HCI Group, Inc.
Form 10-Q
November 07, 2014
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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 September 30, 2014

OR

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

Commission File Number

001-34126

HCI Group, Inc.

(Exact name of Registrant as specified in its charter)

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

5300 West Cypress Street, Suite 100

Tampa, FL 33607

(Address, including zip code, of principal executive offices)

(813) 849-9500

(Registrant s telephone number, including area code)

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 x 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 x No ¨

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	x
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 x

The aggregate number of shares of the Registrant s Common Stock, no par value, outstanding on October 27, 2014 was 10,988,763.

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HCI GROUP, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1 *Financial Statements*

HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar amounts in thousands, except share amounts)

	September 30, 2014 (Unaudited)		December 31, 2013	
Assets				
Fixed-maturity securities, available for sale, at fair value (amortized cost: $98,743 and $110,738, respectively)	$	100,177	$	112,151
Equity securities, available for sale, at fair value (cost: $38,856 and $17,248, respectively)		39,097		17,649
Investment in joint venture, at equity		4,478		
Real estate investments		18,938		16,228
Total investments		162,690		146,028
Cash and cash equivalents		304,323		293,398
Accrued interest and dividends receivable		1,008		1,133
Premiums receivable		26,583		14,674
Prepaid reinsurance premiums		30,965		28,066
Income taxes receivable		1,996		
Deferred income taxes, net		2,848		
Deferred policy acquisition costs		20,172		14,071
Property and equipment, net		12,494		13,132
Other assets		32,545		15,814
Total assets	$	595,624	$	526,316
Liabilities and Stockholders Equity				
Losses and loss adjustment expenses	$	47,654	$	43,686
Unearned premiums		203,798		171,907
Advance premiums		10,517		4,504
Assumed reinsurance balances payable				4,660
Accrued expenses		11,874		4,032
Dividends payable				19
Income taxes payable				543
Deferred income taxes, net				2,740
Long-term debt		128,865		126,932
Other liabilities		13,343		6,772

Total liabilities		416,051		365,795
Commitments and contingencies (Note 13)				
Stockholders equity:				
7% Series A cumulative convertible preferred stock (liquidation preference $10.00 per share), no par value, 1,500,000 shares authorized, 0 and 110,684 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively				
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, 10,447,807 and 10,939,268 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively)				
Additional paid-in capital		28,834		48,966
Retained income		149,710		110,441
Accumulated other comprehensive income, net of taxes		1,029		1,114
Total stockholders equity		179,573		160,521
Total liabilities and stockholders equity	$	595,624	$	526,316

See accompanying Notes to Consolidated Financial Statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

(Dollar amounts in thousands, except per share amounts)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue				
Gross premiums earned	$ 88,944	$ 81,244	$ 274,053	$ 245,743
Premiums ceded	(27,684)	(28,310)	(83,764)	(74,923)
Net premiums earned	61,260	52,934	190,289	170,820
Net investment income	1,213	380	3,753	814
Policy fee income	931	815	1,826	3,013
Net realized investment gains	3,294	31	4,465	43
Other	257	532	1,023	1,146
Total revenue	66,955	54,692	201,356	175,836
Expenses				
Losses and loss adjustment expenses	21,991	14,489	58,939	47,775
Policy acquisition and other underwriting expenses	9,986	8,887	28,674	22,163
Interest expense	2,626	847	7,809	2,379
Other operating expenses	9,577	8,825	28,466	22,298
Total expenses	44,180	33,048	123,888	94,615
Income before income taxes	22,775	21,644	77,468	81,221
Income tax expense	8,723	8,266	29,366	31,221
Net income	$ 14,052	$ 13,378	$ 48,102	$ 50,000
Preferred stock dividends		(22)	4	(88)
Income available to common stockholders	$ 14,052	$ 13,356	$ 48,106	$ 49,912
Basic earnings per common share	$ 1.34	$ 1.17	$ 4.48	$ 4.46

Diluted earnings per common share	$	1.23	$	1.13	$	4.07	$	4.32
Dividends per common share	$	0.28	$	0.22	$	0.83	$	0.68

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)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income	$ 14,052	$ 13,378	$ 48,102	$ 50,000
Other comprehensive (loss) income:				
Change in unrealized gain on investments:				
Unrealized gain (loss) arising during the period	(1,542)	439	4,305	(744)
Call and repayment losses charged to investment income	4	3	21	21
Reclassification adjustment for net realized gains	(3,294)	(31)	(4,465)	(43)
Net change in unrealized (loss) gain	(4,832)	411	(139)	(766)
Deferred income taxes on above change	1,864	(137)	54	317
Total other comprehensive (loss) income	(2,968)	274	(85)	(449)
Comprehensive income	$ 11,084	$ 13,652	$ 48,017	$ 49,551

