy						
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)	\$ 10,169	\$ 2,577	15.37	\$ 7,276	\$ 5,505	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)	9,219		1.76	7,951	1,745	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)	9,023	2,329	0.18	7,509	2,512	0.18
Value-oriented investments in less liquid and mispriced senior and junior debts of private equity-backed companies. (b)(h)(i)	1,156	3,706	0.47	448	4,566	0.47
Value-oriented investments in mature real estate private equity funds and portfolios globally. (b)(j)	2,726	7,692	3.28			
Total	\$ 32,293	\$ 16,304		\$ 23,184	\$ 14,328	

- (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 and the capital commitment is expected to expire on September 3, 2019.
- (d) Expected to have a three-year term from June 30, 2018. Although the capital commitment period already ended, the general partner could still request an additional funding of approximately \$843 under certain circumstances.
- (e) At the fund manager's discretion, the term of the fund may be extended for up to two additional one-year periods.
- (f) Expected to have a ten-year term and the capital commitment is expected to expire on June 30, 2020.
- (g) With the consent of a supermajority of partners, the term of the fund may be extended for up to three additional one-year periods.
- (h) Expected to have a six-year term from the commencement date, which can be extended for up to two additional one-year periods with the consent of either the advisory committee or a majority of limited partners.
- (i) Unless extended or terminated for reasons specified in the agreement, the capital commitment is expected to expire on December 1, 2019.
- (j) Expected to have an eight-year term after the final fund closing date, which has yet to be determined.

The following is the aggregated summarized 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. In applying the equity method of accounting, the Company uses the most recently available financial information provided by the general partner of each of these partnerships. The financial statements of these limited partnerships are audited annually.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

	Years Ended December 31,		
	2018	2017	2016
<i>Operating results:</i>			
Total income	\$ 1,821,935	\$ 409,169	\$ 310,998
Total expenses	146,079	105,281	185,126
Net income (loss)	\$ 1,675,856	\$ 303,888	\$ 125,872

	December 31,	
	2018	2017
<i>Balance Sheet:</i>		
Total assets	\$ 6,689,792	\$ 4,381,321
Total liabilities	\$ 394,029	\$ 382,310

For the years ended December 31, 2018, 2017 and 2016, the Company recognized net investment income of \$4,430, \$2,334 and \$1,207, respectively, for these investments. At December 31, 2018 and 2017, the Company's cumulative contributed capital to the partnerships existing at each respective balance sheet date totaled \$28,354 and \$21,172, respectively, and the Company's maximum exposure to loss aggregated \$32,293 and \$23,184, respectively.

During the year ended December 31, 2018, the Company received in cash a return on investment of \$2,345 and a return of capital of \$158. During the year ended December 31, 2017, the Company received total cash distributions of \$12,639, representing \$11,758 of returned capital and \$881 of return on investment. Included in the return of capital was \$11,626 from one limited partnership the Company withdrew from in February 2017. During the year ended December 31, 2016, the Company received in cash \$544 of return on investment.

For the years ended December 31, 2018, 2017 and 2016, the Company recognized its share of earnings or losses based on the respective partnership's statement of income. The carrying value of these investments approximates the amount the Company expected to recover at December 31, 2018 and 2017.

d) Investment in Unconsolidated Joint Venture

Melbourne FMA, LLC, a wholly owned subsidiary, currently has a 90% equity interest in FMKT Mel JV, LLC (FMJV), a Florida limited liability company treated as a joint venture under U.S. GAAP. FMJV is deemed a variable interest entity due to its lack of sufficient equity to finance its operations without direct or indirect additional financial support from parties to the joint venture. Although Melbourne FMA holds a majority interest in FMJV, certain major economic decisions specified in the agreement are not under Melbourne FMA's control. As a result, Melbourne FMA is not the primary beneficiary and is not required to consolidate FMJV.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

In January 2016, FMJV sold a portion of its outparcel land for gross proceeds of \$829, of which \$515 was used to repay a portion of the construction loan obtained for its real estate development project. FMJV recognized a \$404 gain on the outparcel sale of which \$383 was allocated to the Company in accordance with the profit allocation specified in the operating agreement. On December 15, 2016, FMJV distributed its entire equity interest in FMKT Mel Manager, LLC (FMKT MGA), its wholly owned subsidiary, to Melbourne FMA and the other member, each of which received 90% and 10%, respectively. In addition to operating a retail shopping center business, FMKT MGA owned land which included two outparcels. Melbourne FMA accounted for this transaction as a business step acquisition using the fair value method and, as a result, recognized a \$4,005 gain on remeasurement of previously held interest. The gain represented the difference between the fair value of the 90% equity interest and its carrying value under the equity method. The fair value of the equity interest was comprised of the fair value of FMKT MGA 's underlying assets primarily determined by an independent appraiser offset by the fair value of liabilities assumed on the date of distribution. Inputs used by the appraiser included, but were not limited to, information about market and surrounding environments, demographics, and the sale or rent of similar types of property within the vicinity. Due to their short-term nature, the carrying value of current assets and assumed liabilities, including a variable interest rate revolving credit line, approximated fair value. See *Pineda Landings - Melbourne, Florida* in Note 7 Business Acquisitions for additional information.

In March 2017, FMJV sold a portion of its outparcel land for gross proceeds of \$825 and recognized a \$331 gain on sale of which \$199 was allocated to the Company in accordance with the profit allocation specified in the operating agreement. During 2017, FMKT MGA was merged with Melbourne FMA, LLC. In June 2018, FMJV sold one of its outparcels for \$849 and recognized a gain of \$438.

At December 31, 2018 and 2017, the Company 's maximum exposure to loss relating to the variable interest entity was \$845 and \$1,304, respectively, representing the carrying value of the investment. At December 31, 2018 and 2017, there was no undistributed income from this equity method investment. There was an undistributed loss, after an equity distribution, of \$25 at December 31, 2016, the amounts of which were included in the Company 's consolidated retained income.

For the year ended December 31, 2018, the Company received a cash distribution of \$763, representing a combined distribution of \$68 in earnings and \$695 in capital. For the year ended December 31, 2017, the Company received a cash distribution of \$564, representing a combined distribution of \$147 in earnings and \$417 in capital. The limited liability company members received no cash distributions during 2016. The following tables provide FMJV 's summarized unaudited financial results and the unaudited financial positions:

	Years Ended December 31,		
	2018	2017	2016
<i>Operating results:</i>			
Total revenues	\$ 438	\$ 331	\$

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Total expenses	100	483	
Net income (loss)	\$ 338	\$ (152)	\$
The Company's share of net income (loss) (a)	\$ 304	\$ (234)	\$

- (a) Included in net investment income in the Company's consolidated statements of income. Gain from the sale of the outparcel during 2017 was allocated in accordance with the method specified in the operating agreement.

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

	December 31,	
	2018	2017
<i>Balance Sheet:</i>		
Construction in progress real estate	\$	\$ 27
Property and equipment, net	787	1,199
Cash	149	236
Other	5	5
Total assets	\$ 941	\$ 1,467
Other liabilities	\$ 3	\$ 18
Members capital	938	1,449
Total liabilities and members capital	\$ 941	\$ 1,467
Investment in unconsolidated joint venture, at equity*	\$ 845	\$ 1,304

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

In 2017, FMJV decided to terminate its development plan for nearby land, thereby expensing \$382 of deferred costs associated with the land feasibility study. FMJV's assets at December 31, 2018 and 2017 included primarily outparcels for sale or lease which have increased in value since the adjacent retail shopping center was completed. The Company determined that there was no impairment loss associated with these assets for the years ended December 31, 2018 and 2017.

e) Assets Held for Sale

On November 5, 2018, Greenleaf Capital, LLC, the Company's wholly-owned subsidiary, listed its 10-acre waterfront property in Treasure Island, Florida for sale. The property primarily consists of land, commercial and marina buildings. This property, which is owned by the real estate division, was reclassified from real estate investments to assets held for sale in the Company's consolidated balance sheet. The recording of depreciation on the buildings ceased November 5, 2018 resulting in a \$34 decrease in depreciation expense in 2018 compared with 2017.

f) Real Estate Investments

Real estate investments include buildings with office and retail space for lease, outparcels, and one marina. Real estate investments consist of the following as of December 31, 2018 and 2017:

	December 31,	
	2018	2017
Land	\$ 23,884	\$ 26,315
Land improvements	8,717	9,904
Building	19,201	21,284
Tenant and leasehold improvements	1,261	1,204
Other	5,266	3,050
Total, at cost	58,329	61,757
Less: accumulated depreciation and amortization	(3,839)	(3,399)
Real estate investments	\$ 54,490	\$ 58,358

In November 2018, the Company reclassified a net carrying value of \$9,810 from real estate investments to assets held for sale.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

On June 13, 2018, the Company, through a wholly owned subsidiary, acquired commercial real estate in Clearwater, Florida, including assumed liabilities of \$35, for a purchase price of \$6,766. The real estate consisted of land, one in-place lease agreement which was recorded in intangible assets, and commercial structures that are currently under renovation. This transaction was accounted for as an asset acquisition.

On October 17, 2017, the Company, through a wholly owned subsidiary, acquired commercial real estate in Tampa, Florida for a purchase price of \$9,100. The acquired assets primarily consisted of land, building and in-place lease agreements. The Company incurred approximately \$115 of acquisition-related costs and accounted for this transaction as an asset acquisition in accordance with ASU 2017-01 which the Company early adopted in the fourth quarter of 2017. As a result, all transaction-related costs were allocated among the assets acquired.

Depreciation and amortization expense related to real estate investments was \$1,536, \$1,447 and \$531, respectively, for the years ended December 31, 2018, 2017 and 2016.

g) Consolidated Variable Interest Entity

The Company has a commercial property in Riverview, Florida which was developed by a limited liability company treated under U.S. GAAP as a joint venture. On January 26, 2018, the Company gained full ownership of this limited liability company by acquiring the noncontrolling interest for \$539 which was reported in the Company's consolidated statement of stockholders' equity. Prior to the acquisition date, the Company already consolidated this limited liability company as its primary beneficiary. As a result, the acquisition was accounted for as an equity transaction. No gain or loss was recognized as there was no change in control. Real estate investments owned by this limited liability company primarily include a retail strip center with 8,400 square feet of net rentable space and an adjacent parcel of land which is currently leased in its entirety to a large gas station and convenience store chain. The following table summarizes the assets and liabilities related to this variable interest entity which are included in the accompanying consolidated balance sheets as of December 31, 2017.

Real estate investments	\$ 4,680
Other assets	\$ 152
Accrued expenses	\$ 21
Other liabilities	\$ 160

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)****h) Net Investment Income***

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

	Years Ended December 31,		
	2018	2017	2016
Available-for-sale securities:			
Fixed-maturity securities	\$ 5,104	\$ 5,689	\$ 4,589
Equity securities	2,124	3,318	3,452
Investment expense	(581)	(726)	(651)
Limited partnership investments	4,430	2,334	1,207
Real estate investments	340	(1,018)	(592)
Income (loss) from unconsolidated joint venture	304	(234)	
Cash and cash equivalents	3,485	2,069	1,036
Short-term investments	1,375		
Other		7	46
Net investment income	\$ 16,581	\$ 11,439	\$ 9,087

At December 31, 2018, \$180,508 or 75.4% of the Company's cash and cash equivalents were deposited at three national banks and included \$73,511 in two custodial accounts. At December 31, 2017, \$87,092 or 34.1% of the Company's cash and cash equivalents were deposited at three national banks and included \$38,543 in three custodial accounts. At December 31, 2018 and 2017, the Company's cash deposits at any one bank generally exceed the Federal Deposit Insurance Corporation's \$250 coverage limit for insured deposit accounts.

