

HCI Group, Inc.  
Form 10-Q  
May 01, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended March 31, 2015**

**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)**

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

The aggregate number of shares of the Registrant's Common Stock, no par value, outstanding on April 21, 2015 was 10,757,033.

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

	<b>March 31, 2015 (Unaudited)</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Fixed-maturity securities, available for sale, at fair value (amortized cost: \$156,528 and \$96,163, respectively)	\$ 158,325	\$ 97,084
Equity securities, available for sale, at fair value (cost: \$57,836 and \$45,387, respectively)	59,779	45,550
Limited partnership investments, at equity	21,795	2,550
Investment in joint venture, at equity	4,747	4,477
Real estate investments	19,580	19,138
<b>Total investments</b>	<b>264,226</b>	<b>168,799</b>
Cash and cash equivalents	271,413	314,416
Accrued interest and dividends receivable	1,451	1,059
Income taxes receivable		2,624
Premiums receivable	18,516	15,824
Prepaid reinsurance premiums	16,072	34,096
Deferred policy acquisition costs	15,063	15,014
Property and equipment, net	12,188	12,292
Deferred income taxes, net	2,220	2,499
Other assets	41,195	35,587
<b>Total assets</b>	<b>\$ 642,344</b>	<b>\$ 602,210</b>
<b>Liabilities and Stockholders Equity</b>		
Losses and loss adjustment expenses	\$ 51,177	\$ 48,908
Unearned premiums	185,958	214,071
Advance premiums	19,708	4,380
Assumed reinsurance balances payable	9,651	218
Accrued expenses	9,963	4,826
Income taxes payable	13,507	
Long-term debt	130,227	129,539
Other liabilities	16,137	17,683
<b>Total liabilities</b>	<b>436,328</b>	<b>419,625</b>

## Commitments and contingencies (Note 13)

## Stockholders' equity:

7% Series A cumulative convertible preferred stock (no par value, 1,500,000 shares authorized, no shares issued or outstanding)

Series B junior participating preferred stock (no par value, 400,000 shares authorized, no shares issued or outstanding)

Preferred stock (no par value, 18,100,000 shares authorized, no shares issued or outstanding)

Common stock (no par value, 40,000,000 shares authorized, 10,137,006 and 10,189,128 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively)

Additional paid-in capital	19,927	20,465
Retained income	183,792	161,454
Accumulated other comprehensive income, net of taxes	2,297	666

<b>Total stockholders' equity</b>	<b>206,016</b>	<b>182,585</b>
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Total liabilities and stockholders' equity	\$ 642,344	\$ 602,210
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See accompanying Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenue</b>		
Gross premiums earned	\$ 109,567	\$ 93,888
Premiums ceded	(27,839)	(27,508)
Net premiums earned	81,728	66,380
Net investment income	1,409	1,059
Policy fee income	541	257
Net realized investment (losses) gains	(193)	4
Other-than-temporary impairment losses	(1,690)	
Other	415	417
Total revenue	82,210	68,117
<b>Expenses</b>		
Losses and loss adjustment expenses	19,039	18,565
Policy acquisition and other underwriting expenses	9,799	9,129
Salaries and wages	4,898	4,185
Interest expense	2,661	2,574
Other operating expenses	4,767	5,354
Total expenses	41,164	39,807
Income before income taxes	41,046	28,310
Income tax expense	15,668	10,690
Net income	\$ 25,378	\$ 17,620
Preferred stock dividends		3
Income available to common stockholders	\$ 25,378	\$ 17,623

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Basic earnings per common share	\$ 2.50	\$ 1.60
Diluted earnings per common share	\$ 2.21	\$ 1.44
Dividends per common share	\$ 0.30	\$ 0.28

See accompanying Notes to Consolidated Financial Statements.



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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net income	\$ 25,378	\$ 17,620
Other comprehensive income:		
Change in unrealized gain on investments:		
Net unrealized gain arising during the period	737	2,306
Other-than-temporary impairment loss	1,690	
Call and repayment losses charged to investment income	36	15
Reclassification adjustment for net realized losses (gains)	193	(4)
Net change in unrealized gain	2,656	2,317
Deferred income taxes on above change	(1,025)	(893)
Total other comprehensive income, net of income taxes	1,631	1,424
Comprehensive income	\$ 27,009	\$ 19,044

See accompanying Notes to Consolidated Financial Statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Net income	\$ 25,378	\$ 17,620
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	1,408	2,085
Net amortization of premiums on investments in fixed-maturity securities	230	206
Depreciation and amortization	1,289	1,203
Deferred income tax benefit	(746)	(832)
Net realized investment losses (gains)	193	(4)
Other-than-temporary impairment losses	1,690	
Income from real estate investments	(44)	
Loss from limited partnership interest	265	
Net loss (gain) on disposal or sale of real estate investments	26	(1)
Foreign currency remeasurement gain	(4)	(15)
Changes in operating assets and liabilities:		
Premiums and reinsurance receivable	(2,692)	(3,359)
Advance premiums	15,328	13,063
Prepaid reinsurance premiums	18,024	12,849
Accrued interest and dividends receivable	(392)	(205)
Other assets	(5,811)	(3,036)
Assumed reinsurance balances payable	9,433	(3,666)
Deferred policy acquisition costs	(49)	(113)
Losses and loss adjustment expenses	2,269	(89)
Unearned premiums	(28,113)	(14,948)
Income taxes	16,131	8,049
Accrued expenses and other liabilities	5,190	6,261
Net cash provided by operating activities	59,003	35,068
Cash flows from investing activities:		
Investment in real estate under acquisition, development, and construction arrangement	(479)	
Investments in limited partnership interests	(19,510)	
Investment in joint venture	(270)	
Purchase of property and equipment	(227)	(92)

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Purchase of real estate investments	(45)	(320)
Purchase of fixed-maturity securities	(65,271)	(19,306)
Purchase of equity securities	(19,201)	(7,709)
Proceeds from sales of fixed-maturity securities	2,234	1,691
Proceeds from calls, repayments and maturities of fixed-maturity securities	985	633
Proceeds from sales of equity securities	4,755	2,764
Proceeds from sales of real estate investments	5	1
Net cash used in investing activities	(97,024)	(22,338)

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of common stock options		125
Cash dividends paid	(3,227)	(3,206)
Cash dividends received under share repurchase forward contract	187	171
Repurchases of common stock	(595)	(353)
Repurchases of common stock under share repurchase plan	(1,610)	(6,987)
Debt issuance costs		(234)
Tax benefits on stock-based compensation	259	915
<b>Net cash used in financing activities</b>	<b>(4,986)</b>	<b>(9,569)</b>
Effect of exchange rate changes on cash	4	17
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(43,003)</b>	<b>3,178</b>
Cash and cash equivalents at beginning of period	314,416	293,098
<b>Cash and cash equivalents at end of period</b>	<b>\$ 271,413</b>	<b>\$ 296,276</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for income taxes	\$	\$ 2,500
Cash paid for interest	\$ 2,801	\$ 1,847
<b>Non-cash investing and financing activities:</b>		
Unrealized gain on investments in available-for-sale securities, net of tax	\$ 1,631	\$ 1,424
Conversion of Series A Preferred Stock to common stock	\$	\$ 910

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Statement of Stockholders Equity****Three Months Ended March 31, 2015****(Unaudited)****(Dollar amounts in thousands)**

	Series A Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive Income, Net of Tax	Total Stockholders Equity	
	Shares	Shares	Amount	Amount	Amount	Amount	
Balance at December 31, 2014	\$	10,189,128	\$	\$ 20,465	\$ 161,454	\$ 666	\$ 182,585
Net income				25,378			25,378
Total other comprehensive income, net of income taxes					1,631		1,631
Forfeiture of restricted stock		(1,088)					
Repurchase and retirement of common stock		(13,165)		(595)			(595)
Repurchase and retirement of common stock under share repurchase plan		(37,869)		(1,610)			(1,610)
Common stock dividends				(3,040)			(3,040)
Tax benefits on stock-based compensation				259			259
Stock-based compensation				1,408			1,408
Balance at March 31, 2015	\$	10,137,006	\$	\$ 19,927	\$ 183,792	\$ 2,297	\$ 206,016

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Consolidated Statement of Stockholders Equity - continued****Three Months Ended March 31, 2014****(Unaudited)****(Dollar amounts in thousands)**

	Series A Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive Income, Net of Tax	Total Stockholders Equity
Balance at December 31, 2013	110,684	\$	10,939,268	\$	\$ 48,966	\$ 110,441	\$ 1,114	\$ 160,521
Net income						17,620		17,620
Total other comprehensive income, net of income taxes							1,424	1,424
Conversion of preferred stock to common stock	(100,478)		100,478					
Issuance of restricted stock			98,720					
Exercise of common stock options			50,000		125			125
Forfeiture of restricted stock			(505)					
Repurchase and retirement of common stock			(7,017)		(353)			(353)
Repurchase and retirement of common stock under share repurchase plan			(210,836)		(7,805)			(7,805)
Deferred taxes on debt discount					215			215
Common stock dividends						(6,038)		(6,038)
Preferred stock dividends						3		3
Tax benefits on stock-based compensation					915			915
					2,085			2,085

Stock-based  
compensation

Balance at March 31, 2014	10,206	\$	10,970,108	\$	\$ 44,148	\$ 122,026	\$	2,538	\$ 168,712
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See accompanying Notes to Consolidated Financial Statements.