See accompanying Notes to Consolidated Financial Statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30,	
	2014	**2013**
Cash flows from operating activities:		
Net income	$ 48,102	$ 50,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	6,600	3,418
Net amortization of premiums on investments in fixed-maturity securities	654	191
Depreciation and amortization	3,682	1,482
Deferred income benefits	(5,319)	(1,499)
Net realized investment gains	(4,465)	(43)
Income from real estate investments	(44)	
Loss from joint venture	22	
(Gain) loss on sale of real estate investment	(1)	2
Foreign currency remeasurement loss	10	72
Changes in operating assets and liabilities:		
Premiums and reinsurance receivable	(11,909)	(13,958)
Advance premiums	6,013	5,599
Prepaid reinsurance premiums	(2,899)	(23,423)
Accrued interest and dividends receivable	125	(197)
Other assets	(13,645)	(5,091)
Assumed reinsurance balances payable	(4,660)	(791)
Deferred policy acquisition costs	(6,101)	(8,840)
Losses and loss adjustment expenses	3,968	2,356
Unearned premiums	31,891	33,871
Income taxes	(2,539)	(7,553)
Accrued expenses and other liabilities	14,396	11,024
Net cash provided by operating activities	63,881	46,620
Cash flows from investing activities:		
Investment in real estate under acquisition, development, and construction arrangement	(2,608)	
Investment in joint venture	(4,500)	
Purchase of property and equipment, net	(325)	(3,107)
Purchase of real estate investments	(352)	(666)
Purchase of fixed-maturity securities	(56,229)	(31,309)
Purchase of equity securities	(32,608)	(5,144)
Proceeds from sales of fixed-maturity securities	67,519	1,749

Proceeds from calls, repayments and maturities of fixed-maturity securities	2,960	2,534
Proceeds from sales of equity securities	9,232	2,021
Proceeds from sales of real estate investments	1	
Net cash used in investing activities	(16,910)	(33,922)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt		40,250
Proceeds from the exercise of common stock options	125	
Cash dividends paid	(9,357)	(7,704)
Cash dividends received under share repurchase forward contract	514	
Repurchases of common stock	(616)	(893)
Repurchases of common stock under share repurchase plan	(27,815)	
Redemption of Series A preferred stock	(34)	
Debt issuance costs	(234)	(1,525)
Tax benefits on stock-based compensation	1,384	892
Net cash (used in) provided by financing activities	(36,033)	31,020

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, continued

(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30, 2014	2013
Effect of exchange rate changes on cash	(13)	(54)
Net increase in cash and cash equivalents	10,925	43,664
Cash and cash equivalents at beginning of period	293,398	230,214
Cash and cash equivalents at end of period	$ 304,323	$ 273,878
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 35,836	$ 39,335
Cash paid for interest	$ 5,453	$ 1,726
Non-cash investing and financing activities:		
Unrealized loss on investments in available-for-sale securities, net of tax	$ (85)	$ (449)
Conversion of Series A Preferred Stock to common stock	$ 991	$ 814

See accompanying Notes to Consolidated Financial Statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

Nine Months Ended September 30, 2014

(Unaudited)

(Dollar amounts in thousands, except per share amounts)

	Series A Preferred Stock Shares	Series A Preferred Stock Amount	Common Stock Shares	Common Stock 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						48,102		48,102
Total other comprehensive income, net of income taxes							(85)	(85)
Conversion of preferred stock to common stock	(107,298)		107,298					
Issuance of restricted stock			108,720					
Exercise of common stock options			50,000		125			125
Forfeiture of restricted stock			(8,485)					
Repurchase and retirement of common stock			(14,070)		(616)			(616)
Repurchase and retirement of common stock under share repurchase plan			(734,924)		(27,815)			(27,815)
Redemption of Series A preferred stock	(3,386)				(25)	(9)		(34)
Deferred taxes on debt discount					215			215
Common stock dividends						(8,828)		(8,828)
Preferred stock dividends						4		4
Tax benefits on stock-based compensation					1,384			1,384

Stock-based compensation			6,600			6,600
Balance at September 30, 2014	$ 10,447,807	$	$ 28,834	$ 149,710	$ 1,029	$ 179,573

See accompanying Notes to Consolidated Financial Statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity - continued

Nine Months Ended September 30, 2013

(Unaudited)

(Dollar amounts in thousands, except per share amounts)

	Series A Preferred Stock		Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income, Net	Total Stockholders
	Shares	Amount	Shares	Amount	Capital	Income	of Tax	Equity
Balance at December 31, 2012	241,182	$	10,877,537	$	$ 63,875	$ 55,758	$ 1,620	$ 121,253
Net income						50,000		50,000
Total other comprehensive income, net of income taxes							(449)	(449)
Conversion of preferred stock to common stock	(91,263)		91,263					
Issuance of restricted stock			564,000					
Forfeiture of restricted stock			(29,260)					
Repurchase and retirement of common stock			(26,705)		(893)			(893)
Common stock dividends						(7,600)		(7,600)
Preferred stock dividends						(88)		(88)
Tax benefits on stock-based compensation					892			892
Stock-based compensation					3,418			3,418
Balance at September 30, 2013	149,919	$	11,476,835	$	$ 67,292	$ 98,070	$ 1,171	$ 166,533

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 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 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 financial statements reflect all normal recurring adjustments necessary to present fairly the Company s financial position as of September 30, 2014 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, 2014. 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, 2013 included in the Company s Form 10-K, which was filed with the SEC on March 12, 2014.