Note 6 Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) 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 other-than-temporary impairment 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:

Year Ended December 31, 2018

	Before Tax	Income Tax Expense (Benefit)	Net of Tax
Unrealized loss arising during the period	\$(3,137)	\$ (795)	\$(2,342)
Other-than-temporary impairment loss	80	20	60
Call and repayment gains charged to investment income	(18)	(5)	(13)
Reclassification adjustment for realized gains	(723)	(183)	(540)
Total other comprehensive loss	\$(3,798)	\$ (963)	\$(2,835)

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

	Year Ended December 31, 2017		
	Before Tax	Income Tax Expense (Benefit)	Net of Tax
Unrealized gain arising during the period	\$ 5,996	\$ 2,313	\$ 3,683
Other-than-temporary impairment loss	1,467	566	901
Call and repayment losses charged to investment income	14	5	9
Reclassification adjustment for realized gains	(4,346)	(1,676)	(2,670)
Total other comprehensive income	\$ 3,131	\$ 1,208	\$ 1,923

	Year Ended December 31, 2016		
	Before Tax	Income Tax Expense (Benefit)	Net of Tax
Unrealized gain arising during the period	\$ 7,317	\$ 2,823	\$ 4,494
Other-than-temporary impairment loss	2,482	957	1,525
Call and repayment losses charged to investment income	20	8	12
Reclassification adjustment for realized gains	(2,601)	(1,004)	(1,597)
Total other comprehensive income	\$ 7,218	\$ 2,784	\$ 4,434

Note 7 Business Acquisitions***Sorrento Hills Village - Sorrento, Florida***

On August 16, 2016, the Company's wholly owned subsidiary, Greenleaf Capital, LLC, assigned the right to purchase the developed property to its subsidiary, Sorrento PBX, LLC. Sorrento PBX simultaneously exercised the purchase option and acquired the property from Sorrento Retail Investments, LLC. The acquired assets included a retail shopping center and appurtenant facilities in Sorrento, Florida as well as existing tenant lease agreements to use the property. The purchase price was \$12,250, which was determined using a predetermined capitalization rate and the projected net operating income of the property. The Company recognized a \$2,071 gain on bargain purchase, resulting primarily from a favorable fair value at the date of acquisition as compared with the Company's purchase price. The Company relied on an independent appraisal report, which is based on the weighted results of two valuation approaches, in determining the estimated fair values of the significant assets acquired. This acquisition was financed in part by the proceeds from the issuance of a 3.75% promissory note. See Note 14 Long-Term Debt for additional information.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

The table below presents an allocation of the purchase price to the net assets acquired based on their fair values at the acquisition date:

Identifiable assets acquired and liabilities assumed:	
Cash	\$ 194
Land	1,600
Land improvements	3,045
Buildings	7,120
Intangibles	2,580
Tenant improvements	76
Building improvement	29
Other assets	33
Other liabilities	(356)
Total net assets acquired	14,321
Less: Gain on bargain purchase	(2,071)
Purchase price	\$ 12,250

Pineda Landings - Melbourne, Florida

With regard to the 90% equity interest in FMKT MGA distributed by FMJV as described in *Investment in Unconsolidated Joint Venture* in Note 5 Investments, the transaction was accounted for as a business step acquisition resulting in the assets acquired and liabilities assumed being recorded at fair value. Immediately following FMJV's distribution of the 90% equity interest, the Company elected to purchase the remaining 10% noncontrolling interest from the other member and pay \$2,064 in cash in 2016, plus an additional \$200 in January 2017 upon the execution of one lease agreement. The Company funded the consideration paid with \$871 of its own cash and \$1,193 of additional borrowing from FMKT MGA's revolving credit facility.

The table below presents the fair values of the net assets acquired at the acquisition date:

Identifiable assets acquired and liabilities assumed:	
Cash	\$ 502
Land	2,857
Land improvements	4,671
Buildings	5,480

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Intangibles	2,619
Tenant improvements	403
Building improvement	403
Other property and equipment	17
Other assets	940
Construction loan	(8,214)
Other liabilities	(550)
Total net assets acquired	9,128
Less: Carrying value of 90% equity method investment	(2,859)
Gain on remeasurement of previously held interest	(4,005)
Payable to the 10% joint venture partner	(200)
Cash paid to the 10% joint venture partner	\$ 2,064

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Subsequent to the acquisition date, the Company incurred an impairment loss of \$388 in 2016 resulting from the write-down of lease intangibles and other assets associated with the unexpected closure of one tenant's business at this property.

The acquired businesses, in aggregate, contributed \$426 of rental income and \$460 of net loss to the Company for the period from the acquisition date to December 31, 2016. Pro forma results of operations are not presented as the effects of the acquisition were not material to the Company's consolidated results of operations.

Note 8 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.

-

Level 2 Other inputs that are observable for the assets, either directly or indirectly such as quoted prices for identical assets that are not observable throughout the full term of the asset.

-

Level 3 Inputs that are unobservable.

-

Valuation Methodology

Cash and cash equivalents

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

Short-term investments

Short-term investments consist of certificates of deposit and zero-coupon commercial paper 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 are determined in accordance with U.S. GAAP, using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either directly or indirectly, such as quoted prices for similar securities. In those instances where observable inputs are not available, fair values

are measured using unobservable inputs. Unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the security and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are significantly affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange.

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

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.

Limited Partnership Investments

As described in Note 5 Investments under *Limited Partnership Investments*, the Company has interests in limited partnerships which are private equity funds. Pursuant to U.S. GAAP, these funds are required to use fair value accounting; therefore, the estimated fair value approximates the carrying value of these funds.

Long-term debt

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

	Maturity Date	Valuation Methodology
3.875% Convertible Senior Notes	2019	Quoted price
4.25% Convertible Senior Notes	2037	Quoted price
3.95% Promissory Note	2020	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

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)**Assets Measured at Estimated Fair Value on a Recurring Basis:*

The following tables present 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 December 31, 2018 and 2017:

	Fair Value Measurements			Total
	(Level 1)	Using (Level 2)	(Level 3)	
<u>As of December 31, 2018</u>				
Financial Assets:				
<i>Cash and cash equivalents</i>	\$ 239,458	\$	\$	\$ 239,458
<i>Restricted cash</i>	700			700
<i>Short-term investments</i>	66,479			66,479
<i>Fixed-maturity securities:</i>				
U.S. Treasury and U.S. government agencies	60,297	1,500		61,797
Corporate bonds	101,905			101,905
State, municipalities, and political subdivisions		10,662		10,662
Exchange-traded debt	8,247			8,247
Redeemable preferred stock	112			112
Total available-for-sale securities	170,561	12,162		182,723
<i>Equity securities</i>	41,143			41,143
Total	\$ 518,341	\$ 12,162	\$	\$ 530,503

	Fair Value Measurements			Total
	(Level 1)	Using (Level 2)	(Level 3)	
<u>As of December 31, 2017</u>				
Financial Assets:				
<i>Cash and cash equivalents</i>	\$ 255,884	\$	\$	\$ 255,884
<i>Restricted cash</i>	809			809
<i>Fixed-maturity securities:</i>				

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U.S. Treasury and U.S. government agencies	40,527	1,500	42,027
Corporate bonds	106,109	994	107,103
State, municipalities, and political subdivisions		80,695	80,695
Exchange-traded debt	7,659		7,659
Total available-for-sale securities	154,295	83,189	237,484
<i>Equity securities</i>	59,956		59,956
Total	\$ 470,944	\$ 83,189	\$ 554,133

There were no transfers between Level 1, 2 or 3 during the years ended December 31, 2018 and 2017.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)**Assets and Liabilities Carried at Other Than 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 December 31, 2018 and 2017:

	Carrying Value	Fair Value Measurements Using			Estimated Fair Value
		(Level 1)	(Level 2)	(Level 3)	
<u>As of December 31, 2018</u>					
Financial Assets:					
<i>Limited partnership investments</i>	\$ 32,293	\$	\$	\$ 32,293	\$ 32,293
Financial Liabilities:					
<i>Long-term debt:</i>					
3.875% Convertible senior notes	\$ 89,181	\$	\$ 89,824	\$	\$ 89,824
4.25% Convertible senior notes	130,120		145,617		145,617
3.95% Promissory note	9,077			9,128	9,128
4% Promissory note	7,732			7,788	7,788
3.75% Promissory note	8,159			8,001	8,001
4.55% Promissory note	5,826			6,025	6,025
Total long-term debt	\$ 250,095	\$	\$ 235,441	\$ 30,942	\$ 266,383

	Carrying Value	Fair Value Measurements Using			Estimated Fair Value
		(Level 1)	(Level 2)	(Level 3)	
<u>As of December 31, 2017</u>					
Financial Assets:					
<i>Limited partnership investments</i>	\$ 23,184	\$	\$	\$ 23,184	\$ 23,184
Financial Liabilities:					
<i>Long-term debt:</i>					
3.875% Convertible senior notes	\$ 85,436	\$	\$ 90,827	\$	\$ 90,827
4.25% Convertible senior notes	126,454		124,444		124,444
3.95% Promissory note	9,270			9,227	9,227
4% Promissory note	8,206			7,894	7,894
3.75% Promissory note	8,469			7,820	7,820

Total long-term debt	\$ 237,835	\$	\$ 215,271	\$ 24,941	\$ 240,212
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(Amounts in thousands, except share and per share amounts, unless otherwise stated)

Note 9 Deferred Policy Acquisition Costs

The following table summarizes the activity with respect to deferred policy acquisition costs:

	December 31,	
	2018	2017
Beginning balance	\$ 16,712	\$ 16,639
Policy acquisition costs deferred	34,999	35,736
Amortization	(35,204)	(35,663)
Ending balance	\$ 16,507	\$ 16,712

The amount of policy acquisition costs amortized and included in policy acquisition and other underwriting expenses for the years ended December 31, 2018, 2017 and 2016 was \$35,204, \$35,663 and \$37,868, respectively.

Note 10 Property and Equipment, net

Property and equipment, net consists of the following:

	December 31,	
	2018	2017
Land	\$ 1,642	\$ 1,642
Building	7,959	7,952
Computer hardware and software	6,480	3,964
Office furniture and equipment	2,061	2,014
Tenant and leasehold improvements	3,345	3,320
Other	1,035	1,387
Total, at cost	22,522	20,279
Less: accumulated depreciation and amortization	(9,184)	(7,814)
Property and equipment, net	\$ 13,338	\$ 12,465

Depreciation and amortization expense under property and equipment was \$1,370, \$1,237 and \$1,272, respectively, for the years ended December 31, 2018, 2017 and 2016.

Note 11 Intangible Assets, net

The Company's intangible assets, net consist of the following:

	December 31,	
	2018	2017
Anchor tenant relationships	\$ 1,761	\$ 1,761
In-place leases	4,215	3,806
Total, at cost	5,976	5,567
Less: accumulated amortization	(1,176)	(572)
Intangible assets, net	\$ 4,800	\$ 4,995

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Recognized with the acquisitions of commercial real estate in 2018 and 2017 as described in *Real Estate Investments* in Note 5 Investments were \$409 and \$636, respectively, of in-place leases. In connection with the 2016 business acquisitions described in Note 7 Business Acquisitions, the Company recognized \$5,199 of intangible assets. For the years ended December 31, 2018, 2017 and 2016, amortization expense associated with intangible assets was \$604, \$503 and \$77, respectively. The remaining weighted-average amortization period as of December 31, 2018 was 15.1 years and 11.8 years for anchor tenant relationships and in-place leases, respectively, or a combined weighted average of 12.8 years.

Amortization expense for intangible assets after December 31, 2018 is as follows:

Year	Amount
2019	\$ 612
2020	618
2021	513
2022	439
2023	331
Thereafter	2,287
Total	\$ 4,800

Note 12 Other Assets

The following table summarizes the Company's other assets:

	December 31,	
	2018	2017
Benefits receivable related to retrospective reinsurance contracts	\$ 3,136	\$ 2,393
Prepaid expenses	2,069	1,741
Deposits	1,413	867
Lease acquisition costs, net	620	723
Other	1,766	4,017
Total other assets	\$ 9,004	\$ 9,741

Note 13 Revolving Credit Facility

In December 2018, the Company entered into a three-year secured revolving credit agreement (Credit Agreement) with Fifth Third Bank that expires on December 5, 2021. The Credit Agreement provides the Company with borrowing capacity of up to \$65,000 and bears interest at an annual rate equal to monthly-determined LIBOR plus a margin based on the type of collateral used to secure each borrowing. The interest payment is due quarterly in arrears on January 1, April 1, July 1, and October 1. The Credit Agreement contains affirmative and negative covenants as well as customary events of defaults. Under the terms of the Credit Agreement, the Company must comply with certain financial and non-financial covenants and agree to pay a fee equal to the product of the unused line fee rate and the average of the daily unused available credit balances. The unused line fee rate is determined monthly based on the average daily deposit balances. At December 31, 2018, the Company was in compliance with all required covenants, and there were no outstanding loans.