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**HCI GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (unaudited)**

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

**Note 1 Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited, consolidated financial statements for HCI Group, Inc. and its subsidiaries (collectively, the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information, and the Securities and Exchange Commission ( SEC ) rules for interim financial reporting. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such rules and regulations. However, in the opinion of management, the accompanying consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the Company's financial position as of March 31, 2015 and the results of operations and cash flows for the periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results of operations to be expected for any subsequent interim period or for the fiscal year ending December 31, 2015. The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 included in the Company's Form 10-K, which was filed with the SEC on March 10, 2015.

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

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

All significant intercompany balances and transactions have been eliminated.

***Reclassifications***

Certain reclassifications of prior year amounts have been made to conform to the current year presentation.



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**HCI GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (unaudited)**

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

**Note 2 Recent Accounting Pronouncements**

**Accounting Standards Update No. 2015-03.** In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update No. 2015-03 ( ASU 2015-03 ), Interest Imputation of Interest (Subtopic 835-30), which requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability. ASU 2015-03 does not change the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for all public entities for reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2015, and for interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been previously issued. The Company plans to adopt this guidance in December 2015, which will have no effect on the consolidated results of the Company s operations and comprehensive income.

**Accounting Standards Update No. 2015-02.** In February 2015, the FASB issued Accounting Standards Update No. 2015-02 ( ASU 2015-02 ), Consolidation (Topic 810), which revises the consolidation model affecting limited partnerships and similar legal entities, evaluation of fees paid to a decision maker or a service provider, effect of fee arrangements and related parties on the primary beneficiary determination, and certain investment funds. ASU 2015-02 is effective for all public entities for reporting periods beginning after December 15, 2015. For all other entities, the amendments in ASU 2015-02 are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. Any adjustments related to an early adoption in an interim period should be reflected as of the beginning of the fiscal year that includes that interim period. Entities may apply the amendments in ASU 2015-02 retrospectively or use a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. Adoption of this guidance had no effect on the Company s consolidated financial statements.

**Accounting Standards Update No. 2015-01.** In January 2015, the FASB issued Accounting Standards Update No. 2015-01 ( ASU 2015-01 ), Income Statement Extraordinary and Unusual Items (Subtopic 225-20), which eliminates the concept of extraordinary items. Entities are no longer required to evaluate whether an underlying event or transaction is extraordinary. ASU 2015-01 applies to all reporting entities and is effective for all entities for reporting periods beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. Entities may apply the amendments in ASU 2015-01 either (a) prospectively or (b) retrospectively to all prior periods presented in the financial statements. Adoption of this guidance had no effect on the Company s consolidated financial statements.

**Table of Contents****HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (unaudited)***(Dollar amounts in thousands, except share and per share amounts, unless otherwise stated)***Note 3 Investments***Available-for-Sale Securities*

The Company holds investments in fixed-maturity securities and equity securities that are classified as available-for-sale. At March 31, 2015 and December 31, 2014, 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:

	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gain</b>	<b>Gross Unrealized Loss</b>	<b>Estimated Fair Value</b>
<b><u>As of March 31, 2015</u></b>				
<i>Fixed-maturity securities</i>				
U.S. Treasury and U.S. government agencies	\$ 10,854	\$ 38	\$ (6)	\$ 10,886
Corporate bonds	35,749	516	(448)	35,817
Asset-backed securities	4,319	4	(1)	4,322
Mortgage-backed securities	15,473	41	(26)	15,488
State, municipalities, and political subdivisions	80,132	1,437	(115)	81,454
Redeemable preferred stock	9,503	399	(43)	9,859
Other	498	1		499
<b>Total</b>	<b>156,528</b>	<b>2,436</b>	<b>(639)</b>	<b>158,325</b>
<i>Equity securities</i>				
	57,836	2,908	(965)	59,779
<b>Total available-for-sale securities</b>	<b>\$ 214,364</b>	<b>\$ 5,344</b>	<b>\$ (1,604)</b>	<b>\$ 218,104</b>
<b><u>As of December 31, 2014</u></b>				
<i>Fixed-maturity securities</i>				
U.S. Treasury and U.S. government agencies	\$ 2,881	\$ 5	\$ (8)	\$ 2,878
Corporate bonds	23,645	57	(430)	23,272
Asset-backed securities	697			697
Mortgage-backed securities	3,004	8	(3)	3,009
State, municipalities, and political subdivisions	56,336	1,205	(38)	57,503
Redeemable preferred stock	9,433	178	(54)	9,557
Other	167	1		168
<b>Total</b>	<b>96,163</b>	<b>1,454</b>	<b>(533)</b>	<b>97,084</b>

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<i>Equity securities</i>	45,387	1,694	(1,531)	45,550
Total available-for-sale securities	\$ 141,550	\$ 3,148	\$ (2,064)	\$ 142,634

As of March 31, 2015 and December 31, 2014, \$116 and \$113, respectively, of U.S. Treasury securities relate to a statutory deposit held in trust for the Treasurer of Alabama.

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

Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties. The scheduled contractual maturities of fixed-maturity securities as of March 31, 2015 and December 31, 2014 are as follows:

	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
<b><u>As of March 31, 2015</u></b>		
<b>Available-for-sale</b>		
Due in one year or less	\$ 702	\$ 706
Due after one year through five years	41,177	41,394
Due after five years through ten years	80,922	81,890
Due after ten years	18,254	18,847
Mortgage-backed securities	15,473	15,488
	\$ 156,528	\$ 158,325

	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
<b><u>As of December 31, 2014</u></b>		
<b>Available-for-sale</b>		
Due in one year or less	\$ 715	\$ 721
Due after one year through five years	25,973	26,093
Due after five years through ten years	56,448	56,847
Due after ten years	10,023	10,414
Mortgage-backed securities	3,004	3,009
	\$ 96,163	\$ 97,084

***Sales of Available-for-Sale Securities***

Proceeds received, and the gross realized gains and losses from sales of available-for-sale securities, for the three months ended March 31, 2015 and 2014 were as follows:

	<b>Proceeds</b>	<b>Gross Realized Gains</b>	<b>Gross Realized Losses</b>
<i><u>Three months ended March 31, 2015</u></i>			
Fixed-maturity securities	\$ 2,234	\$ 58	\$ (6)
Equity securities	\$ 4,755	\$ 208	\$ (453)
<i><u>Three months ended March 31, 2014</u></i>			
Fixed-maturity securities	\$ 1,691	\$ 65	\$ (9)
Equity securities	\$ 2,764	\$ 75	\$ (127)

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

*(Dollar 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;

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.

Securities with gross unrealized loss positions at March 31, 2015 and December 31, 2014, 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 Greater		Total	
	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value
<b>As of March 31, 2015</b>						
<i>Fixed-maturity securities</i>						
U.S. treasury and U.S. government agencies	\$ (6)	\$ 1,857	\$	\$	\$ (6)	\$ 1,857
Corporate bonds	(429)	7,997	(19)	981	(448)	8,978
Asset-backed securities	(1)	923			(1)	923
Mortgage-backed securities	(26)	5,160			(26)	5,160

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State, municipalities, and political subdivisions	(89)	16,087	(26)	613	(115)	16,700
Redeemable preferred stock	(43)	2,537			(43)	2,537
Total fixed-maturity securities	(594)	34,561	(45)	1,594	(639)	36,155
<i>Equity securities</i>	(944)	17,273	(21)	834	(965)	18,107
Total available-for-sale securities	\$ (1,538)	\$ 51,834	\$ (66)	\$ 2,428	\$ (1,604)	\$ 54,262

At March 31, 2015, there were 115 securities in an unrealized loss position. Of these securities, 7 securities had been in an unrealized loss position for 12 months or greater.

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

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

As of December 31, 2014	Less Than Twelve Months		Twelve Months or Greater		Total	
	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value
<i>Fixed-maturity securities</i>						
U.S. treasury and U.S. government agencies	\$ (8)	\$ 2,485	\$	\$	\$ (8)	\$ 2,485
Corporate bonds	(428)	12,720	(2)	998	(430)	13,718
Asset-backed securities		209				209
Mortgage-backed securities	(3)	1,018			(3)	1,018
State, municipalities, and political subdivisions	(19)	3,144	(19)	202	(38)	3,346
Redeemable preferred stock	(54)	2,586			(54)	2,586
Total fixed-maturity securities	(512)	22,162	(21)	1,200	(533)	23,362
<i>Equity securities</i>	(1,449)	18,848	(82)	4,619	(1,531)	23,467
Total available-for-sale securities	\$ (1,961)	\$ 41,010	\$ (103)	\$ 5,819	\$ (2,064)	\$ 46,829

At December 31, 2014, there were 94 securities in an unrealized loss position. Of these securities, 9 securities had been in an unrealized loss position for 12 months or greater.

Based on the Company's recent review, the unrealized losses on investments in fixed-maturity securities were caused primarily by interest rate changes. Because the decline in fair value is attributable to changes in interest rates or market conditions and not a decline in credit quality, and because the Company has the ability and intent to hold these securities and it is probable that the Company will not be required to sell these securities until a market price recovery or maturity, the Company does not consider any of its fixed-maturity securities to be other-than-temporarily impaired at March 31, 2015 and December 31, 2014.

In determining whether equity securities are other than temporarily impaired, the Company considers its intent and ability to hold a security for a period of time sufficient to allow for the recovery of cost. In the first quarter of 2015, the Company determined that four equity securities were other-than-temporarily impaired after considering the length of time each security had been in an unrealized loss position, the extent of the decline and the near term prospect for recovery. As a result, the Company recognized impairment losses of \$1,690 and \$0, respectively, for the three months ended March 31, 2015 and 2014.