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In connection with FMJV's December 15, 2016 distribution of its 90% ownership interest in FMKT MGA as described in *Investment in Unconsolidated Joint Venture* in Note 5 – Investments, the Company assumed a liability to repay \$8,214 under a secured credit agreement. The agreement provided that the Company could borrow up to \$9,550. The Company had an option to convert the outstanding balance at the initial maturity date into a three-year mortgage loan payable in 36 monthly installments at a fixed interest rate. On December 15, 2016, the Company drew an additional \$1,193 from this credit line, which was used towards the purchase of the 10% noncontrolling interest as described in *Pineda Landings - Melbourne, Florida* in Note 7 – Business Acquisitions. In February 2017, the Company exercised the conversion option under the credit agreement. See *3.95% Promissory Note* in Note 14 – Long-Term Debt for additional information. For the year ended December 31, 2016, interest expense for this revolving credit facility totaled \$235, of which \$11 related to the period from December 15 to 31, 2016.

Note 14 Long-Term Debt

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

	December 31,	
	2018	2017
3.875% Convertible Senior Notes, due March 15, 2019	\$ 89,990	\$ 89,990
4.25% Convertible Senior Notes, due March 1, 2037	143,750	143,750
3.95% Promissory note, due through February 17, 2020	9,125	9,360
4% Promissory note, due through February 1, 2031	7,857	8,348
3.75% Promissory note, due through September 1, 2036	8,290	8,613
4.55% Promissory note, due through August 1, 2036	5,928	
Capital lease obligation, due through August 15, 2023	55	
Total principal amount	264,995	260,061
Less: unamortized discount and issuance costs	(14,845)	(22,226)
Total long-term debt	\$ 250,150	\$ 237,835

The following table summarizes future maturities of long-term debt as of December 31, 2018, which takes into consideration the assumption that the 4.25% Convertible Senior Notes are repurchased at the earliest call date.

Year	
2019	\$ 91,316
2020	10,007

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2021	1,172
2022	144,970
2023	1,267
Thereafter	16,263
Total	\$ 264,995

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

	Years Ended December 31,		
	2018	2017	2016
Interest Expense:			
Contractual interest	\$ 10,740	\$ 10,424	\$ 7,315
Non-cash expense (a)	7,487	6,404	3,529
Capitalized interest (b)	(131)	(61)	
Total	\$ 18,096	\$ 16,767	\$ 10,844

(a) Represents amortization of debt discount and issuance costs.

(b) Interest was capitalized for construction projects.

Convertible Senior Notes

The Company's Convertible Senior Notes consist of 3.875% Convertible Senior Notes due 2019 (3.875% Convertible Notes) and 4.25% Convertible Senior Notes due 2037 (4.25% Convertible Notes). The 3.875% Convertible Notes were issued in late 2013 in a private offering for an aggregate principal amount of \$103,000. During the first quarter of 2016, the Company repurchased an aggregate of \$13,010 in principal, thereby decreasing the aggregate principal balance of its 3.875% Convertible Notes to \$89,990. On March 3, 2017, the Company issued 4.25% Convertible Notes in a private offering for an aggregate principal amount of \$143,750. The net proceeds of the 4.25% Convertible Notes were \$138,775 after \$4,975 in related issuance and transaction costs. The following table summarizes the principal and interest payment terms of these Convertible Senior Notes:

Convertible Senior Notes

3.875% Convertible Notes, due March 15, 2019

4.25% Convertible Notes, due March 1, 2037

Interest Payment Terms

Semiannually in arrears: March 15 and September 15

Semiannually in arrears: March 1 and September 1

The Convertible Senior Notes rank equally in right of payment to the Company's existing and future unsecured and unsubordinated obligations. These Convertible Senior Notes do not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Company or any of its subsidiaries. The Convertible Senior Notes provide no protection to the note holders in the event of a fundamental change or other corporate transaction involving the Company except those described in each respective indenture. These Convertible Senior Notes do not require a sinking fund to be established for the purpose of redemption.

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The following table summarizes information regarding the equity and liability components of the Convertible Senior Notes:

	December 31,	
	2018	2017
Principal amount	\$ 233,740	\$ 233,740
Unamortized discount	(11,316)	(17,354)
Liability component net carrying value before issuance costs	\$ 222,424	\$ 216,386
Equity component conversion, net of offering costs	\$ 31,051	\$ 31,051

Embedded Conversion Feature

The conversion feature of these Convertible Senior Notes is subject to conversion rate adjustments upon the occurrence of specified events (including payment of dividends above a specified amount) but will not be adjusted for any accrued and unpaid interest.

3.875% Convertible Notes. Since January 2015, the Company's cash dividends on common stock have exceeded \$0.275 per share, resulting in adjustments to the conversion rate of the 3.875% Convertible Notes. Accordingly, as of December 31, 2018, the conversion rate of the Company's 3.875% Convertible Notes was 16.3645 shares of common stock for each \$1 in principal amount, which was the equivalent of approximately \$61.11 per share.

4.25% Convertible Notes. Since May 2018, the Company has paid cash dividends on common stock that exceeds \$0.35 per share, resulting in adjustments to the conversion rate of the 4.25% Convertible Notes. Accordingly, as of December 31, 2018, the conversion rate of the Company's 4.25% Convertible Notes was 16.2915 shares of common stock for each \$1 in principal amount, which was the equivalent of approximately \$61.38 per share.

The holders of the Convertible Senior Notes may convert all or a portion of their Convertible Senior Notes during specified periods as follows: (1) during any calendar quarter commencing after the calendar quarter ending on the dates specified in each respective indenture, if the last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 130% of the conversion price on each applicable trading day; (2) during the five business-day period after any ten consecutive trading-day period in which the trading price per \$1 principal amount of the Convertible Senior Notes is less than 98% of the product of the last reported sale price and the conversion rate on each such trading day; (3) if specified corporate events, including a change in control, occur; or (4) at any time on or after the dates specified in each respective indenture.

The note holders who elect to convert their Convertible Senior Notes in connection with a fundamental change as described in the indentures will be entitled to a make-whole adjustment in the form of an increase in the conversion rate. Upon conversion, the Company has options to satisfy its conversion obligation by paying or delivering cash, shares of its common stock or a combination of cash and shares of its common stock. As of December 31, 2018, none of the conditions allowing the holders of either class of the Convertible Senior Notes to convert had been met.

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The Company determined that the Convertible Senior Notes' embedded conversion feature is not a derivative financial instrument but rather is required to be separately accounted for in equity because the Company may elect to settle the conversion option entirely or partially in cash. At issuance, the Company accounted for the equity component of the embedded conversion feature as a reduction in the carrying amount of the debt and an increase in additional paid-in capital.

Embedded Redemption Feature – Fundamental Change

The note holders have the right to require the Company to repurchase for cash all or any portion of the Convertible Senior Notes at par prior to the maturity date should any of the fundamental change events described in the indentures occur. The Company concluded that this embedded redemption feature is not a derivative financial instrument and that it is not probable at issuance that any of the specified fundamental change events will occur. Therefore, this embedded redemption feature is not substantive and will not affect the expected life of the liability component.

Embedded Redemption Feature – Put Option of the Note Holder

At the option of the holders of the 4.25% Convertible Notes, the Company is required to repurchase for cash all or any portion of the 4.25% Convertible Notes at par on March 1, 2022, March 1, 2027 or March 1, 2032. The Company concluded that this embedded feature is not a derivative financial instrument. In addition, based on economic factors at the time when the 4.25% Convertible Notes were issued, the Company determined it is probable that the note holders will exercise this option. Thus, the Company amortizes the liability component and related issuance costs associated with the 4.25% Convertible Notes over the period from March 3, 2017 to March 1, 2022.

The effective interest rates for the 3.875% Convertible Notes and the 4.25% Convertible Notes, taking into account both cash and non-cash components, approximate 8.3% and 7.6%, respectively. Had a 20-year term been used for the amortization of the liability component and issuance costs of the 4.25% Convertible Notes, the annual effective interest rate charged to earnings would have been decreased to approximately 5.4%. As of December 31, 2018, the remaining amortization periods of the debt discounts were expected to be 2.5 months for the 3.875% Convertible Notes and 3.2 years for the 4.25% Convertible Notes.

3.95% Promissory Note

On February 27, 2017, the Company converted its outstanding revolving credit facility of \$9,441 into a three-year mortgage loan primarily collateralized by a retail shopping center in Melbourne, Florida. Shortly after the loan conversion, the Company withdrew an additional amount of \$109, thereby increasing the loan amount to \$9,550. The loan bears a fixed annual interest rate of 3.95%. Approximately \$50 of principal and interest is payable in 35 monthly installments beginning March 17, 2017 plus a final balloon payment of \$8,891 including principal and unpaid interest payable on February 17, 2020. The promissory note may be repaid in part or in full at any time without penalty.

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3.75% Promissory Note

In connection with the business acquisition described in Note 7 Business Acquisitions, Sorrento PBX, LLC entered into a 20-year secured loan agreement for gross proceeds of \$9,000. The loan proceeds were used to finance the acquisition. The loan bears a fixed annual interest rate of 3.75% and is collateralized by the acquired property and the assignment of associated lease agreements. Approximately \$53 of principal and interest is payable in 240 monthly installments. The promissory note may be repaid in full after September 1, 2017 as long as the Company provides at least 60 days written notice and pays a prepayment premium as specified in the loan agreement. In addition, the lender may require full payment of the outstanding principal and unpaid interest on September 1, 2031 provided a written notice of its intention to call the note is given at least six months in advance.

4% Promissory Note

On January 14, 2016, HCPCI Holdings, LLC, a subsidiary of the Company, entered into a 15-year secured loan agreement for proceeds of \$9,200. The loan is collateralized by the Company's Tampa, Florida real estate, which is owned by HCPCI Holdings, and the lease agreements associated with this property. The loan bears a fixed annual interest rate of 4%. Approximately \$68 of principal and interest is payable in 180 monthly installments. The promissory note may be repaid in full after February 1, 2017 as long as the Company provides at least 60 days written notice and pays a prepayment premium as specified in the loan agreement. The proceeds were used for real estate development projects or other general business purposes.

4.55% Promissory Note

On July 6, 2018, Century Park Holdings, LLC, a subsidiary of the Company, entered into a 18-year secured loan agreement for proceeds of \$6,000. The loan is collateralized by the Company's Tampa, Florida real estate, which is owned by Century Park Holdings, and the lease agreement associated with this property. The loan bears a fixed annual interest rate of 4.55%. Approximately \$41 of principal and interest is payable in 216 monthly installments. The promissory note may be repaid in full or in part after September 1, 2020 as long as the Company provides at least 30 days written notice and pays a prepayment consideration as specified in the loan agreement. The proceeds were used for real estate development projects or other general business purposes.

Note 15 Reinsurance

The Company cedes a portion of its homeowners insurance exposure to other entities under catastrophe excess of loss reinsurance treaties and one quota share reinsurance agreement. Under the terms of the quota share reinsurance agreement effective January 1, 2017, the Company was entitled to a 30% ceding commission on ceded premiums written. During the third quarter of 2017, the Company entered into a three-year flood catastrophe excess of loss reinsurance contract effective July 1, 2017. The reinsurance premiums under this three-year 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. Effective September 1, 2017, the quota share reinsurance agreement was

terminated and replaced with a new quota share agreement with revised terms and conditions. Under the new agreement, the Company is also entitled to a 30% ceding commission on ceded premiums written.

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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 treaties on premiums written and earned is as follows:

	Years Ended December 31,		
	2018	2017	2016
Premiums Written:			
Direct	\$ 336,565	\$ 346,188	\$ 352,803
Assumed	(109)	1,158	14,388
Gross written	336,456	347,346	367,191
Ceded	(129,643)	(133,635)	(135,051)
Net premiums written	\$ 206,813	\$ 213,711	\$ 232,140
Premiums Earned:			
Direct	\$ 340,966	\$ 347,235	\$ 372,699
Assumed	2,099	11,018	5,979
Gross earned	343,065	358,253	378,678
Ceded	(129,643)	(133,635)	(135,051)
Net premiums earned	\$ 213,422	\$ 224,618	\$ 243,627

During the year ended December 31, 2018, ceded losses of \$149,120 were recognized as a reduction in losses and LAE compared with ceded losses of \$214,082 during the year ended December 31, 2017, \$7,400 of which related to Oxbridge Reinsurance Limited, a related party. For 2018, ceded losses related to Hurricane Irma and Hurricane Michael were \$143,890 and \$5,230, respectively. For 2017, the reduction in losses and LAE entirely related to Hurricane Irma. During the year ended December 31, 2016, there were no recoveries pertaining to reinsurance contracts that were deducted from losses incurred. At December 31, 2018 and 2017, there were 38 and 37 reinsurers, respectively, participating in the Company's reinsurance program. Amounts receivable with respect to reinsurers at

December 31, 2018 and 2017 were \$123,911 and \$103,104, respectively. Approximately 29.1% of the reinsurance recoverable balance at December 31, 2018 was concentrated in two reinsurers. Based on the insurance ratings, the payment history and the financial strength of the reinsurers, management believes there was no significant credit risk associated with its reinsurers' obligations to perform on any prepaid reinsurance contract and to fund any reinsurance recoverable balance as of December 31, 2018. The ratio of assumed premiums earned to net premiums earned for the years ended December 31, 2018, 2017 and 2016 was 0.98%, 4.9%, and 2.5%, respectively.

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Certain of the reinsurance contracts include retrospective provisions that adjust premiums, increase the amount of future coverage, or result in a profit commission in the event losses are minimal or zero. Due to the losses incurred by Hurricane Irma, the balances of previously accrued benefits and deferred reinsurance premiums were adjusted with the changes recognized in the consolidated statement of income as additional ceded premiums. For the year ended December 31, 2018, the Company recognized a net reduction in ceded premiums of \$485 compared with a net increase in ceded premiums of \$5,740 for the year ended December 31, 2017. Included in these adjustments attributable to the Company's contract with Oxbridge for the years ended December 31, 2018 and 2017 were \$448 and \$933, respectively, of net increase in ceded premiums. These adjustments were reflected as a net reduction in premiums ceded of \$12,677 for the year ended December 31, 2016, of which \$1,929 related to the Company's contract with Oxbridge.

In addition, adjustments related to retrospective provisions are reflected in other assets. At December 31, 2018 and 2017, other assets included \$3,136 and \$2,393, respectively, of which \$0 and \$479 related to the contract with Oxbridge. In June 2016, the Company received a total of \$37,800 in cash benefits related to two retrospective reinsurance contracts that terminated May 31, 2016 of which \$7,560 was received from Oxbridge. In September 2016, the Company received the final cash payment of \$5,716 under the terms of the remaining retrospective reinsurance contract which terminated May 31, 2016. See Note 26 Related Party Transaction regarding the termination of the Company's reinsurance contract with Oxbridge. 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 16 Losses and Loss Adjustment Expenses

The liability for losses and LAE is determined on an individual case basis for all claims reported. The liability also includes amounts for unallocated expenses, anticipated future claim development and losses incurred, but not reported. See *Loss and Loss Adjustment Expenses* in Note 2 Summary of Significant Accounting Policies.

The Company writes insurance primarily 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 losses and LAE is summarized as follows:

	Years Ended December 31,		
	2018	2017	2016
Net balance, beginning of year*	\$ 97,818	\$ 70,492	\$ 51,690
Incurred, net of reinsurance, related to:			
Current year	96,860	146,922	104,128
Prior years	12,468	18,707	20,539
Total incurred, net of reinsurance	109,328	165,629	124,667
Paid, net of reinsurance, related to:			
Current year	(54,698)	(87,770)	(64,812)
Prior years	(57,622)	(50,533)	(41,053)
Total paid, net of reinsurance	(112,320)	(138,303)	(105,865)
Net balance, end of year	94,826	97,818	70,492
Add: reinsurance recoverable	112,760	100,760	
Gross balance, end of year	\$ 207,586	\$ 198,578	\$ 70,492

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

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 adjustments are adjusted. During the year ended December 31, 2018, the Company incurred approximately \$16,520 of net losses related to Hurricane Michael and experienced unfavorable development of \$12,468, of which \$9,614 pertains to claims in the 2015 and 2016 loss years. The 2018 prior year development was driven by continued reserve strengthening in response to trends involving assignment of insurance benefits and litigation and a \$2,101 increase in 2016 loss reserves related to Hurricane Matthew. Loss reserves for 2017 Hurricane Irma were increased during 2018 by \$144 million, all of which is recoverable under reinsurance agreements.

The following is information about incurred and paid claims development as of December 31, 2018, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts. The information about incurred and paid claims development for the years ended December 31, 2015 to 2012 is presented as supplementary information and is unaudited.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)***Homeowners Multi-peril and Dwelling Fire Insurance (a)**

Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							As of December 31, 2018	
	For the Years Ended December 31,							Total of Cumulative IBNR Plus	Number of Expected Reported Claims
	2012	2013	2014	2015	2016	2017	2018	Reported	Not in Dollar Amounts)(b)
2012	\$ 66,425	\$ 62,742	\$ 64,083	\$ 66,505	\$ 67,058	\$ 66,465	\$ 67,220	\$ 30	6,618
2013		67,579	69,932	69,906	72,015	71,604	73,763	546	7,008
2014			75,810	81,773	84,917	88,053	90,084	2,068	7,657
2015				78,017	90,902	96,173	101,272	3,554	7,649
2016					81,446	90,879	92,684	6,610	6,907
2017						91,443	88,937	17,530	5,701
2018							79,436	32,068	4,188
Total							\$ 593,396		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses,

Year	Net of Reinsurance						
	For the Years Ended December 31,						
	2012	2013	2014	2015	2016	2017	2018
2012	\$ 36,914	\$ 53,225	\$ 59,041	\$ 62,836	\$ 64,667	\$ 65,903	\$ 67,059
2013		40,240	57,374	64,257	68,106	70,224	72,492
2014			47,650	68,897	77,712	82,463	87,125
2015				50,939	76,042	87,784	95,179
2016					51,663	73,037	83,311
2017						43,039	66,996
2018							41,014
Total							\$ 513,176

All outstanding liabilities before 2012, net of reinsurance	547
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Liabilities for LAE, net of reinsurance	\$ 80,767
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(a) Excludes losses from Wind-only insurance (2012 through 2018), any hurricane event prior to 2018 and Hurricane Michael (2018).

(b) The cumulative number of reported claims is measured as the number of per-policyholder, per-event claims for all coverages regardless of whether the claim results in loss or expense to the Company.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)***Homeowners Wind-only Insurance (a)***

Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							As of December 31, 2018	
	2012	2013	2014	2015	2016	2017	2018	Total of IBNR Plus Expected Reported Claims	Cumulative Number of Reported Claims (Not in Dollar Amounts)(b)
2015	\$	\$	\$	\$ 308	\$ 401	\$ 569	\$ 692	\$ 110	100
2016					1,005	1,314	1,814	220	228
2017						1,529	1,119	330	153
2018							798	439	108
Total							\$ 4,423		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses,

Year	Net of Reinsurance							
	2012	2013	2014	2015	2016	2017	2018	
2015	\$	\$	\$	\$ 156	\$ 332	\$ 465	\$ 582	
2016					689	1,155	1,405	
2017						484	786	
2018							216	
Total							\$ 2,989	

All outstanding liabilities before 2012, net of reinsurance

Liabilities for LAE, net of reinsurance \$ 1,434

* The Company began writing Homeowners Wind-only insurance in 2015.

(a) Excludes losses from multi-peril and dwelling fire insurance (2012 through 2018), any hurricane event prior to 2018 and Hurricane Michael (2018).

(b) The cumulative number of reported claims is measured as the number of per-policyholder, per-event claims for all coverages regardless of whether the claim results in loss or expense to the Company.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*Losses Specific to Any Hurricane Event prior to 2018

Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance Development							As of December 31, 2018	
	2012	2013	2014	2015	2016	2017	2018	Total of IBNR Plus Expected Reported Claims	Cumulative Number of Reported Claims (Not in Dollar Amounts)(b)
2016	\$	\$	\$	\$	\$ 21,414	\$ 24,126	\$ 26,211	\$ 2,005	2,415
2017						53,602	54,080	6,508	19,907
2018							22		952
Total							\$ 80,313		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses,**Net of Reinsurance**

Year	For the Years Ended December 31,						2017	2018
	2012	2013	2014	2015	2016	2017		
2016	\$	\$	\$	\$	\$ 12,227	\$ 20,025	\$ 23,316	
2017						43,905	47,514	
2018							15	
Total							\$ 70,845	
All outstanding liabilities before 2012, net of reinsurance								
Liabilities for LAE, net of reinsurance								\$ 9,468

(b) The cumulative number of reported claims is measured as the number of per-policyholder, per-event claims for all coverages regardless of whether the claim results in loss or expense to the Company.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*Losses Specific to Hurricane Michael (2018)

Year	Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance							As of December 31, 2018	
	2012	2013	2014	2015	2016	2017	2018	Total of IBNR Plus Expected Reported Claims	Cumulative Number of Reported Claims Not in Dollar Amounts)(b)
2018	\$	\$	\$	\$	\$	\$	\$ 16,520	\$ 2,035	611
Total							\$ 16,520		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses,

Year	Net of Reinsurance						
	For the Years Ended December 31,						
	2012	2013	2014	2015	2016	2017	2018
2018	\$	\$	\$	\$	\$	\$	\$ 13,376
Total							\$ 13,376
All outstanding liabilities before 2012, net of reinsurance							
Liabilities for LAE, net of reinsurance							\$ 3,144

(b) The cumulative number of reported claims is measured as the number of per-policyholder, per-event claims for all coverages regardless of whether the claim results in loss or expense to the Company.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

The reconciliation of the net incurred and paid loss development tables to the liability for losses and loss adjustment expenses is as follows:

	December 31,	
	2018	2017
Net outstanding liabilities		
Homeowners multi-peril and dwelling fire insurance	\$ 80,767	\$ 82,705
Homeowners Wind-only insurance	1,434	1,308
Losses specific to any hurricane prior to 2018	9,468	4,109
Losses specific to Hurricane Michael (2018)	3,144	9,688
Other short-duration insurance lines	13	8
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	94,826	97,818
Reinsurance recoverables	112,760	100,760
Total gross liability for unpaid losses and loss adjustment expenses	\$ 207,586	\$ 198,578

The following is supplementary and unaudited information about average historical claims duration as of December 31, 2018:

Average Annual Percentage Payout of**Incurred Losses by Age,****Net of Reinsurance**

Years	1	2	3	4	5	6	7
Homeowners multi-peril and dwelling fire insurance	52.6%	24.3%	10.1%	5.9%	3.6%	2.5%	0.0%
Homeowners Wind-only insurance	32.7%	26.0%	12.8%	16.9%	*	*	*
Losses specific to any hurricane prior to 2018	70.1%	14.4%	12.6%				
Losses specific to Hurricane Michael (2018)	81.0%						

* The Company began writing Homeowners Wind-only insurance in 2015.

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Note 17 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 thresholds for a reportable segment. The determination of segments may change over time due to changes in operational emphasis, revenues, and results of operations. The Company's chief executive officer, who serves as the Company's chief operating decision maker, evaluates each division's financial and operating performance based on revenue and operating income.