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

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**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. These partnerships are private equity funds managed by general partners who make decisions with regard to financial policies and operations. As such, the Company is not the primary beneficiary and does not consolidate these partnerships. The following table provides information related to the Company's investments in limited partnerships.

<b>Investment Strategy</b>	<b>March 31, 2015</b>			<b>December 31, 2014</b>		
	<b>Carrying Value</b>	<b>Unfunded Balance</b>	<b>(%)</b>	<b>Carrying Value</b>	<b>Unfunded Balance</b>	<b>(%)(a)</b>
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)	\$ 4,856	\$ 7,550	16.50(a)	\$ 2,550	\$ 9,860	16.50
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)	2,200	5,800	(g)			
Maximum long-term capital appreciation through long and short positions in equity and/or debt securities of publicly traded U.S. and non-U.S. issuers, derivative instruments and certain other financial instruments. (f)	14,739		68.66(a)			
<b>Total</b>	<b>\$ 21,795</b>	<b>\$ 13,350</b>		<b>\$ 2,550</b>	<b>\$ 9,860</b>	

- (a) Represents the percentage investment held by the Company at the balance sheet date.  
(b) Except under certain circumstances, withdrawals from the funds or any assignments are not permitted. Distributions will be received when underlying investments of the funds are liquidated.  
(c) Expected to have a 10-year term and the capital commitment is expected to expire on September 3, 2019.  
(d) Expected to have a three-year term from the end of the capital commitment period, which is March 31, 2018.  
(e) At the fund manager's discretion, the term of the fund may be extended for up to two additional one-year periods.  
(f) Withdrawal is permitted upon at least 45 days' written notice to the general partner, provided that the Company has been a limited partner for at least 12 months.

- (g) The fund began in February 2015 and reports on a three-month lag. The general partner has not provided the Company's investment percentage as of March 31, 2015.

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

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

The following is the aggregated summarized unaudited financial information of limited partnerships, 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.

	<b>Three Months Ended March 31, 2015</b>	
<i>Operating results:</i>		
Total income	\$	(261)
Total expenses		703
Net loss	\$	(964)

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<i>Balance Sheet:</i>		
Total assets	\$ 37,895	\$ 15,940
Total liabilities	\$ 1,018	\$ 513

For the three months ended March 31, 2015 and 2014, the Company recognized net investment losses of \$265 and \$0, respectively, for these investments. At March 31, 2015 and December 31, 2014, the Company's cumulative contributed capital to the partnerships totaled \$22,150 and \$2,640, respectively, and the Company's maximum exposure to loss aggregated \$21,795 and \$2,550, respectively.

***Investment in Joint Venture***

In March 2015, the Company contributed additional cash of \$270 to the joint venture organized in September 2014. The joint venture intends to use the additional funds to acquire additional land for development.

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

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At March 31, 2015 and December 31, 2014, the Company's maximum exposure to loss relating to the joint venture was \$4,747 and \$4,477, respectively, representing the carrying value of the investment. At March 31, 2015 and December 31, 2014, undistributed losses of \$23 and \$23, respectively, from this equity method investment were included in consolidated retained income. The joint venture partners received no distributions during the first quarter of 2015. The following tables provide summarized unaudited financial information for the three months ended March 31, 2015 and the unaudited financial positions of the joint venture at March 31, 2015 and December 31, 2014:

	<b>Three Months Ended March 31, 2015</b>	
<i>Operating results:</i>		
Total revenues	\$	
Total expenses		(1)
Net loss	\$	(1)
The Company's share of net loss*	\$	

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<i>Balance Sheet:</i>		
Construction in progress - real estate	\$ 4,797	\$ 3,612
Cash	487	1,323
Other	35	40
Total assets	\$ 5,319	\$ 4,975
Other liabilities	45	
Members' capital	5,274	4,975
Total liabilities and members' capital	\$ 5,319	\$ 4,975

Investment in joint venture, at equity	\$ 4,747	\$ 4,477
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**Real Estate Investments**

Real estate investments include the Acquisition, Development and Construction Loan Arrangement ( ADC Arrangement ) and the Company's real estate and related assets of the marina and restaurant facilities. Operating activities related to the Company's real estate investments include leasing of office and retail space to tenants, wet and dry boat storage, a restaurant, and fuel services with respect to marina clients and recreational boaters. Real estate investments consist of the following as of March 31, 2015 and December 31, 2014:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Land	\$ 11,476	\$ 11,476
Land improvements	1,425	1,425
Buildings	3,104	3,097
Other	1,327	1,359
<b>Total, at cost</b>	<b>17,332</b>	<b>17,357</b>
Less: accumulated depreciation and amortization	(1,163)	(1,107)
<b>Real estate, net</b>	<b>16,169</b>	<b>16,250</b>
ADC Arrangement classified as real estate investment	3,411	2,888
<b>Real estate investments</b>	<b>\$ 19,580</b>	<b>\$ 19,138</b>

Depreciation and amortization expense related to real estate investments was \$103 and \$98, respectively, for the three months ended March 31, 2015 and 2014.

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

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

**ADC Arrangement**

During the first quarter of 2015, the Company amended the maximum loan amount under the ADC Arrangement from \$9,785 to \$10,200. The increased financing is intended for use in acquiring additional land.

At March 31, 2015 and December 31, 2014, the Company's maximum exposure to loss relating to this variable interest was \$3,411 and \$2,888, respectively, representing the carrying value of the ADC Arrangement.

***Net Investment Income***

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Available-for-sale securities:		
Fixed-maturity securities	\$ 826	\$ 997
Equity securities	927	257
Investment expense	(145)	(85)
Limited partnership investments	(265)	
Real estate investments	(83)	(284)
Cash and cash equivalents	135	174
Other	14	
<b>Net investment income</b>	<b>\$ 1,409</b>	<b>\$ 1,059</b>

**Note 4 Fair Value Measurements**

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

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Other inputs that are observable for the asset and liability, either directly or indirectly.
- Level 3 - Inputs that are unobservable.



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

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*Assets Measured at Estimated Fair Value on a Recurring Basis*

The following table presents information about the Company's financial assets measured at estimated fair value on a recurring basis. The table indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as of March 31, 2015 and December 31, 2014:

	Fair Value Measurements Using			Total
	(Level 1)	(Level 2)	(Level 3)	
<b><u>As of March 31, 2015</u></b>				
Financial Assets:				
<i>Cash and cash equivalents</i>	\$ 271,413	\$	\$	\$ 271,413
<i>Fixed-maturity securities:</i>				
U.S. Treasury and U.S. government agencies	3,973	6,913		10,886
Corporate bonds	34,836	981		35,817
Asset-backed securities		4,322		4,322
Mortgage-backed securities		15,488		15,488
State, municipalities, and political subdivisions		81,454		81,454
Redeemable preferred stock	9,859			9,859
Other		499		499
Total fixed-maturity securities	48,668	109,657		158,325
<i>Equity securities</i>	59,779			59,779
Total available-for-sale securities	108,447	109,657		218,104
Total	\$ 379,860	\$ 109,657	\$	\$ 489,517

	Fair Value Measurements Using			Total
	(Level 1)	(Level 2)	(Level 3)	
<b><u>As of December 31, 2014</u></b>				
Financial Assets:				
<i>Cash and cash equivalents</i>	\$ 314,716	\$	\$	\$ 314,716
<i>Fixed-maturity securities:</i>				
U.S. Treasury and U.S. government agencies	1,069	1,809		2,878



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Corporate bonds	22,274	998	23,272
Asset-backed securities		697	697
Mortgage-backed securities		3,009	3,009
State, municipalities, and political subdivisions		57,503	57,503
Redeemable preferred stock	9,557		9,557
Other		168	168
Total fixed-maturity securities	32,900	64,184	97,084
Equity securities	45,550		45,550
Total available-for-sale securities	78,450	64,184	142,634
Total	\$ 393,166	\$ 64,184	\$ 457,350

*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 March 31, 2015 and December 31, 2014:

	Fair Value Measurements			Total
	(Level 1)	(Level 2)	(Level 3)	
<b>Using</b>				
<b>As of March 31, 2015</b>				
Financial Assets:				
Limited partnership investments (a)	\$	\$	\$ 14,727	\$ 14,727
ADC Arrangement classified as real estate investment	\$	\$	\$ 3,360	\$ 3,360
Financial Liabilities:				
<i>Long-term debt:</i>				
8% Senior notes	\$	\$ 42,472	\$	\$ 42,472
3.875% Convertible senior notes			93,146	93,146
Total long-term debt	\$	\$ 42,472	\$ 93,146	\$ 135,618

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

	<b>Fair Value Measurements</b>			<b>Total</b>
	<b>Using</b>			
	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>	
<b><u>As of December 31, 2014</u></b>				
Financial Assets:				
ADC Arrangement classified as real estate investment	\$	\$	\$ 2,835	\$ 2,835
Financial Liabilities:				
<i>Long-term debt:</i>				
8% Senior notes	\$	\$ 42,955	\$	\$ 42,955
3.875% Convertible senior notes			93,367	93,367
Total long-term debt	\$	\$ 42,955	\$ 93,367	\$ 136,322

- (a) Represents the net asset value for one of three funds. The Company's share of net asset value for two funds was not available or practicable to estimate as of the balance sheet date.