For the years ended December 31, 2018, 2017 and 2016, revenues from the Company's insurance operations before intracompany elimination represented 95.0%, 96.2% and 95.5%, respectively, of total revenues of all operating segments. At December 31, 2018, 2017 and 2016, insurance operations' total assets represented 85.9%, 87.1% and 87.9%, respectively, of the combined assets of all operating segments. See Note 1 Nature of Operations for a description of the Company's insurance operations. 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.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

	Insurance Operations	Real Estate(a)	Corporate/ Other(b)	Reclassification/ Elimination	Consolidated
For the Year Ended December 31, 2018					
Revenue:					
Net premiums earned	\$ 213,422	\$	\$	\$	\$ 213,422
Net investment income	10,862	1	5,554	164	16,581
Net realized investment gains	4,639		1,544		6,183
Net unrealized investment losses	(8,688)		(1,514)		(10,202)
Net other-than-temporary impairment losses			(80)		(80)
Policy fee income	3,389				3,389
Other	583	9,324	4,999	(12,907)	1,999
Total revenue	224,207	9,325	10,503	(12,743)	231,292
Expenses:					
Losses and loss adjustment expenses	109,328				109,328
Amortization of deferred policy acquisition costs	35,204				35,204
Interest expense	1	1,568	17,008	(481)	18,096
Depreciation and amortization	125	2,373	1,011	(2,140)	1,369
Other	25,797	4,254	20,464	(10,122)	40,393
Total expenses	170,455	8,195	38,483	(12,743)	204,390
Income (loss) before income taxes	\$ 53,752	\$ 1,130	\$ (27,980)	\$	\$ 26,902
Total revenue from non-affiliates(c)	\$ 224,207	\$ 7,718	\$ 9,331		

(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 to conform with an insurance company's presentation.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

	Insurance Operations	Real Estate(a)	Corporate/ Other(b)	Reclassification/ Elimination	Consolidated
For the Year Ended December 31, 2017					
Revenue:					
Net premiums earned	\$ 224,618	\$	\$	\$	\$ 224,618
Net investment income	9,898	6	2,974	(1,439)	11,439
Net realized investment gains	3,978		368		4,346
Net unrealized investment gains			92		92
Net other-than-temporary impairment losses	(1,258)		(209)		(1,467)
Policy fee income	3,622				3,622
Other	693	7,046	4,417	(10,400)	1,756
Total revenue	241,551	7,052	7,642	(11,839)	244,406
Expenses:					
Losses and loss adjustment expenses	165,629				165,629
Amortization of deferred policy acquisition costs	35,663				35,663
Interest expense		1,250	15,704	(187)	16,767
Loss on repurchases of senior notes			743		743
Depreciation and amortization	128	2,121	939	(1,950)	1,238
Other	27,547	4,022	18,123	(9,702)	39,990
Total expenses	228,967	7,393	35,509	(11,839)	260,030
Income (loss) before income taxes	\$ 12,584	\$ (341)	\$ (27,867)	\$	\$ (15,624)
Total revenue from non-affiliates(c)	\$ 241,551	\$ 5,525	\$ 6,958		

(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 to conform with an insurance company's presentation.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

	Insurance Operations	Real Estate(a)	Corporate/ Other(b)	Reclassification/ Elimination	Consolidated
For the Year Ended December 31, 2016					
Revenue:					
Net premiums earned	\$ 243,627	\$	\$	\$	\$ 243,627
Net investment income	8,440	18	1,162	(533)	9,087
Net realized investment gains	2,450		151		2,601
Net other-than-temporary impairment losses	(2,467)		(15)		(2,482)
Policy fee income	3,914				3,914
Gain on repurchases of convertible senior notes			153		153
Gain on bargain purchase		2,071			2,071
Gain on remeasurement of previously held interest		4,005			4,005
Other	684	4,505	4,104	(7,823)	1,470
Total revenue	256,648	10,599	5,555	(8,356)	264,446
Expenses:					
Losses and loss adjustment expenses	124,667				124,667
Amortization of deferred policy acquisition costs	37,868				37,868
Interest expense		561	10,518		11,079
Depreciation and amortization	158	814	908	(608)	1,272
Other operating expenses	31,351	2,921	16,180	(7,748)	42,704
Total expenses	194,044	4,296	27,606	(8,356)	217,590
Income (loss) before income taxes	\$ 62,604	\$ 6,303	\$ (22,051)	\$	\$ 46,856
Total revenue from non-affiliates(c)	\$ 256,648	\$ 9,072	\$ 5,470		

- (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 to conform with an insurance company's presentation.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

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

Segment:	December 31,	
	2018	2017
Insurance Operations	\$ 615,983	\$ 652,754
Real Estate Operations	83,828	80,152
Corporate and Other	146,651	127,822
Consolidation and Elimination	(13,599)	(18,464)
Total assets	\$ 832,863	\$ 842,264

Note 18 Income Taxes

A summary of income tax expense is as follows:

	Years Ended December 31,		
	2018	2017	2016
Current:			
Federal	\$ 7,443	\$ (3,933)	\$ 14,918
State	1,490	34	2,666
Foreign	104	81	96
Total current taxes	9,037	(3,818)	17,680
Deferred:			
Federal	(245)	(4,144)	182
State	392	(757)	(9)
Foreign	(7)	(12)	(18)
Total deferred taxes	140	(4,913)	155
Income tax (benefit) expense	\$ 9,177	\$ (8,731)	\$ 17,835

The reasons for the differences between the statutory Federal income tax rate and the effective tax rate are summarized as follows:

	Years Ended December 31,					
	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Income taxes at statutory rate	\$ 5,649	21.0	\$ (5,468)	35.0	\$ 16,395	35.0
Increase (decrease) in income taxes resulting from:						
State income taxes, net of federal tax benefits	1,303	4.8	(657)	4.2	1,710	3.6
Effects of tax rate changes			(1,400)	9.0		
Share-based compensation	2,156	8.0	(705)	4.5		
Other	69	0.3	(501)	3.2	(270)	(0.5)
Income tax (benefit) expense	\$ 9,177	34.1	\$ (8,731)	55.9	\$ 17,835	38.1

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The Company has no uncertain tax positions or unrecognized tax benefits that, if recognized, would impact the effective income tax rate. The tax returns filed for the years ending December 31, 2017, 2016, and 2015 remain subject to examination by the Company's major taxing jurisdictions. The Company elected to classify, if any, interest and penalties arising from uncertain tax positions as income tax expense as permitted by current accounting standards. There have been no material amounts of interest or penalties for the years ended December 31, 2018, 2017 and 2016.

In July 2017, the Company received notice from the Internal Revenue Service stating the Company's 2015 federal income tax return would be examined. In August 2018, the Internal Revenue Service notified the Company that the examination of the Company's 2015 federal income tax return was completed with no change to the Company's reported tax.

On December 22, 2017, the Tax Cuts and Jobs Act (the 2017 Tax Act) was passed and signed into law. Key components of the 2017 Tax Act are: a permanent reduction to the federal corporate income tax rate from a bracket system with a top tax rate of 35% to a flat rate of 21% beginning on January 1, 2018; implementation of a territorial tax system; an amendment to Internal Revenue Code Section 965 that requires U.S. shareholders (10% or greater) of controlled foreign corporations and other specified foreign corporations to include in income, for the last taxable year of such foreign corporation beginning before January 1, 2018, such U.S. shareholder's pro rata share of a deemed repatriation amount; and changes to carryback and carryforward rules for net operating losses arising after December 31, 2017. Under U.S. GAAP, the tax effects of changes in tax laws or rates need to be recognized in the period in which the law is enacted.

For the year ended December 31, 2018, the Company recorded approximately \$9,177 of income taxes, which resulted in an effective tax rate of 34.1%. For the year ended December 31, 2017, the Company recorded approximately \$8,731 of income tax benefits, which resulted in an effective tax rate of 55.9%. The decrease in the effective tax rate in 2018 as compared with the prior year was primarily attributable to the reduction of the federal corporate income tax rate from 35% to 21%, offset by the negative effect of the derecognition of deferred tax assets of \$1,825 for restricted stock awards of which market conditions will not be met prior to their expiry date, the disallowance of the deductibility of the \$1,887 expense representing dividends cumulatively paid on such restricted stock awards which were reclassified from retained income (see *Restricted Stock Awards* in Note 21 Stock-Based Compensation), and an increase in nondeductible compensation expenses due to the elimination of the deductibility of most performance-based compensation.

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

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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Significant components of the Company's net deferred income tax assets are as follows:

	December 31,	
	2018	2017
Deferred tax assets:		
Unearned premiums	\$ 5,455	\$ 5,753
Losses and loss adjustment expenses	3,001	3,154
Stock-based compensation	716	2,455
Net unrealized investment losses	1,641	
Other-than-temporary impairment losses	6	386
Organizational costs	76	90
Accrued expenses	78	
Unearned revenue	231	339
State net operating losses		333
State capital loss carryforwards		175
Bad debt reserve	20	2
Other	26	
Total deferred tax assets	11,250	12,687
Deferred tax liabilities:		
Property and equipment	(1,430)	(1,517)
Intangible assets	(1,841)	(1,541)
Deferred policy acquisition costs	(4,347)	(4,365)
Net unrealized investment gains		(1,907)
Basis difference related to partnership investments	(1,193)	(599)
Basis difference related to convertible senior notes	(2,429)	(4,099)
Prepaid expenses	(394)	(312)
Accrued expenses		(37)
Other	(684)	(200)
Total deferred tax liabilities	(12,318)	(14,577)
Net deferred tax liabilities	\$ (1,068)	\$ (1,890)

State net operating loss carryforwards were fully utilized in 2018 and as such, there are no state net operating loss carryforwards as of December 31, 2018.

A valuation allowance is established if, based upon the relevant facts and circumstances, management believes any portion of the deferred tax assets will not be realized. Although realization of deferred income tax assets is not certain, management believes it is more likely than not that deferred tax assets will be realized. Thus, the Company did not have a valuation allowance established as of December 31, 2018 or 2017.

The 2017 Tax Act implemented a mandatory one-time tax of eight percent on illiquid assets and 15.5% percent on cash and cash equivalents attributable to the accumulated earnings of controlled foreign companies and other specified foreign corporations on U.S. shareholders owning ten percent or greater of the foreign company. The Company included this one-time federal income tax and the corresponding state taxes attributable to this deemed repatriation amount in the net income tax benefit for the year ended December 31, 2017. In addition to this mandatory one-time deemed repatriation, the 2017 Tax Act also implemented a territorial system which exempts U.S. corporations from U.S. taxes on most future foreign profits. Since all accumulated earnings of the Company's foreign subsidiary at December 31, 2017 were subjected to federal and state income taxes as a result of the one-time mandatory deemed repatriation and all earnings of its foreign subsidiaries after December 31, 2017 will not be subject to U.S. income taxes, the Company will no longer be required to consider the establishment of a deferred tax liability related to the undistributed earnings of its foreign subsidiary.

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

Note 19 Earnings Per Share

U.S. GAAP requires the Company to use the two-class method in computing basic earnings (loss) 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 (loss) per share during periods of net income (loss).

A summary of the numerator and denominator of the basic and fully diluted earnings (loss) per common share is presented below:

	Income (Numerator)	Shares (a) (Denominator)	Per Share Amount
Year Ended December 31, 2018			
Net income	\$ 17,725		
Less: Loss attributable to participating securities*	717		
Basic Earnings Per Share:			
Income allocated to common stockholders	18,442	7,878	\$ 2.34
Effect of Dilutive Securities:**			
Stock options		17	
Diluted Earnings Per Share:			
Income available to common stockholders and assumed conversions	\$ 18,442	7,895	\$ 2.34

(a) Shares in thousands.

* Loss attributable to participating securities included the reclassification of cumulative dividends paid on certain restricted stock with market based vesting conditions from retained income to expense. See *Restricted Stock Awards* in Note 21 *Stock-Based Compensation* for additional information.

** Convertible senior notes were excluded due to antidilutive effect.

Loss (Numerator)	Shares (a) (Denominator)	Per Share Amount
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Year Ended December 31, 2017

Net loss \$ (6,893)

Less: Loss attributable to participating securities 481

Basic and Diluted Loss Per Share:

Loss available to common stockholders*** \$ (6,412) 8,558 \$ (0.75)

(a) Shares in thousands.

*** Stock options and convertible senior notes were excluded due to antidilutive effect.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

	Income (Loss) (Numerator)	Shares (a) (Denominator)	Per Share Amount
Year Ended December 31, 2016			
Net income	\$ 29,021		
Less: Income attributable to participating securities	(1,545)		
Basic Earnings Per Share:			
Income allocated to common stockholders	27,476	9,326	\$ 2.95
Effect of Dilutive Securities:			
Stock options		54	
Convertible senior notes	4,244	1,493	
Diluted Earnings Per Share:			
Income available to common stockholders and assumed conversions	\$ 31,720	10,873	\$ 2.92

(a) Shares in thousands.

Note 20 Stockholders Equity***Common Stock***

In December 2018, the Company's Board of Directors authorized a plan to repurchase up to \$20,000 of the Company's common shares before commissions and fees. The repurchase plan allows the Company to repurchase shares from time to time through December 31, 2019. The shares may be purchased for cash in open market purchases, block transactions and privately negotiated transactions in accordance with applicable federal securities laws. The share repurchase plan may be modified, suspended, terminated or extended by the Company any time without prior notice.