**Note 5 Other Assets**

The following table summarizes the Company's other assets:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Benefits receivable related to retrospective reinsurance contracts	\$ 34,502	\$ 28,123
Deferred costs related to retrospective reinsurance contracts	533	473
Deferred offering costs on senior notes	3,482	3,653
Prepaid expenses	1,190	1,444
Restricted cash	300	300
Other	1,188	1,594
Total other assets	\$ 41,195	\$ 35,587

**Note 6 Long-Term Debt**

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
8% Senior Notes, due January 30, 2020	\$ 40,250	\$ 40,250
3.875% Convertible Senior Notes, due March 15, 2019*	89,977	89,289
<b>Total long-term debt</b>	<b>\$ 130,227</b>	<b>\$ 129,539</b>

\* net carrying value

During the first quarter of 2015, the Company increased its cash dividends on common stock from \$0.275 per share to \$0.30 per share, which resulted in an adjustment in the conversion rate applicable to the Company's 3.875% Convertible Senior Notes. As a result, each \$1 of notes will be convertible into 16.0173 shares of common stock, which is the equivalent of approximately \$62.43 per share, effective February 18, 2015.

For the three months ended March 31, 2015 and 2014, interest expense included the contractual interest coupon, discount amortization and amortization of allocated issuance costs aggregating \$2,661 and \$2,574, respectively, the amounts of which included non-cash interest expense of \$858 and \$782, respectively. As of March 31, 2015, the remaining amortization period of the debt discount was 3.9 years.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (unaudited)***(Dollar amounts in thousands, except share and per share amounts, unless otherwise stated)***Note 7 Reinsurance**

The Company cedes a portion of its homeowners insurance exposure to other entities under catastrophe excess of loss reinsurance and quota share treaties. 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 projected losses and reinsurance market conditions.

The impact of the catastrophe excess of loss reinsurance and quota share treaties on premiums written and earned is as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Premiums Written:</b>		
Direct	\$ 81,989	\$ 79,662
Assumed	(535)	(723)
Gross written	81,454	78,939
Ceded	(27,839)	(27,508)
Net premiums written	\$ 53,615	\$ 51,431
<b>Premiums Earned:</b>		
Direct	\$ 83,606	\$ 78,520
Assumed	25,961	15,368
Gross earned	109,567	93,888
Ceded	(27,839)	(27,508)
Net premiums earned	\$ 81,728	\$ 66,380

During the three months ended March 31, 2015 and 2014, there were no recoveries pertaining to reinsurance contracts that were deducted from losses incurred. At March 31, 2015 and December 31, 2014, there were 28 reinsurers participating in the Company's reinsurance program. There were no amounts receivable with respect to reinsurers at March 31, 2015 and December 31, 2014. Thus, there were no concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums as of March 31, 2015 and December 31, 2014.

Certain of the 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. These adjustments are reflected in the consolidated statements of income as net reductions in ceded premiums of \$6,373 and \$5,484, respectively, for the three months ended March 31, 2015 and 2014. At March 31, 2015 and December 31, 2014, other assets included \$35,035 and \$28,596, respectively, and prepaid reinsurance premiums included \$5,917 and \$5,983, respectively, which are related to these adjustments.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (unaudited)***(Dollar amounts in thousands, except share and per share amounts, unless otherwise stated)***Note 8 Losses and Loss Adjustment Expenses**

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Balance, beginning of period	\$ 48,908	\$ 43,686
Incurred related to:		
Current period	18,832	18,914
Prior period	207	(349)
<b>Total incurred</b>	<b>19,039</b>	<b>18,565</b>
Paid related to:		
Current period	(4,796)	(6,607)
Prior period	(11,974)	(12,047)
<b>Total paid</b>	<b>(16,770)</b>	<b>(18,654)</b>
Balance, end of period	\$ 51,177	\$ 43,597

The establishment of loss reserves is an inherently uncertain process and changes in loss reserve estimates are expected as such 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 made. During the three months ended March 31, 2015, the Company experienced unfavorable development of \$207 with respect to its net unpaid losses and loss adjustment expenses established as of December 31, 2014. Factors attributable to this unfavorable development include an increase in the number of late reported claims.

The Company writes insurance in the state of Florida, which could be exposed to hurricanes or other natural catastrophes. The occurrence of a major catastrophe could have a significant effect on the Company's monthly or

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.

**Note 9 Income Taxes**

During the three months ended March 31, 2015 and 2014, the Company recorded approximately \$15,668 and \$10,690, respectively, of income taxes, which resulted in effective tax rates of 38.2% and 37.8%, respectively. The increase in the 2015 effective tax rate was primarily attributable to an increase in overall income and a decrease in interest income earned from tax-exempt securities. The Company's estimated annual effective tax rate differs from the statutory federal tax rate due to state and foreign income taxes as well as certain nondeductible and tax-exempt items.

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

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

**Note 10 Earnings Per Share**

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

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

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	\$ 25,378			\$ 17,620		
Less: Preferred stock dividends				3		
Less: Income attributable to participating securities	(1,498)			(1,180)		
<b>Basic Earnings Per Share:</b>						
Income allocated to common stockholders	23,880	9,539	\$ 2.50	16,443	10,261	\$ 1.60
<b>Effect of Dilutive Securities:</b>						
Stock options		135			149	
Convertible preferred stock				(3)	79	
Convertible senior notes	1,111	1,649		1,071	1,649	
<b>Diluted Earnings Per Share:</b>						
Income available to common stockholders and assumed conversions	\$ 24,991	11,323	\$ 2.21	\$ 17,511	12,138	\$ 1.44

**Note 11 Stockholders Equity****Common Stock**



In 2014, the Company's Board of Directors authorized a plan to repurchase up to \$40,000 of the Company's common shares before commissions and fees. During the three months ended March 31, 2015 and 2014, the Company repurchased and retired a total of 37,869 and 210,836 shares, respectively, at a weighted average price per share of \$42.49 and \$37.00, respectively, under this authorized repurchase plan. The total cost of shares repurchased, inclusive of fees and commissions, during the three months ended March 31, 2015 and 2014 was \$1,610, or \$42.51 per share, and \$7,805, or \$37.02 per share, respectively. The one-year repurchase plan expired March 31, 2015.

On January 19, 2015, the Company's Board of Directors declared a quarterly dividend of \$0.30 per common share. The dividends were paid on March 20, 2015 to stockholders of record on February 20, 2015. On April 20, 2015, the Company's Board of Directors declared a quarterly dividend of \$0.30 per common share. The dividends are payable on June 19, 2015 to stockholders of record on May 15, 2015.

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

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

**Note 12 Stock-Based Compensation*****Incentive Plans***

The Company currently has outstanding stock-based awards granted under the 2007 Stock Option and Incentive Plan and the 2012 Omnibus Incentive Plan. Only the 2012 Plan is active and available for future grants. At March 31, 2015, there were 4,247,558 shares available for grant under the 2012 Plan.

***Stock Options***

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

A summary of the stock option activity for the three months ended March 31, 2015 and 2014 is as follows (option amounts not in thousands):

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2015	230,000	\$ 3.00	3.0 years	\$ 9,256
Outstanding at March 31, 2015	230,000	\$ 3.00	2.8 years	\$ 9,861
Exercisable at March 31, 2015	230,000	\$ 3.00	2.8 years	\$ 9,861
Outstanding at January 1, 2014	280,000	\$ 2.91	3.9 years	\$ 14,166
Exercised	(50,000)	\$ 2.50		
Outstanding at March 31, 2014	230,000	\$ 3.00	3.8 years	\$ 7,683
Exercisable at March 31, 2014	220,000	\$ 2.85	3.6 years	\$ 7,382

There were no options exercised during the three months ended March 31, 2015. The following table summarizes information about options exercised during the three months ended March 31, 2014 (option amounts not in thousands):

Options exercised	50,000
Total intrinsic value of exercised options	\$ 1,970
Fair value of vested stock options	\$ 17
Tax benefits realized	\$ 603

All outstanding stock options vested and their related compensation expense had been fully recognized prior to 2015. The Company recognized compensation expense related to stock options, which is included in other operating expenses, of approximately \$5 for the three months ended March 31, 2014. The associated deferred tax benefits were immaterial.

Table of Contents**HCI GROUP, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements (unaudited)***(Dollar amounts in thousands, except share and per share amounts, unless otherwise stated)****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 common stock on the grant date.

Information with respect to the activity of unvested restricted stock awards during the three months ended March 31, 2015 and 2014 is as follows:

	<b>Number of Restricted Stock Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested at January 1, 2015	639,705	\$ 28.33
Vested	(41,695)	\$ 36.15
Forfeited	(1,088)	\$ 48.42
Nonvested at March 31, 2015	596,922	\$ 27.75
Nonvested at January 1, 2014	735,650	\$ 25.48
Granted	98,720	\$ 48.42
Vested	(21,825)	\$ 21.56
Forfeited	(505)	\$ 32.20
Nonvested at March 31, 2014	812,040	\$ 28.37

The Company recognized compensation expense related to restricted stock, which is included in other operating expenses, of \$1,408 and \$2,080, respectively, for the three months ended March 31, 2015 and 2014. At March 31, 2015 and 2014, there was approximately \$8,893 and \$16,440, 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 20 months. The following table summarizes information about deferred tax benefits recognized and tax benefits realized related to restricted stock awards and related paid dividends, and the fair value of vested restricted stock for the three months ended March 31, 2015 and 2014:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Deferred tax benefits recognized	\$ 543	\$ 803
Tax benefits realized for restricted stock and paid dividends	\$ 259	\$ 312
Fair value of vested restricted stock	\$ 1,507	\$ 471

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**HCI GROUP, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (unaudited)**

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

**Note 13 Commitments and Contingencies**

**Obligations under Multi-Year Reinsurance Contracts**

As of March 31, 2015, the Company has contractual obligations related to two-year and three-year reinsurance contracts. These contracts have effective dates of either June 1, 2013 or June 1, 2014 and may be cancelable only with the other party's consent. The future minimum aggregate premiums payable to the reinsurers due in one and two years are \$66,451 and \$10,905, respectively.

**Financing Commitment**

As described in Note 3 Investments under *ADC Arrangement*, the Company is contractually committed to provide financing for a real estate acquisition, development and construction project. At March 31, 2015, \$6,917 of the Company's commitment was unused.

**Capital Commitment**

As described in Note 3 Investments under *Limited Partnership Investments*, the Company is contractually committed to capital contributions under limited partnership agreements. At March 31, 2015, there was an aggregate unfunded balance of \$13,350.

**Premium Tax**

In September 2013, the Company received a notice of intent to make audit adjustments from the Florida Department of Revenue in connection with the Department's audit of the Company's premium tax returns for the three-year period ended December 31, 2012. The auditor's proposed adjustments primarily relate to the Department's proposed disallowance of the entire amount of \$1,754 in Florida salary credits applicable to that period. The proposed adjustment, which includes interest through September 10, 2013, approximates \$1,913. The Company did not agree with the proposed adjustment and notified the Department of its intention to protest the Department's position. While the Company remains confident in the merits of its position in claiming the Florida salary credits, management continued to hold discussions with Department staff throughout 2014 and during the first quarter of 2015 and believes the Company has reached an agreement in principle towards resolution of this matter. The pending resolution entails having certain subsidiaries individually file and pay state reemployment taxes plus interest covering the periods under audit through the second quarter of 2014. The Company believes the payroll of certain of these subsidiaries then will continue to qualify for substantially all of the salary tax credits claimed by the Company. The incremental reemployment taxes due to the Department as a result of the subsidiaries' separate reemployment tax filings will be netted against amounts refundable to the parent for the same periods during which the parent filed and paid state reemployment taxes as a single payer. As such, and based on the current status and expected resolution, the Company has accrued a net amount of approximately \$140 as of March 31, 2015 and December 31, 2014 related to this contingency.



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

*You should read the following discussion under this Item 2 in conjunction with our consolidated financial statements and related notes and information included elsewhere in this quarterly report on Form 10-Q and in our Form 10-K filed with the Securities and Exchange Commission ( SEC ) on March 10, 2015. Unless the context requires otherwise, as used in this Form 10-Q, the terms HCI, we, us, our, the Company, our company, and similar references refer to HCI Group, Inc., a Florida corporation incorporated in 2006, and its subsidiaries. All dollar amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations are in whole dollars unless specified otherwise.*

***Forward-Looking Statements***

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

**OVERVIEW General**

HCI Group, Inc. is a Florida-based company owning subsidiaries engaged in property and casualty insurance, information technology, real estate and reinsurance. Based on our organizational structure, revenue sources, and evaluation of financial and operating performances by management, we manage our operations under one business segment, which includes the following operations:

a) Insurance Operations

*Property and casualty insurance*

*Reinsurance*

b) Other Operations



*Information technology*

*Real estate*

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For the three months ended March 31, 2015 and 2014, revenues from property and casualty insurance operations represented 97.1% and 96.2%, respectively, of total revenues of all operating segments. As a result, our property and casualty insurance operations are our only reportable operating segment.

## **Insurance Operations**

### ***Property and Casualty Insurance***

Our principal operating subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc. ( HCPCI ), is a leading provider of property and casualty insurance in the state of Florida. HCPCI along with certain of our other subsidiaries currently provides property and casualty insurance to homeowners, condominium owners, and tenants in the state of Florida. Since 2014, HCPCI has offered flood-endorsed and wind-only policies to eligible new and pre-existing Florida customers. HCPCI strives to offer insurance products at competitive rates, while pursuing profitability using selective underwriting criteria.

HCPCI began operations in 2007 by participating in a take-out program, which is a legislatively mandated program designed to encourage private insurance companies to assume policies from Citizens Property Insurance Corporation, a Florida state-supported insurer. Our growth since inception has resulted primarily from a series of policy assumptions. This growth track has been beneficial to us but may not continue as we experience intense competition for lucrative markets. Even though expanding our policyholder base through opportunistic assumptions may continue to be important to our growth plan, we plan to seek other opportunities to expand and to provide new or additional product offerings in and outside the state of Florida.

### ***Reinsurance***

We have a Bermuda domiciled wholly-owned reinsurance subsidiary, Claddaugh Casualty Insurance Company Ltd., which participates in HCPCI's reinsurance program.

## **Other Operations**

### ***Information Technology***

Our information technology operations include a team of experienced software developers with extensive knowledge in developing web-based products and applications for mobile devices. The operations, which are in India and in Tampa, Florida, are focused on developing cloud-based, innovative products or services that can be marketed to the public in addition to providing affiliates with back-office technology support services that can facilitate and improve ongoing operations. Some of the technologies originally developed in-house for our own insurance operations have been launched for use by third parties. These products include the following.

*Exzeo™* - a cloud application that provides automation and intelligence across multiple business processes.

*Proplet™* - an interactive tool for an insurance agent to search a property's insurance-related information.

*Atlas Viewer* - an interactive cloud-based data mapping and visualization application.



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***Real Estate***

Our real estate operations consist of several properties we own including our headquarters building in Tampa, Florida and a secondary insurance operations site in Ocala, Florida. In addition, the Ocala location serves as our alternative site in the event we experience any significant disruption at our headquarters building. We also own investment real estate in Treasure Island, Florida and Tierra Verde, Florida with a combined 20 acres of waterfront property.

With the exception of the Ocala location, we lease office or retail space at each location to non-affiliates on various terms. In addition, we own and operate one full-service restaurant and two marinas that we acquired in connection with our purchase of the waterfront properties. The combined marina facilities offer to the general public: a) one dry-stack boat storage facility with capacity for approximately 305 boats; b) approximately 64 wet slips; c) two fuel facilities; and d) open areas for parking and storage. Dry-stack boat storage space is generally rented on a monthly or annual basis while the wet slips are rented on a daily or monthly basis.

In addition, we have one ongoing real estate development and construction project in which our involvement is through the acquisition, development and construction loan arrangement ( ADC Arrangement ). Under the ADC Arrangement, we are committed to provide financing for up to a maximum of \$10,200,000 for the acquisition, development and construction of a retail shopping center. We also have a real estate development project through a joint venture, in which we have a 90% equity interest. See Note 3 Investments to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

***Recent Events***

On April 20, 2015, our Board of Directors declared a quarterly dividend of \$0.30 per common share. The dividends are payable on June 19, 2015 to stockholders of record on May 15, 2015.

**Table of Contents****RESULTS OF OPERATIONS**

The following table summarizes our results of operations for the three months ended March 31, 2015 and 2014 (dollar amounts in thousands, except per share amounts):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Operating Revenue</b>		
Gross premiums earned	\$ 109,567	\$ 93,888
Premiums ceded	(27,839)	(27,508)
Net premiums earned	81,728	66,380
Net investment income	1,409	1,059
Policy fee income	541	257
Net realized investment (losses) gains	(193)	4
Other-than-temporary impairment losses	(1,690)	
Other income	415	417
Total operating revenue	82,210	68,117
<b>Operating Expenses</b>		
Losses and loss adjustment expenses	19,039	18,565
Policy acquisition and other underwriting expenses	9,799	9,129
Salaries and wages	4,898	4,185
Interest expense	2,661	2,574
Other operating expenses	4,767	5,354
Total operating expenses	41,164	39,807
Income before income taxes	41,046	28,310
Income tax expense	15,668	10,690
Net income	\$ 25,378	\$ 17,620
Preferred stock dividends		3
Income available to common stockholders	\$ 25,378	\$ 17,623
<b>Ratios to Net Premiums Earned:</b>		
Loss Ratio	23.30%	27.97%
Expense Ratio	27.07%	32.00%
Combined Ratio	50.37%	59.97%

<b>Ratios to Gross Premiums Earned:</b>		
Loss Ratio	17.38%	19.77%
Expense Ratio	20.19%	22.62%
Combined Ratio	37.57%	42.39%
<b>Per Share Data:</b>		
Basic earnings per common share	\$ 2.50	\$ 1.60
Diluted earnings per common share	\$ 2.21	\$ 1.44

**Table of Contents*****Comparison of the Three Months ended March 31, 2015 to the Three Months ended March 31, 2014***

Our results of operations for the three months ended March 31, 2015 reflect income available to common stockholders of approximately \$25,378,000, or \$2.21 earnings per diluted common share, compared with approximately \$17,623,000, or \$1.44 earnings per diluted common share, for the three months ended March 31, 2014.

**Revenue**

*Gross Premiums Earned* for the three months ended March 31, 2015 and 2014 were approximately \$109,567,000 and \$93,888,000, respectively. The \$15,679,000 increase over the corresponding period in 2014 was primarily attributable to revenue from the Citizens assumptions completed in December 2014 and February 2015.