For each of the last two years, the Company's Board of Directors authorized a one-year plan to repurchase up to \$20,000 of the Company's common shares before commissions and fees. During the years ended December 31, 2018 and 2017, the Company repurchased and retired 511,628 and 433,175 shares, respectively, at weighted average prices per share of \$39.09 and \$34.94, respectively. The total costs of shares repurchased, inclusive of fees and commissions, during the years ended December 31, 2018 and 2017 were \$20,015 and \$15,155, respectively, or \$39.12 and \$34.98 per share, respectively.

Series B Junior Participating Preferred Share Purchase Right

On April 18, 2017, the Company's Board of Directors terminated the Company's shareholder rights plan by amending the share purchase right's expiration date to April 18, 2017. Prior to the amended expiration date, one preferred share purchase right entitled a common shareholder to purchase from the Company one one-hundredth of a share of Series B Junior Participating Preferred Stock, no par value, at a price of \$125.00 per one one-hundredth of such preferred share.

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HCI GROUP, INC. AND SUBSIDIARIES

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Share Repurchase Agreements

In conjunction with the issuance of the 4.25% Convertible Notes as described in Note 14 Long-Term Debt under *Convertible Senior Notes*, the Company used \$20,345 of the net proceeds to repurchase and retire an aggregate of 413,600 shares of its common stock at a price of \$49.19 per share from institutional investors.

Prepaid Share Repurchase Forward Contracts

The Company has one outstanding prepaid share repurchase forward contract entered into with Societe Generale, a forward counterparty. The Company entered into this forward contract in conjunction with the March 2017 issuance of the 4.25% Convertible Notes as described in Note 14 Long-Term Debt under *Convertible Senior Notes*. Under the forward contract, the Company made an initial upfront payment of \$9,400 in exchange for the future delivery of 191,000 shares of the Company's common stock over a settlement period in 2022.

The forward contract is subject to early settlement, in whole or in part, at any time prior to the final settlement date at the option of the forward counterparty, as well as early settlement or settlement with alternative consideration in the event of certain corporate transactions. In the event the Company pays any cash dividends on its common shares, the forward counterparty will pay an equivalent amount to the Company. The shares to be purchased under the forward contract will be treated as retired for financial statement purposes as of the effective date of the forward contract, but will remain outstanding for corporate law purposes, including for purposes of any future stockholders votes.

The Company determined that the forward contract does not meet the characteristics of a derivative instrument and, as such, the transaction resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for both basic and diluted earnings (loss) per share.

In November 2018, the Company's share repurchase forward contract with Deutsche Bank AG, London Branch, entered into in conjunction with the 2013 issuance of the 3.875% Convertible Notes, was settled with the delivery of 622,751 shares of the Company's common stock.

Preferred Stock

Series A Cumulative Convertible Preferred Stock

At December 31, 2018 and 2017, there were no Series A Cumulative Convertible Preferred Stock issued or outstanding.

Series B Junior Participating Preferred Stock (Series B Preferred)

At December 31, 2018 and 2017, there were no Series B Preferred issued or outstanding.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)**Undesignated Preferred Stock*

The Company is authorized to issue up to an additional 18,100,000 shares of preferred stock, no par value. The authorized but unissued and undesignated preferred stock may be issued in one or more series and the shares of each series shall have such rights as determined by the Company's Board of Directors subject to the rights of the holders of the Series A Cumulative Convertible Preferred Stock and Series B Preferred.

Note 21 Stock-Based Compensation*Incentive Plan*

The Company currently has outstanding stock-based awards granted under its 2007 Stock Option and Incentive Plan and 2012 Omnibus Incentive Plan. Only the 2012 Plan is active and available for future grants. With respect to the 2012 Plan, the Company may grant stock-based awards to employees, directors, consultants, and advisors of the Company. On March 17, 2017, the Company's board of directors amended the 2012 Plan and reduced the number of shares reserved under the plan from 5,000,000 shares to 3,000,000 shares. At December 31, 2018, there were 1,752,432 shares available for grant.

Stock Options

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

A summary of the stock option activity for the years ended December 31, 2018, 2017 and 2016 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, 2016	110,000	\$ 3.19	2.3 years	\$ 3,482
Exercised	(60,000)	\$ 2.50		
Outstanding at December 31, 2016	50,000	\$ 4.02	2.3 years	\$ 1,773
Granted	110,000	\$ 40.00		

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Exercised	(30,000)	\$ 2.50		
Outstanding at December 31, 2017	130,000	\$ 34.82	8.2 years	\$ 472
Granted	110,000	\$ 40.00		
Outstanding at December 31, 2018	240,000	\$ 37.19	8.8 years	\$ 3,278
Exercisable at December 31, 2018	47,500	\$ 25.81	5.8 years	\$ 1,189

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

The following table summarizes information about options exercised for the years ended December 31, 2018, 2017 and 2016 (option amounts not in thousands):

	2018	2017	2016
Options exercised		30,000	60,000
Total intrinsic value of exercised options	\$	\$ 1,319	\$ 1,376
Tax benefits realized	\$	\$ 509	\$ 501

For the years ended December 31, 2018, 2017 and 2016, the Company recognized \$521, \$306 and \$0, respectively, of compensation expense which was included in general and administrative personnel expenses. Deferred tax benefits related to stock options were \$79, \$78 and \$0 for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018 and 2017, there was \$1,359 and \$941, 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 2.7 years.

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 years ended December 31, 2018 and 2017:

	2018	2017
Expected dividend yield	4.00%	3.53%
Expected volatility	42.22%	42.86%
Risk-free interest rate	2.57%	1.92%
Expected life (in years)	5	5

Restricted Stock Awards

From time to time, the Company has granted and may grant restricted stock awards to certain 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 fair value of the awards with market-based conditions is determined using a Monte Carlo simulation method, which calculates many potential outcomes for an award and then establishes fair value based on the most likely outcome. The determination of fair value with respect to the awards with only performance or service-based conditions is based on the market value of the Company's stock on the grant date.

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

Information with respect to the activity of unvested restricted stock awards during the years ended December 31, 2018, 2017 and 2016 is as follows:

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	620,513	\$ 30.33
Granted	142,440	\$ 32.35
Vested	(47,152)	\$ 42.27
Cancelled	(160,000)	\$ 26.27
Forfeited	(13,298)	\$ 39.06
Nonvested at December 31, 2016	542,503	\$ 30.81
Granted	154,936	\$ 42.92
Vested	(75,983)	\$ 37.95
Forfeited	(23,766)	\$ 36.32
Nonvested at December 31, 2017	597,690	\$ 32.82
Granted	189,860	\$ 41.81
Vested	(98,617)	\$ 40.82
Forfeited	(56,637)	\$ 36.46
Nonvested at December 31, 2018	632,296	\$ 33.33

The Company recognized compensation expense related to restricted stock, which is included in general and administrative personnel expenses, of \$4,111, \$4,217 and \$4,198 for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018 and 2017, there was approximately \$11,199 and \$9,101, 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 years ended December 31, 2018, 2017 and 2016.

	2018	2017	2016
Deferred tax benefits recognized	\$ 862	\$ 970	\$ 1,619
Tax benefits realized for restricted stock and paid dividends	\$ 1,086	\$ 1,396	\$ 140
Fair value of vested restricted stock	\$ 4,025	\$ 2,884	\$ 1,993

During 2018, the Company reclassified from retained income dividends of \$1,887 cumulatively paid on unvested restricted stock awards with market based vesting conditions to general and administrative personnel expenses for \$1,346 and to other operating expenses for \$541. These awards, of which the market conditions will not be met, were granted to the Company's employee and nonemployee directors during 2013. The awards will lapse in May and November 2019. Any future dividend payment associated with these awards will be expensed when declared. As a result, for the year ended December 31, 2018, the Company recognized dividends of \$195 related to these awards in general and administrative personnel expenses for \$159 and in other operating expenses for \$36.

During the years ended December 31, 2018, 2017 and 2016, no awards were issued with other than service-based vesting conditions.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)***Note 22 Employee Benefit Plan**

The Company has a 401(k) Safe Harbor Profit Sharing Plan (401(k) Plan) that qualifies as a defined contribution plan under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, participating employees are eligible for company matching and discretionary profit sharing contributions. Plan participants may elect to defer up to one hundred percent of their pre-tax gross wages, subject to annual limitations. The Company matching contribution is limited to a maximum of four percent of the employee's annual salary or wage and is fully vested when contributed. Eligibility and vesting of the Company's discretionary profit sharing contribution is subject to the plan participant's years of service. During the years ended December 31, 2018, 2017 and 2016, the Company contributed approximately \$536, \$560 and \$415, respectively, in matching contributions, which are included in general and administrative personnel expenses. There has been no discretionary profit sharing contribution since the plan's inception.

The Company also maintains benefit plans for its employees in India including a statutory post-employment benefit plan, or gratuity plan, providing defined, lump-sum benefits. The Company's liability for the gratuity plan reflects the undiscounted benefit obligation payable as of the balance sheet date, which was based upon the employees' salary and years of service. At December 31, 2018 and 2017, the amounts accrued under the gratuity plan were \$72 and \$58, respectively. In addition, the Company provides matching contributions with respect to two defined contribution plans; the Provident Fund and the Employees State Insurance Fund, both of which are available to qualifying employees in India. Expense recognized by the Company for all benefit plans in India was \$14, \$17 and \$14, respectively, for the years ended December 31, 2018, 2017 and 2016.

Note 23 Commitments and Contingencies***Obligations under Multi-Year Reinsurance Contract***

As of December 31, 2018, the Company has a contractual obligation related to one multi-year reinsurance contract. This contract may be cancelled only with the other party's consent. The table below presents the future minimum aggregate premiums amounts payable to the reinsurer.

Year	
2019*	\$ 3,593
2020*	1,796
Total	\$ 5,389

* Premiums payable after March 31, 2019 are estimated. See Note 15 Reinsurance for additional information.

Lease Commitments

The Company leases 15,000 square feet of office space in Noida, India. The lease has an initial term of nine years. The monthly rental payment, exclusive of applicable service tax, has increased by five percent every year since the end of the first year of the lease term. In addition, the Company has a lease for office space in Miami Lakes, Florida for its claims related administration. The lease commenced on March 1, 2018 and has an initial term of approximately three years.

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Provided the leases are not early terminated, minimum future rental payments under operating leases after December 31, 2018 are as follows:

Year	Amount
2019	\$ 287
2020	298
2021	183
Total minimum future payments	\$ 768

Rental expense under all facility leases was \$407, \$336 and \$333, respectively, during the years ended December 31, 2018, 2017 and 2016.

Service Agreement

In connection with the lease for office space in India as described in the *Lease Commitments* above, the Company signed a long-term contract with the landlord to receive maintenance and facility services. The agreement has the same initial term of nine years. The monthly payment, exclusive of applicable service tax, has also increased by five percent every year since the end of the first year of the lease term.

Provided the agreement is not early terminated, minimum future payments under the service agreement after December 31, 2018 are as follows:

Year	Amount
2019	\$ 23
2020	24
2021	26
Total minimum future payments	\$ 73

Rental Income

The Company leases available space at the Company's headquarters and at its various investment properties to non-affiliates at various terms. In addition, the Company leases boat slips and docks on a long-term basis. Expected annual rental income due under non-cancellable operating leases for all properties owned at December 31, 2018 is as follows:

Year	Amount
2019	\$ 4,163
2020	3,727
2021	3,191
2022	2,672
2023	2,008
Thereafter	12,199
Total	\$ 27,960

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)***Capital Commitment**

As described in Note 5 Investments under *Limited Partnership Investments*, the Company is contractually committed to capital contributions for four limited partnership interests. At December 31, 2018, there was an aggregate unfunded balance of \$16,304.

Note 24 Quarterly Results of Operations (Unaudited)

The tables below summarize unaudited quarterly results of operations for 2018, 2017 and 2016.

	Three Months Ended			
	03/31/18	06/30/18	09/30/18	12/31/18
Net premiums earned	\$ 53,522	\$ 52,965	\$ 54,177	\$ 52,758
Total revenue	57,739	58,813	61,743	52,997
Losses and loss adjustment expenses	19,655	21,803	25,769	42,101
Policy acquisition and other underwriting expenses	9,360	9,959	9,829	9,795
Interest expense	4,470	4,505	4,552	4,569
Total expenses	42,935	47,293	49,820	64,342
Income (loss) before income taxes	14,804	11,520	11,923	(11,345)
Net income (loss)	10,791	6,403	8,997	(8,466)
Comprehensive income (loss)	8,340	6,413	8,955	(8,818)
Earnings (loss) per share:				
Basic	\$ 1.25	\$ 0.96	\$ 1.08	\$ (0.95)
Diluted*	\$ 1.11	\$ 0.92	\$ 1.00	\$ (0.95)

* During the quarter ended December 31, 2018, the convertible senior notes and stock options were antidilutive.