*Premiums Ceded* for the three months ended March 31, 2015 and 2014 were approximately \$27,839,000 and \$27,508,000, respectively. Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed the retention levels defined by our catastrophe excess of loss reinsurance treaties. For the three months ended March 31, 2015 and 2014, premiums ceded reflect net reductions of approximately \$6,373,000 and \$5,484,000, respectively, that relate to certain provisions under certain reinsurance contracts. See *Economic Impact of Reinsurance Contracts with Retrospective Provisions* under *Critical Accounting Policies and Estimates*. Our reinsurance rates are based primarily on policy exposures reflected in gross premiums earned. Premiums ceded were 25.4% and 29.3% of gross premiums earned during the three months ended March 31, 2015 and 2014, respectively.

*Net Premiums Written* during the three months ended March 31, 2015 and 2014 totaled approximately \$53,615,000 and \$51,431,000, respectively. Net premiums written represent the premiums charged for policies issued during a fiscal period less any applicable reinsurance costs.

*Net Premiums Earned* for the three months ended March 31, 2015 and 2014 were approximately \$81,728,000 and \$66,380,000, respectively, and reflect the gross premiums earned less the appropriate reinsurance costs as described above.

The following is a reconciliation of our total Net Premiums Written to Net Premiums Earned for the three months ended March 31, 2015 and 2014 (amounts in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Net Premiums Written	\$ 53,615	\$ 51,431
Decrease in Unearned Premiums	28,113	14,949
<b>Net Premiums Earned</b>	<b>\$ 81,728</b>	<b>\$ 66,380</b>

*Net Investment Income* for the three months ended March 31, 2015 and 2014 was approximately \$1,409,000 and \$1,059,000, respectively. The increase in 2015 is primarily due to the increase in our investment in available-for-sale securities.

*Policy Fee Income* for the three months ended March 31, 2015 and 2014 was approximately \$541,000 and \$257,000, respectively. The increase in 2015 from the corresponding period in 2014 is primarily attributable to an increase in policy renewals.

*Other-than-temporary impairment losses* for the three months ended March 31, 2015 and 2014 were approximately \$1,690,000 and \$0, respectively. During the quarter ended March 31, 2015, we recognized impairment losses specific to four equity securities.



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**Table of Contents****Expenses**

Our *Losses and Loss Adjustment Expenses* amounted to approximately \$19,039,000 and \$18,565,000, respectively, during the three months ended March 31, 2015 and 2014. The increase is primarily due to an increase in the number of policies written. See *Reserves for Losses and Loss Adjustment Expenses* under *Critical Accounting Policies and Estimates*.

*Policy Acquisition and Other Underwriting Expenses* for the three months ended March 31, 2015 and 2014 of approximately \$9,799,000 and \$9,129,000, respectively, primarily reflect the amortization of deferred acquisition costs, commissions payable to agents for production and renewal of policies, premium taxes and brokerage fees. The \$670,000 increase from the corresponding period in 2014 is primarily attributable to commissions and premium taxes related to the policies assumed from Citizens that have renewed and are included in 2015 premiums.

*Salaries and Wages* for the three months ended March 31, 2015 and 2014 were approximately \$4,898,000 and \$4,185,000, respectively. The \$713,000 increase from the corresponding period in 2014 was primarily attributable to an increase in employee headcount. As of March 31, 2015, we had 214 employees located at our headquarters in Florida compared with 174 employees as of March 31, 2014. We also had 91 employees located in Noida, India at March 31, 2015 versus 79 at March 31, 2014.

*Other Operating Expenses* for the three months ended March 31, 2015 and 2014 were approximately \$4,767,000 and \$5,354,000, respectively. The \$587,000 decrease is primarily attributable to a \$672,000 decrease in stock-based compensation offset by an increase in other administrative expenses.

*Income Tax Expense* for the three months ended March 31, 2015 and 2014 was approximately \$15,668,000 and \$10,690,000, respectively, for state, federal, and foreign income taxes resulting in an effective tax rate of 38.2% for 2015 and 37.8% for 2014.

**Ratios:**

The loss ratio applicable to the three months ended March 31, 2015 (losses and loss adjustment expenses incurred related to net premiums earned) was 23.3% compared with 28.0% for the three months ended March 31, 2014. Our wind-only policies, which we assumed from Citizens in December 2014, contributed to this year over year improvement. (See *Gross Premiums Earned* and *Losses and Loss Adjustment Expenses* above).

The expense ratio applicable to the three months ended March 31, 2015 (defined as underwriting expenses, salaries and wages, interest and other operating expenses related to net premiums earned) was 27.1% compared with 32.0% for the three months ended March 31, 2014. The decrease in our expense ratio is primarily attributable to the higher percentage increase in net premiums earned relative to the increase in our expenses.

The combined ratio (total of all expenses in relation to net premiums earned) is the measure of overall underwriting profitability before other income. Our combined ratio for the three months ended March 31, 2015 was 50.4% compared with 60.0% for the three months ended September 30, 2013.

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Due to the impact our reinsurance costs have on net premiums earned from period to period, our management believes the combined ratio measured to gross premiums earned is more relevant in assessing overall performance. The combined ratio to gross premiums earned for the three months ended March 31, 2015 was 37.6% compared with 42.4% for the three months ended March 31, 2014.

### ***Seasonality of Our Business***

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

## **LIQUIDITY AND CAPITAL RESOURCES**

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

Our main insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc., requires liquidity and adequate capital to meet ongoing obligations to policyholders and claimants and to fund operating expenses. In addition, we attempt to maintain adequate levels of liquidity and surplus to manage any differences between the duration of our liabilities and invested assets. In the insurance industry, cash collected for premiums from policies written is invested, interest and dividends are earned thereon, and losses and loss adjustment expenses are paid out over a period of years. This period of time varies by the circumstances surrounding each claim. A substantial portion of our losses and loss adjustment expenses are fully settled and paid within 90 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 June 2015, we expect to receive \$14,100,000 under the terms of one of the retrospective reinsurance contracts, which will terminate May 31, 2015.

In the future, we anticipate our primary use of funds will be to pay claims, reinsurance premiums, interest, and dividends and also to fund operating expenses. In addition, we intend to continue investing in real estate to maximize returns and diversify our sources of income.

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***Senior Notes***

Our long-term debt at March 31, 2015 consisted of 8% Senior Notes due 2020 and 3.875% Senior Convertible Notes due 2019, which were issued for gross proceeds of \$40,250,000 and \$103,000,000, respectively. We make quarterly interest payments of \$805,000 on the senior notes due 2020 with quarterly payments due on January 30, April 30, July 30 and October 30. We make semiannual interest payments of approximately \$1,996,000 on the convertible notes with payments due in arrears on March 15 and September 15 of each year. See Note 6

Long-Term Debt to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

***Limited Partnership Investments***

Limited partnership investments consist of three private equity funds managed by each fund's general partner. Two of these funds have unexpired capital commitments which are callable at the discretion of the fund's general partner for funding new investments or expenses of the fund. At March 31, 2015, there is an aggregate unfunded capital balance of \$13,350,000. In April 2015, we subscribed to invest \$10,000,000 in one additional private equity fund. See Limited Partnership Investments under Note 3 Investments to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

***ADC Arrangement***

We currently have an ADC Arrangement under which we agreed to provide financing for the acquisition, development and construction of a retail shopping center and appurtenant facilities. The maximum loan amount initially was \$9,785,000 but increased to \$10,200,000 during the first quarter of 2015. The increased financing is intended for use in acquiring additional land. At March 31, 2015, \$6,917,000 of the commitment is available and unused.

***Sources and Uses of Cash***

*Cash Flows for the Three months ended March 31, 2015*

Net cash provided by operating activities for the three months ended March 31, 2015 was approximately \$59,003,000, 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 \$97,024,000 was primarily due to the purchases of available-for-sale securities of \$84,472,000, the funding of the ADC Arrangement of \$479,000 and the limited partnership investments of \$19,510,000, offset by redemptions and repayments of fixed-maturity securities of \$985,000, and the proceeds from sales of available-for-sale securities of \$6,989,000. Net cash used in financing activities totaled \$4,986,000, which was primarily due to \$1,610,000 used in our share repurchase plan and \$3,040,000 of net cash dividend payments.

*Cash Flows for the Three months ended March 31, 2014*

Net cash provided by operating activities for the three months ended March 31, 2014 was approximately \$35,068,000, which consisted primarily of cash received from net written premiums less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash used in investing activities of \$22,338,000 was primarily due to the purchases of available-for-sale securities of \$27,015,000 offset by redemptions and repayments of fixed-maturity



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securities of \$633,000, and the proceeds from sales of available-for-sale securities of \$4,455,000. Net cash used in financing activities totaled \$9,569,000, which was primarily due to \$6,987,000 used in a share repurchase plan and \$3,035,000 of net cash dividend payments.

## ***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 and available-for-sale investments.

At March 31, 2015, we had \$218,104,000 of available-for-sale 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.

With the exception of large national banks, it is our current policy not to maintain cash deposits of more than an aggregate of \$5,500,000 in any one bank at any time. From time to time, we may have in excess of \$5,500,000 of cash designated for investment and on deposit at a single national brokerage firm. 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**

We are contractually committed to provide financing for the acquisition, development and construction of one real estate property and to provide capital contributions for limited partnership interests (which are referred to herein as the ADC Arrangement and the Limited Partnership Investments, respectively). Such commitments are not recognized in the financial statements but are required to be disclosed in the notes to the financial statements. See Note 13

Commitments and Contingencies to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q and *Contractual Obligations and Commitment* below for additional information.

**Table of Contents****CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

The following table summarizes our material contractual obligations and commitments as of March 31, 2015 (amounts in thousands):

	Payment Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease (1)	\$ 940	121	259	286	274
Service agreement (1)	169	21	47	52	49
Reinsurance contracts (2)	77,356	66,451	10,905		
Acquisition, development and construction loan commitment (3)	6,917	6,917			
Unfunded capital commitments (4)	13,350	13,350			
Long-term debt obligations (5)	175,315	7,211	14,423	153,681	
<b>Total</b>	<b>\$ 274,047</b>	<b>94,071</b>	<b>25,634</b>	<b>154,019</b>	<b>323</b>

- (1) Represents the lease and maintenance service agreement for office space in Noida, India. Liabilities were converted from Indian rupees to U.S. dollars using the March 31, 2015 exchange rate.
- (2) Represents the minimum payment of reinsurance premiums under multi-year reinsurance contracts.
- (3) Represents the unused portion of our commitment related to the ADC Arrangement. See Note 13 Commitments and Contingencies to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.
- (4) Represents the unfunded balance of capital commitments under the subscription agreements related to limited partnerships.
- (5) Amounts represent principal and interest payments over the life of the senior notes due January 30, 2020 and the convertible notes due March 15, 2019.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We have prepared our consolidated financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements and related disclosures requires us to make judgments, assumptions and estimates to develop amounts reflected and disclosed in our consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances. Actual results may differ from these estimates and such differences may be material.

We believe our critical accounting policies and estimates are those related to losses and loss adjustment expenses, reinsurance with retrospective provisions, deferred income taxes, and stock-based compensation expense. These policies are critical to the portrayal of our financial condition and operating results. They require management to make judgments and estimates about inherently uncertain matters. Material estimates that are particularly susceptible to significant change in the near term are related to our losses and loss adjustment expense reserves, which include amounts estimated for claims incurred but not yet reported, income taxes and reinsurance contracts with retrospective

provisions.

**Reserves for Losses and Loss Adjustment Expenses**

Our liability for losses and loss adjustment expense ( Reserves ) are specific to property insurance, which is HCPCI s only line of business. The Reserves include both case reserves on reported claims and our reserves for incurred but not reported ( IBNR ) losses. At each period end date, the balance of our Reserves is based on our best estimate of the ultimate cost of each claim for

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those known cases and the IBNR loss reserves are estimated based primarily on our historical experience. Changes in the estimated liability are charged or credited to operations as the losses and loss adjustment expenses are adjusted.

The IBNR represents our estimate of the ultimate cost of all claims that have occurred but have not been reported to us, and in some cases may not yet be known to the insured, and future development of reported claims. Estimating the IBNR component of our Reserves involves considerable judgment on the part of management. At March 31, 2015, \$23,208,000 of the total \$51,177,000 we have reserved for losses and loss adjustment expenses is attributable to our estimate of IBNR. The remaining \$27,969,000 relates to known cases which have been reported but not yet fully settled in which case we have booked a reserve based on our best estimate of the ultimate cost of each claim. At March 31, 2015, \$20,813,000 of the \$27,969,000 in reserves for known cases relates to claims incurred during prior years.

Our Reserves increased from \$48,908,000 at December 31, 2014 to \$51,177,000 at March 31, 2015. The \$2,269,000 increase in our Reserves is comprised of \$14,036,000 in reserves related to claims occurring in the 2015 loss year offset by reductions in our Reserves of \$8,538,000 for 2014 and \$3,229,000 for 2013 and prior loss years. The \$14,036,000 in Reserves established for 2015 claims is primarily due to the increase in our policy count and exposures. The decrease of \$11,767,000 specific to our 2014 and prior loss-year reserves is primarily due to settlement of claims related to those loss years.

Based on all information known to us, we consider our Reserves at March 31, 2015 to be adequate to cover our claims for losses that have occurred as of that date including losses yet to be reported to us. However, these estimates must continually be reviewed by management as they are subject to significant variability and may be impacted by trends in claim severity and frequency or unusual exposures that have not yet been identified. As part of the process, we review historical data and consider various factors, including known and anticipated regulatory and legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data becomes available, these estimates are revised, as required, resulting in increases or decreases to the existing unpaid losses and loss adjustment expenses. Adjustments are reflected in the results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

**Economic Impact of Reinsurance Contracts with Retrospective Provisions**

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 accounting principles generally accepted in the United States of America, we will recognize an asset in the period in which the absence of loss experience 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.

For the three months ended March 31, 2015 and 2014, we accrued benefits of \$6,379,000 and \$3,988,000, respectively. For the three months ended March 31, 2015, we recognized net ceded premiums of \$6,000, representing amortization of \$109,000 of previously deferred reinsurance costs for increased coverage offset by \$103,000 of ceded premiums deferred for the period. For the three months ended March 31, 2014, we deferred recognition of \$1,496,000 in ceded premiums. For the three months ended March 31, 2015 and 2014, net reductions in ceded premiums totaled \$6,373,000





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and \$5,484,000, respectively. As of March 31, 2015, we had \$34,502,000 of accrued benefits and \$6,450,000 of ceded premiums deferred, amounts that would be charged to earnings in the event we experience a catastrophic loss that exceeds the coverage limits provided under such agreements and in the period that the increased coverage is applicable, respectively. At December 31, 2014, we had \$28,123,000 of accrued benefits and \$6,456,000 of ceded premiums deferred related to these agreements.

In addition to Reserves and reinsurance contracts, we believe our accounting policies specific to deferred income taxes and stock-based compensation expense involve our most significant judgments and estimates material to our consolidated financial statements. These accounting estimates and related risks that we consider to be our critical accounting estimates are more fully described in our Annual Report on Form 10-K, which we filed with the SEC on March 10, 2015. For the three months ended March 31, 2015, there have been no material changes with respect to any of our critical accounting policies.

## **Income Taxes**

We account for income taxes in accordance with accounting principles generally accepted in the United States of America, 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 interest and penalties, if any, as income tax expense as permitted by current accounting standards.

## **Stock-Based Compensation**

We account for our stock options and restricted stock under the fair value recognition provisions of accounting principles generally accepted in the United States of America, which require the measurement, and recognition of compensation for all stock-based awards made to employees and directors 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 option on the 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 for input the following variables: 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.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 2 to our Notes to Consolidated Financial Statements.

**Table of Contents****ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our investment portfolio at March 31, 2015 included fixed-maturity and equity securities, the purposes of which are not for trading or speculation. Our main objective is to maximize after-tax investment income and maintain sufficient liquidity to meet policyholder 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 investment companies and are overseen by the investment committee appointed by our board of directors.

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 and equity 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.

*Interest Rate Risk*

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

The following table illustrates the impact of hypothetical changes in interest rates to the fair value of our fixed-maturity securities at March 31, 2015 (amounts in thousands):

<b>Hypothetical Change in Interest Rates</b>	<b>Estimated Fair Value</b>	<b>Change in Estimated Fair Value</b>	<b>Percentage Increase (Decrease) in Estimated Fair Value</b>
300 basis point increase	\$ 138,281	\$ (20,043)	(12.66)%
200 basis point increase	144,962	(13,362)	(8.44)%
100 basis point increase	151,643	(6,681)	(4.22)%
100 basis point decrease	164,949	6,625	4.18%
200 basis point decrease	170,797	12,473	7.88%
300 basis point decrease	174,516	16,192	10.23%

*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 primarily investment grade and by diversifying our investment portfolio to avoid concentrations in any single issuer or business sector.



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The following table presents the composition of our fixed-maturity securities, by rating, at March 31, 2015 (amounts in thousands):

<b>Comparable Rating</b>	<b>Amortized Cost</b>	<b>% of Total Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>% of Total Estimated Fair Value</b>
AAA	\$ 7,297	5	\$ 7,311	5
AA+, AA, AA-	49,317	31	49,614	31
A+, A, A-	38,648	25	39,287	25
BBB+, BBB, BBB-	46,596	30	47,691	30
BB+, BB, BB-	7,920	5	7,584	5
Other and not rated	6,750	4	6,838	4
<b>Total</b>	<b>\$ 156,528</b>	<b>100</b>	<b>\$ 158,325</b>	<b>100</b>

*Equity Price Risk*

Our equity investment portfolio at March 31, 2015 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 allocation techniques.

The following table illustrates the composition of our equity securities at March 31, 2015 (amounts in thousands):

	<b>Estimated Fair Value</b>	<b>% of Total Estimated Fair Value</b>
<b>Stocks by sector:</b>		
Financial	\$ 29,854	50
Consumer	9,003	15
Other (1)	7,455	12
	46,312	77
<b>Mutual funds and Exchange traded funds by type:</b>		
Debt	11,399	20
Equity	2,068	3
	13,467	23
<b>Total</b>	<b>\$ 59,779</b>	<b>100</b>

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

*Foreign Currency Exchange Risk*

At March 31, 2015, we did not have any material exposure to foreign currency related risk.

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**ITEM 4 CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

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

*Changes in Internal Control Over Financial Reporting*

There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Limitations on Effectiveness of Controls and Procedures*

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

**PART II OTHER INFORMATION**

**ITEM 1 LEGAL PROCEEDINGS**

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

**ITEM 1A RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in the section entitled "Risk Factors" in our Form 10-K, which was filed with the SEC on March 10, 2015.

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

*(a) Sales of Unregistered Securities*

None.

*(b) Use of Proceeds*

None.