	Three Months Ended			
	03/31/17	06/30/17	09/30/17	12/31/17
Net premiums earned	\$ 63,036	\$ 61,847	\$ 43,964	\$ 55,771
Total revenue	67,713	67,580	47,490	61,623
Losses and loss adjustment expenses	25,529	27,665	89,231	23,204
Policy acquisition and other underwriting expenses	9,649	10,070	9,926	10,018
Interest expense	3,542	4,378	4,408	4,439
Total expenses	48,571	53,275	113,508	44,676
Income (loss) before income taxes	19,142	14,305	(66,018)	16,947

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Net income (loss)	12,020	9,542	(40,546)	12,091
Comprehensive income (loss)	12,949	8,959	(38,792)	11,914
Earnings (loss) per share:				
Basic	\$ 1.27	\$ 1.05	\$ (4.44)	\$ 1.37
Diluted*	\$ 1.15	\$ 0.93	\$ (4.44)	\$ 1.14

* During the quarter ended September 30, 2017, the convertible senior notes and stock options were antidilutive.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)*

	Three Months Ended			
	03/31/16	06/30/16	09/30/16	12/31/16
Net premiums earned	\$ 58,447	\$ 58,528	\$ 63,300	\$ 63,352
Total revenue	60,747	61,520	69,808	72,371
Losses and loss adjustment expenses	27,080	26,272	25,909	45,406
Policy acquisition and other underwriting expenses	11,110	10,879	10,536	10,117
Interest expense	2,829	2,611	2,672	2,967
Total expenses	51,050	50,291	49,779	66,470
Income before income taxes	9,697	11,229	20,029	5,901
Net income	6,056	7,024	11,333	4,608
Comprehensive income	7,846	10,742	12,487	2,380
Earnings per share:				
Basic	\$ 0.60	\$ 0.71	\$ 1.17	\$ 0.47
Diluted*	\$ 0.60	\$ 0.71	\$ 1.10	\$ 0.47

* During the quarters ended March 31, 2016, June 30, 2016 and December 31, 2016, the convertible senior notes were antidilutive.

Note 25 Regulatory Requirements and Restrictions

The Company has no restrictions on the payment of dividends to its shareholders except those restrictions imposed by the Florida Business Corporation Act and those restrictions imposed by insurance statutes and regulations applicable to the Company's insurance subsidiaries. As of December 2018, without prior regulatory approval, \$90,561 of the Company's consolidated retained earnings was free from restriction under the insurance statutes and regulations and available for the payment of dividends in 2019. The following briefly describes certain related and other requirements and restrictions imposed by the states or jurisdiction in which the Company's insurance subsidiaries are incorporated.

Florida

HCPCI and TypTap, which are domiciled in Florida, prepare their statutory financial statements in accordance with accounting principles and practices prescribed or permitted by the Florida Department of Financial Services, Office of Insurance Regulation, which Florida utilizes for determining solvency under the Florida Insurance Code (the Code). The commissioner of the FLOIR has the right to permit other practices that may deviate from prescribed practices. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in Florida. Permitted statutory accounting practices encompass all accounting practices that are not prescribed; such practices differ from state to state, may differ from entity to entity within a state, and may change in the future.

The Code requires HCPCI to maintain capital and surplus equal to the greater of 10% of their respective liabilities or a statutory minimum as defined in the Code. TypTap, the Company's insurance subsidiary organized in 2015, is subject

to a consent order that requires TypTap to maintain minimum capital and surplus of \$20,000 during each of the three years ending December 31, 2016, 2017, and 2018. At December 31, 2018, HCPCI was required to maintain minimum capital and surplus of \$21,700. At December 31, 2017, HCPCI was required to maintain minimum capital and surplus of \$25,900. HCPCI and TypTap were in compliance with these requirements at December 31, 2018 and 2017.

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HCI GROUP, INC. AND SUBSIDIARIES

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

U.S. GAAP differs in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory-basis). These entities' statutory-basis financial statements are presented on the basis of accounting practices prescribed or permitted by the FLOIR. The FLOIR has adopted the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* as the basis of its statutory accounting practices. At December 31, 2018, 2017 and 2016, HCPCI's statutory-basis capital and surplus was approximately \$149,000, \$153,000 and \$183,000, respectively. For the year ended December 31, 2018, HCPCI had a statutory-basis net income of approximately \$20,700. For the year ended December 31, 2017, HCPCI had a statutory-basis net loss of approximately \$10,500 as compared with a statutory-basis net income of approximately \$5,900 for the year ended December 31, 2016. At December 31, 2018, 2017 and 2016, TypTap's statutory-basis capital and surplus was approximately \$26,000, \$24,000 and \$25,000, respectively. For the year ended December 31, 2018, TypTap had a statutory-basis net income of approximately \$2,034 in contrast to statutory-basis net losses of approximately \$797 and \$364 for the years ended December 31, 2017 and 2016, respectively. Statutory-basis surplus differs from stockholders' equity reported in accordance with U.S. GAAP primarily because policy acquisition costs are expensed when incurred. In addition, the recognition of deferred tax assets is based on different recoverability assumptions.

Since inception, HCPCI and TypTap have each maintained a cash deposit with the Insurance Commissioner of the state of Florida in the amount of \$300 to meet regulatory requirements.

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its stockholders except out of that part of its available and accumulated capital and surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to stockholders without prior approval of the FLOIR 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 FLOIR if (1) the dividend is equal to or less than the greater of (a) 10.0% of the insurer's capital surplus as regards to 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 FLOIR 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 FLOIR or (2) 30 days after the FLOIR has received notice of such dividend or distribution and has not disapproved it within such time.

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As a result, HCPCI was qualified to make dividend payments at December 31, 2018, 2017 and 2016.

In addition, Florida property and casualty insurance companies are required to adhere to prescribed premium-to-capital surplus ratios. Florida state law requires that the ratio of 90% of written premiums divided by surplus as to policyholders does not exceed 10 to 1 for gross written premiums or 4 to 1 for net written premiums. The required ratio of gross and net written premium to surplus, which the Company's insurance companies had exceeded, is summarized below:

	Years Ended December 31,		
	2018	2017	2016
HCPCI:			
Gross	2.17 to 1	2.01 to 1	1.81 to 1
Net	1.27 to 1	1.11 to 1	1.07 to 1
TypTap:			
Gross	0.57 to 1	0.33 to 1	0.09 to 1
Net	0.38 to 1	0.27 to 1	0.07 to 1

Bermuda

The Bermuda Monetary Authority requires Claddaugh Casualty Insurance Company, Ltd. (Claddaugh), the Company's Bermuda domiciled reinsurance subsidiary, to maintain minimum capital and surplus of \$2,000. At December 31, 2018 and 2017, Claddaugh's statutory capital and surplus was approximately \$45,000 and \$63,000, respectively. For the years ended December 31, 2018 and 2017, Claddaugh reported statutory net losses of approximately \$8,100 and \$5,200, respectively, in contrast with a statutory net profit of approximately \$13,200 for the year ended December 31, 2016. During 2018, Claddaugh made a return of capital distribution of \$10,000 to the Company. During 2017, Claddaugh made a dividend payment of \$20,000 to the Company. There were no cash dividends paid by Claddaugh during 2016.

HCPCI and TypTap are subject to risk-based capital (RBC) requirements as specified by the NAIC. Under those requirements, the amount of minimum capital and surplus maintained by a property and casualty insurance company is to be determined based on the various risks related to it. Pursuant to the RBC requirements, insurers having less statutory capital than required by the RBC calculation will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. At December 31, 2018 and 2017, the Company's insurance subsidiaries individually exceeded any applicable minimum risk-based capital requirements and no corrective actions have been required. As of December 31, 2018, the combined statutory capital and surplus and minimum capital and surplus of the Company's U.S. insurance subsidiaries were approximately \$175,077 and \$41,700, respectively.

At December 31, 2018 and 2017, restricted net assets represented by the Company's insurance subsidiaries amounted to \$181,571 and \$180,286, respectively.

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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Note 26 Related Party Transactions

Claddaugh had a reinsurance agreement with Oxbridge Reinsurance Limited (Oxbridge) whereby a portion of the business assumed from the Company s insurance subsidiary, HCPCI, was ceded by Claddaugh to Oxbridge. On May 28, 2018, Claddaugh terminated its multi-year reinsurance contract with Oxbridge, effective June 1, 2018. Upon termination, Claddaugh agreed to pay Oxbridge a settlement fee of \$600 and derecognized the benefits accrued in connection with retrospective provisions. The settlement fee and the derecognition of the \$622 of accrued benefits were recorded in premiums ceded. With respect to the period from June 1, 2016 through May 31, 2017, Oxbridge assumed \$6,000 of the total covered exposure for approximately \$3,400 in premiums. With respect to the period from June 1, 2017 through May 31, 2018, Oxbridge assumed \$7,400 of the total covered exposure for approximately \$3,400 in premiums. See Note 15 Reinsurance which includes the amounts due from and paid by Oxbridge during the years ended December 31, 2017 and 2016 with respect to benefits accrued in connection with the Oxbridge agreements. The premiums charged by Oxbridge were at rates which management believed to be competitive with market rates available to Claddaugh. Oxbridge had deposited funds into trust accounts to satisfy certain collateral requirements under its reinsurance contract with Claddaugh. Trust assets could be withdrawn by Claddaugh, the trust beneficiary, in the event amounts were due under the Oxbridge reinsurance agreement. Among the Oxbridge shareholders are Paresh Patel, the Company s chief executive officer, who is also chairman of the board of directors for Oxbridge, and members of his immediate family and three of the Company s non-employee directors including Sanjay Madhu who serves as Oxbridge s president and chief executive officer.

During the first quarter of 2018, the Company purchased six-month certificates of deposit totaling approximately \$15,094 from First Home Bank, a local bank in the Tampa Bay area where two of the Company s directors are members of the bank s board of directors. These certificates of deposit had a fixed interest rate of 1.95% with interest payable at maturity. The interest rate and terms of the certificates were comparable to those offered to other clients of the bank. In May 2018, the Company moved the entire funds from a certificate of deposit account to a money market account.

During 2016 and January 2017, one of the Company s directors was a partner at a law firm that performs certain of the Company s corporate legal matters. He retired from the practice of law on January 31, 2017. Fees incurred with respect to this law firm for the month ended January 31, 2017 and year ended December 31, 2016 were approximately \$6 and \$32, respectively.

In connection with the acquisition of Pineda Landings described in Note 7 Business Acquisition, the Company incurred and paid \$20 of legal fees in 2016 for services provided by a law firm that specializes in real estate transactions at which one immediate family member of the Company s directors is employed.