**Table of Contents***(c) Repurchases of Securities*

The table below summarizes the number of common shares repurchased under a share repurchase plan and also the number of shares of common stock surrendered by employees to satisfy their minimum federal income tax liability associated with the vesting of restricted shares during the three months ended March 31, 2015 (dollar amounts in thousands, except share and per share amounts):

<b>For the Month Ended</b>	<b>Total Number of Shares  Purchased</b>	<b>Average Price Paid  Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans  or Programs (a)</b>	<b>Maximum Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (b)</b>
January 31, 2015	49,834	\$ 43.18	36,669	\$ 109
February 28, 2015		\$		\$ 109
March 31, 2015	1,200	\$ 44.00	1,200	\$
	51,034	\$ 43.20	37,869	

(a) Our Board-approved share repurchase plan expired March 31, 2015.

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

*Working Capital Restrictions and Other Limitations on Payment of Dividends*

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

Under Florida law, a domestic insurer such as our insurance subsidiary, HCPCI, may not pay any dividend or distribute cash or other property to its stockholder except out of that part of its available and accumulated capital and surplus funds which is derived from realized net operating profits on its business and net realized capital gains. Additionally, Florida statutes preclude our insurance subsidiary from making dividend payments or distributions to its stockholder, HCI, without prior approval of the Florida Office of Insurance Regulation if the dividend or distribution would exceed the larger of (1) the lesser of (a) 10.0% of its capital surplus or (b) net income, not including realized capital gains, plus a two year carry forward, (2) 10.0% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains or (3) the lesser of (a) 10.0% of capital surplus or (b) net investment income plus a three year carry forward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains.

Alternatively, a Florida domestic insurer may pay a dividend or distribution without the prior written approval of the Florida Office of Insurance Regulation (1) if the dividend is equal to or less than the greater of (a) 10.0% of the insurer's capital surplus as regards policyholders derived from realized net operating profits on its business and net

realized capital gains or (b) the insurer's entire net operating profits and realized net capital gains derived during the immediately preceding calendar year, (2) the insurer will have policy holder capital surplus equal to or exceeding 115.0% of the minimum required statutory capital surplus after the dividend or distribution, (3) the insurer files a notice of the dividend or distribution with the Florida Office of Insurance Regulation at least ten business days prior to the dividend payment or distribution and (4) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer

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will have at least 115% of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (1) subject to prior approval by the Florida Office of Insurance Regulation or (2) 30 days after the Florida Office of Insurance Regulation has received notice of such dividend or distribution and has not disapproved it within such time.

During the quarter ended March 31, 2015, HCPCI paid a \$16,700,000 dividend to HCI.

**ITEM 3 *DEFAULTS UPON SENIOR SECURITIES***

None.

**ITEM 4 *MINE SAFETY DISCLOSURES***

None.

**ITEM 5 *OTHER INFORMATION***

None.

**Table of Contents****ITEM 6 EXHIBITS**

The following documents are filed as part of this report:

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION</b>
3.1	Articles of Incorporation, with amendments. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
3.1.1	Articles of Amendment to Articles of Incorporation designating the rights, preferences and limitations of Series B Junior Participating Preferred Stock. Incorporated by reference to Exhibit 3.1 to our Form 8-K filed October 18, 2013.
3.2	Bylaws. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
4.1	Form of common stock certificate. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed November 7, 2013.
4.2	Supplement No. 1, dated as of January 17, 2013, to the Indenture, dated as of January 17, 2013, between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and The Bank of New York Mellon Trust Company, N.A., as Trustee. Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed January 17, 2013.
4.3	Form of 8.00% Senior Note due 2020 (included in Exhibit 4.2). Incorporated by reference to the correspondingly numbered exhibit to our Form 8-K filed January 17, 2013.
4.4	Indenture, dated as of January 17, 2013, between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and The Bank of New York Mellon Trust Company, N.A. Incorporated by reference to Exhibit 4.4 to Amendment No. 1 to our Registration Statement on Form S-3 (File No. <u>333-185228</u> ) filed December 10, 2012.
4.6	Form of Subordinated Indenture. Incorporated by reference to the correspondingly numbered exhibit to Amendment No. 1 to our Registration Statement on Form S-3 (File No. <u>333-185228</u> ) filed December 10, 2012.
4.7	Rights Agreement, dated as of October 18, 2013, between HCI Group, Inc. and American Stock Transfer & Trust Company, LLC, which includes as Exhibit A thereto a summary of the terms of the Series B Junior Participating Preferred Stock, as Exhibit B thereto the Form of Right Certificate, and as Exhibit C thereto the Summary of Rights to Purchase Preferred Shares. Incorporated by reference to Exhibit 4.1 to our Form 8-K filed October 18, 2013.

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- 4.8 Indenture, dated December 11, 2013, between HCI Group, Inc. and The Bank of New York Mellon Trust Company, N.A. (including Global Note). Incorporated by reference to Exhibit 4.1 to our Form 8-K filed December 12, 2013.
- 4.9 See Exhibits 3.1, 3.1.1 and 3.2 of this report for provisions of the Articles of Incorporation, as amended, and our Bylaws, as amended, defining certain rights of security holders.
- 10.1 Excess of Loss Retrocession Contract (flood), effective June 1, 2014, 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 correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
- 10.2\*\* Executive Agreement dated May 1, 2007 between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and Richard R. Allen. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.
- 10.3 Reimbursement Contract effective June 1, 2014 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 correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
- 10.4\*\* Executive Employment Agreement dated July 1, 2011 between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and Paresh Patel. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.
- 10.5\*\* HCI Group, Inc. 2012 Omnibus Incentive Plan. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
- 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\*\* Form of Incentive Stock Option Agreement. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.

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- 10.8 Catastrophe Aggregate Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (1). 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 6, 2014.
- 10.9 Catastrophe Aggregate Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (2). 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 6, 2014.
- 10.10 Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (1). 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 6, 2014.
- 10.11 Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (2). 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 6, 2014.
- 10.12 Multi Year Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (1). 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 6, 2014.
- 10.13 Multi Year Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2014, issued to, Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (2). 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 6, 2014.
- 10.14 Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. 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 6, 2014.

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- 10.15 Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers (Blue Water 1). 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 6, 2014.
- 10.16 Multi Year Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. 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 6, 2014.
- 10.17 Form of indemnification agreement for our officers and directors. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2009.
- 10.18 Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers (Blue Water 2). 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 6, 2014.
- 10.19 Reinstatement Premium Protection Reinsurance Contract effective June 1, 2014 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers (Aeolus year 1). 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 6, 2014.
- 10.20 Per Occurrence Excess Of Loss Reinsurance contract dated June 1, 2012 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. 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 14, 2012.
- 10.21 Endorsement No. 2 to the Per Occurrence Excess of Loss Reinsurance Contract Effective June 1, 2012 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
- 10.22 Reinstatement Premium Protection Reinsurance Contract effective June 1, 2015 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers (Aeolus year 2). 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 6, 2014.

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- 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\*\* Executive Employment Agreement dated March 8, 2012 between HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) and Scott R. Wallace. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 30, 2012.
- 10.27\*\* Restricted Stock Agreement dated April 20, 2012 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 100,000 shares of restricted common stock to Scott R. Wallace. Incorporated by reference to Exhibit 10.27 of our Form 10-Q filed May 14, 2012.
- 10.28\*\* Restricted Stock Agreement dated May 8, 2012 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 30,000 shares of restricted common stock to Richard R. Allen. Incorporated by reference to Exhibit 10.28 of our Form 8-K filed May 10, 2012.
- 10.30\*\* Restricted Stock Agreement dated May 8, 2012 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 20,000 shares of restricted common stock to Andrew L. Graham. Incorporated by reference to Exhibit 10.30 of our Form 8-K filed May 10, 2012.
- 10.32 Endorsement No. 1 to the Per Occurrence Excess of Loss Reinsurance Contract Effective June 1, 2012 by Homeowners Choice Property & Casualty Insurance Company, Inc. and subscribing reinsurers. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed May 9, 2013.
- 10.33 Working Layer Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2013 issued to Homeowners Choice Property & Casualty Insurance Company by subscribing reinsurers. 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 May 9, 2013.
- 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.
- 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.



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- 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.
- 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.
- 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.
- 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.
- 10.40\*\* 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 Martin Traber. Incorporated by reference to Exhibit 10.40 of our Form 8-K filed May 21, 2013.
- 10.41 Endorsement No 1 to Working Layer Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2013 issued to Homeowners Choice Property & Casualty Insurance Company by subscribing reinsurers. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 6, 2014.
- 10.49 Excess of Loss Retrocession Contract, effective June 1, 2013, issued to Claddaugh Casualty Insurance Company Ltd. by subscribing reinsurers, including Oxbridge Reinsurance Limited (working layer). Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
- 10.52\*\* Restricted Stock Agreement dated August 29, 2013 whereby HCI Group, Inc. issued 10,000 shares of restricted common stock to Anthony Saravanos. Incorporated by reference to Exhibit 10.52 of our Form 8-K filed August 29, 2013.
- 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.
- 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.

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10.55	Purchase Agreement, dated December 5, 2013, by and between HCI Group, Inc. and JMP Securities LLC, as representative of the several initial purchasers named therein. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed December 6, 2013.
10.56	Prepaid Forward Contract, dated December 5, 2013 and effective as of December 11, 2013, between HCI Group, Inc. and Deutsche Bank AG, London Branch. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed December 12, 2013.
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.
31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C.ss.1350
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

\*\* Management contract or compensatory plan.

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SIGNATURES

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

HCI GROUP, INC.

May 1, 2015

By: /s/ Paresh Patel  
Paresh Patel  
Chief Executive Officer

(Principal Executive Officer)

May 1, 2015

By: /s/ Richard R. Allen  
Richard R. Allen  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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