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Condensed financial information of HCI Group, Inc. is as follows:

Balance Sheets

	December 31,	
	2018	2017
Assets		
Cash and cash equivalents	\$ 42,292	\$ 53,755
Fixed-maturity securities, available for sale, at fair value	38,224	34,529
Equity securities, at fair value	7,299	11,283
Short-term investments	25,275	
Limited partnership investments, at equity	21,711	15,232
Note receivable – related party	1,280	7,280
Investment in subsidiaries	290,469	310,779
Property and equipment, net	445	617
Income tax receivable	3,019	3,023
Other assets	1,136	1,019
Total assets	\$ 431,150	\$ 437,517
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	\$ 4,772	\$ 4,499
Deferred income taxes, net	3,594	2,511
Long-term debt	219,301	211,890
Due to related parties	22,042	24,642
Total liabilities	249,709	243,542
Total stockholders' equity	181,441	193,975
Total liabilities and stockholders' equity	\$ 431,150	\$ 437,517

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	Years Ended December 31,		
	2018	2017	2016
Net investment income	\$ 5,348	\$ 2,799	\$ 1,204
Net realized investment gains	1,544	367	151
Net unrealized investment (losses) gains	(1,514)	92	
Other-than-temporary impairment losses	(80)	(209)	(15)
Gain on repurchases of convertible senior notes			153
Loss on repurchases of senior notes		(743)	
Interest expense	(17,007)	(15,704)	(10,346)
Operating expenses	(5,429)	(5,489)	(5,158)
Loss before income tax benefit and equity in income of subsidiaries	(17,138)	(18,887)	(14,011)
Income tax benefit	1,856	9,605	4,878
Net loss before equity in income of subsidiaries	(15,282)	(9,282)	(9,133)
Equity in income of subsidiaries	33,007	2,389	38,154
Net income (loss)	\$ 17,725	\$ (6,893)	\$ 29,021

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)***Statements of Cash Flows**

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	\$ 17,725	\$ (6,893)	\$ 29,021
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Stock-based compensation	2,550	2,630	2,878
Net realized investment gains	(1,544)	(367)	(151)
Net unrealized investment losses (gains)	1,514	(92)	
Amortization of (discounts) premiums on investments in fixed-maturity securities	(3)	51	
Depreciation and amortization	7,737	6,673	3,899
Net income from limited partnership investments	(3,007)	(1,354)	(523)
Distributions from limited partnership interests	1,495	881	544
Other-than-temporary impairment losses	80	209	15
Gain on repurchases of convertible senior notes			(153)
Loss on repurchases of senior notes		743	
Loss from disposal of property and equipment		17	
Equity in income of subsidiaries	(33,007)	(2,389)	(38,154)
Deferred income taxes	1,075	(4,224)	(1,542)
Changes in operating assets and liabilities:			
Income taxes receivable	4	(1,461)	(1,563)
Other assets	(144)	(106)	(129)
Accrued expenses and other liabilities	273	1,544	(716)
Income taxes payable			(1,518)
Due to related parties	(2,600)	(54,896)	60,075
Net cash (used in) provided by operating activities	(7,852)	(59,034)	51,983
Cash flows from investing activities:			
Investment in limited partnership interest	(5,125)	(4,611)	(2,710)
Investment in note receivable related party		(7,280)	
Purchase of fixed-maturity securities	(5,864)	(31,034)	(371)
Purchase of equity securities	(16,913)	(12,483)	(2,853)
Purchase of short-term and other investments	(50,510)		
Purchase of property and equipment	(154)	(306)	(202)

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Proceeds from sales of fixed-maturity securities	2,215	667	423
Proceeds from calls, repayments and maturities of fixed-maturity securities			130
Proceeds from sales of equity securities	20,698	8,886	2,602
Proceeds from sales, redemptions and maturities of short-term and other investments	25,401		
Collection of note receivable related party	6,000		
Distributions from limited partnership interests	158	11,758	
Dividends received from subsidiary	42,000	105,000	19,000
Return of capital from subsidiary	10,000		
Investment in subsidiaries			(25,250)
Net cash provided by (used in) investing activities	27,906	70,597	(9,231)

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements***(Amounts in thousands, except share and per share amounts, unless otherwise stated)***Statements of Cash Flows (Continued)**

	Years Ended December 31,		
	2018	2017	2016
Cash flows from financing activities:			
Repurchases of common stock	(1,151)	(30,718)	(464)
Repurchases of common stock under share repurchase plan	(20,015)	(15,154)	(20,026)
Repurchases of convertible senior notes			(11,347)
Repurchases of senior notes		(40,250)	
Debt issuance costs paid		(4,975)	
Cash dividends paid to stockholders	(11,318)	(13,906)	(12,438)
Cash dividends received under share repurchase forward contract	967	1,073	747
Proceeds from exercise of stock options		75	150
Proceeds from issuance of long-term debt		143,750	
Tax benefits on stock-based compensation			641
Net cash (used in) provided by financing activities	(31,517)	39,895	(42,737)
Net (decrease) increase in cash and cash equivalents	(11,463)	51,458	15
Cash and cash equivalents at beginning of year	53,755	2,297	2,282
Cash and cash equivalents at end of year	\$ 42,292	\$ 53,755	\$ 2,297

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Note 28 Subsequent Events

On January 14, 2019, the Company's Board of Directors declared a quarterly dividend of \$0.40 per common share. The dividends are scheduled for payment on March 15, 2019 to stockholders of record on February 15, 2019.

On January 15, 2019, the Company granted 40,000 shares of restricted stock and 110,000 options to purchase the Company's common shares at an exercise price of \$53 per share to its chief executive officer, Paresh Patel. The options will expire on January 15, 2029. These share-based awards were granted pursuant to the 2012 Plan and will vest in equal annual installments over four years, so long as Mr. Patel remains employed by the Company. The grant date fair values of the restricted stock and options were \$1,918 and \$1,345, respectively.

On February 27, 2019, the Company acquired approximately nine acres of undeveloped land located near its current headquarters in Tampa, Florida for a purchase price of \$8,500, which was primarily financed by the Company's revolving credit facility. The land is a potential site for the construction of a new headquarters building. The transaction was accounted for as an asset acquisition. As such, all acquisition-related costs are capitalized.

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ITEM 9 *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

ITEM 9A *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this Annual Report (December 31, 2018). Our disclosure controls and procedures are intended to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the principal executive officer and principal financial officer to allow timely decisions regarding required disclosures.

Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2018, our internal control over financial reporting was effective.

Dixon Hughes Goodman, LLP, an independent registered public accounting firm, has audited the 2018 consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued an attestation report, included herein, on our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B *Other Information*

None.

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PART III

ITEM 10 *Directors, Executive Officers and Corporate Governance*

Code of Ethics

We have adopted a code of ethics applicable to all of our employees and directors, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer). We have posted the text of our code of ethics to our Internet web site: www.hcigroup.com. Select Investor Information on the top and then select Corporate Governance and then Code of Conduct. We intend to disclose any change to or waiver from our code of ethics by posting such change or waiver to our Internet web site within the same section as described above.

The other information required under this item is incorporated by reference from our definitive proxy statement relating to our annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

ITEM 11 *Executive Compensation*

The information required under this item is incorporated by reference from our definitive proxy statement relating to our annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

ITEM 12 *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required under this item is incorporated by reference from our definitive proxy statement relating to our annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

Securities authorized for issuance under equity compensation plans are summarized under Part II Item 5 of this Form 10-K.

ITEM 13 *Certain Relationships and Related Transactions, and Director Independence*

The information required under this item is incorporated by reference from our definitive proxy statement relating to our annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

Table of Contents**ITEM 14 *Principal Accounting Fees and Services***

The following table sets forth the aggregate fees for services related to the years ended December 31, 2018 and 2017 provided by Dixon Hughes Goodman, LLP, our principal accountant:

	2018	2017
Audit fees (a)	\$ 385	\$ 370
All other fees (b)	9	75
	\$394	\$445

(a) Audit Fees represent fees billed for professional services rendered for the audit of our annual financial statements, review of our quarterly financial statements included in our quarterly reports on Form 10-Q, and audit services provided in connection with other statutory and regulatory filings.

(b) All Other Fees represent fees billed for services provided to us not otherwise included in the category above.

The Audit Committee pre-approved all 2018 engagements and fees for services provided by our principal accountant.

Other information required under this item is incorporated by reference from our definitive proxy statement relating to our annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2018.

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(a) Financial Statements, Financial Statement Schedules and Exhibits

- (1) Consolidated Financial Statements: See Index to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

- (2) Financial Statement Schedules:

Any supplemental information we are required to file with respect to our property and casualty insurance operations is included in Part II, Item 8 of this Form 10-K or is not applicable.

- (3) Exhibits: See the exhibit listing set forth below:

The following documents are filed as part of this report:

EXHIBIT NUMBER	DESCRIPTION
3.1	<u>Articles of Incorporation, with amendments. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.</u>
3.1.1	<u>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.</u>
3.2	<u>Bylaws. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.</u>
4.1	<u>Form of common stock certificate. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed November 7, 2013.</u>
4.8	<u>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.</u>
4.9	See Exhibits <u>3.1</u> , <u>3.1.1</u> and <u>3.2</u> 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	<u>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.</u>
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.

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- 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.
- 10.17 Property Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2017 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding number exhibit to our Form 10-Q filed August 3, 2017.
- 10.18 Property Catastrophe Second Event Excess of Loss Reinsurance Contract effective June 1, 2017 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
- 10.19 Reinstatement Premium Protection Reinsurance Contract effective June 1, 2017 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
- 10.20 Property Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.

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

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- 10.28 Reinstatement Premium Protection Reinsurance Contract effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
- 10.29 Working Layer Catastrophe Excess of Loss Reinsurance Contract (Endurance) effective June 1, 2018 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. and TypTap Insurance Company by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
- 10.30 Reimbursement Contract effective June 1, 2018 between Homeowners Choice Property & Casualty Insurance Company and the State Board of Administration which administers the Florida Hurricane Catastrophe Fund. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2018.
- 10.34** Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 400,000 shares of restricted common stock to Paresh Patel. Incorporated by reference to Exhibit 10.34 of our Form 8-K filed May 21, 2013. See Exhibit 10.90
- 10.35** Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Sanjay Madhu. Incorporated by reference to Exhibit 10.35 of our Form 8-K filed May 21, 2013. See Exhibit 10.91
- 10.36** Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to George Apostolou. Incorporated by reference to Exhibit 10.36 of our Form 8-K filed May 21, 2013. See Exhibit 10.92
- 10.37** Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Harish Patel. Incorporated by reference to Exhibit 10.37 of our Form 8-K filed May 21, 2013. See Exhibit 10.93
- 10.38** Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Gregory Politis. Incorporated by reference to Exhibit 10.38 of our Form 8-K filed May 21, 2013. See Exhibit 10.94

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- 10.39** Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Anthony Saravanos. Incorporated by reference to Exhibit 10.39 of our Form 8-K filed May 21, 2013. See Exhibit 10.95
- 10.53** Restricted Stock Agreement dated November 12, 2013 whereby HCI Group, Inc. issued 24,000 shares of restricted common stock to Wayne Burks. Incorporated by reference to Exhibit 10.11 of our Form 8-K filed November 13, 2013. See Exhibit 10.97
- 10.54** Restricted Stock Agreement dated November 12, 2013 whereby HCI Group, Inc. issued 24,000 shares of restricted common stock to James J. Macchiarola. Incorporated by reference to Exhibit 10.12 of our Form 8-K filed November 13, 2013. See Exhibit 10.98
- 10.57 Form of executive restricted stock award contract. Incorporated by reference to Exhibit 10.57 of our Form 10-Q for the quarter ended March 31, 2014 filed May 1, 2014.
- 10.58 Purchase Agreement, dated February 28, 2017, by and between HCI Group, Inc. and JMP Securities LLC and SunTrust Robinson Humphrey, Inc., as representatives of the several initial purchasers named therein. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed February 28, 2017.
- 10.59 Prepaid Forward Contract, dated February 28, 2017 and effective as of March 3, 2017, between HCI Group, Inc. and Societe Generale. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed March 3, 2017.
- 10.88** 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.
- 10.90** Amendment dated March 2, 2016 to Restricted Stock Award Contract between Paresh Patel and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
- 10.91** Amendment dated March 2, 2016 to Restricted Stock Award Contract between Sanjay Madhu and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
- 10.92** Amendment dated March 2, 2016 to Restricted Stock Award Contract between George Apostolou and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.

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- 10.93** Amendment dated March 2, 2016 to Restricted Stock Award Contract between Harish Patel and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
- 10.94** Amendment dated March 2, 2016 to Restricted Stock Award Contract between Gregory Politis and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
- 10.95** Amendment dated March 2, 2016 to Restricted Stock Award Contract between Anthony Saravanos and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
- 10.97** Amendment dated March 2, 2016 to Restricted Stock Award Contract between Wayne Burks and HCI Group, Inc. dated November 12, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
- 10.98** Amendment dated March 2, 2016 to Restricted Stock Award Contract between Jim Macchiarola and HCI Group, Inc. dated November 12, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 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.

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14	<u>Code of Conduct of HCI Group, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.</u>
21	<u>Subsidiaries of HCI Group, Inc.</u>
23.1	<u>Consent of Dixon Hughes Goodman LLP.</u>
31.1	<u>Certification of the Chief Executive Officer</u>
31.2	<u>Certification of the Chief Financial Officer</u>
32.1	<u>Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350</u>
32.2	<u>Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C.ss.1350</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

** Management contract or compensatory plan.