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.

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Acquisition, Development and Construction Loan Arrangement

The Company has an acquisition, development and construction loan arrangement (ADC Arrangement) under which it provides financing to a property developer for the acquisition, development, and construction of a retail shopping center. The Company also expects to participate in the residual profit resulting from the ultimate sale or other use of the property. Classification and accounting for the ADC Arrangement as a loan, an investment in real estate, or a joint venture is determined by the Company s evaluation of the characteristics and the risks and rewards of the ADC Arrangement. If the Company expects to receive more than 50% of the residual profit from the ADC Arrangement and it has characteristics similar to a real estate investment, the costs of the real estate project will be capitalized and interest will be recognized in net investment income (see Note 3 Investments).

In addition, the Company considers any rights or features embedded in the ADC Arrangement that may require bifurcation and derivative accounting. Due to its participation in the expected residual profit, which is deemed a variable interest, the Company evaluates its involvements in the design and essential activities of the entity to which the Company provides financing for possible consolidation as the primary beneficiary under the Variable Interest Model prescribed by the Financial Accounting Standards Board (FASB).

Any subsequent changes in terms, rights or the developer s equity interest that may result in a reclassification or a change in the accounting treatment of the ADC Arrangement will be evaluated. The Company will continually assess the collectability of principal, accrued interest and fees.

Investment in Joint Venture

The Company has a 90% equity interest in a joint venture that was organized to acquire and develop land on which the joint venture partners plan to construct a retail shopping center (see Note 3 Investments) for lease or for sale. The joint venture was determined to be a variable interest entity as it lacks sufficient equity to finance its activities without additional subordinated financial support. Despite having a majority equity interest, the Company does not have a controlling financial interest and, accordingly, is not required to consolidate the joint venture as its primary beneficiary under the Variable Interest Model.

In addition, the joint venture agreement contains an embedded purchase option the Company can exercise to purchase the entire interest of the other party to the joint venture after the expiration of a restricted period. The Company determined the embedded purchase option is not required to be bifurcated and fair value accounting at each reporting date is not applicable. Due to the lack of a controlling financial interest and until the embedded purchase option becomes exercisable, the Company uses the equity method rather than consolidation to account for its investment in the joint venture.

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Note 2 Recent Accounting Pronouncements

Accounting Standards Update No. 2014-15. In August 2014, the FASB issued Accounting Standards Update No. 2014-15 (ASU 2014-15), Presentation of Financial Statements Going Concern (Subtopic 205-40). The purpose of this update is to provide guidance about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 applies to all reporting entities and is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. Adoption of this guidance is expected to have no effect on the Company s consolidated financial statements.

Accounting Standards Update No. 2014-12. In June 2014, the FASB issued Accounting Standards Update No. 2014-12 (ASU 2014-12), Compensation Stock Compensation (Topic 718). ASU 2014-12 applies to all reporting entities that grant employees share-based payments in which the terms of the award provide that a performance target affecting vesting could be achieved after the requisite service period. ASU 2014-12 is effective for all entities for reporting periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. Although the Company has share-based awards with performance targets, such awards do not permit vesting when a performance target is achieved after termination of an employee s service. Adoption of this guidance had no effect on the Company s consolidated financial statements.

Accounting Standards Update No. 2014-09. In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 also amends the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer to be consistent with the guidance in this ASU. ASU 2014-09 is effective for public entities for reporting periods beginning after December 15, 2016. Early adoption is not permitted. While the guidance specifically excludes revenues from insurance contracts, investments and financial instruments from the scope of the new guidance, the guidance will be applicable to the Company s other forms of revenue not specifically exempted from the guidance. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

(Dollar amounts in thousands, except 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 September 30, 2014 and December 31, 2013, 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:

	Cost or Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
As of September 30, 2014				
Fixed-maturity securities				
U.S. Treasury and U.S. government agencies	$ 1,330	$ 34	$	$ 1,364
Corporate bonds	17,020	16	(157)	16,879
Commercial mortgage-backed securities	11,163	408	(40)	11,531
State, municipalities, and political subdivisions	59,796	1,158	(41)	60,913
Redeemable preferred stock	9,434	100	(44)	9,490
Total	98,743	1,716	(282)	100,177
Equity securities	38,856	1,444	(1,203)	39,097
Total available-for-sale securities	$ 137,599	$ 3,160	$ (1,485)	$ 139,274
As of December 31, 2013				
Fixed-maturity securities				
U.S. Treasury and U.S. government agencies	$ 4,549	$ 37	$ (22)	$ 4,564
Corporate bonds	25,139	484	(219)	25,404
Commercial mortgage-backed securities	10,929	499	(96)	11,332
State, municipalities, and political subdivisions	69,715	917	(181)	70,451
Redeemable preferred stock	406	5	(11)	400
Total	110,738	1,942	(529)	112,151
Equity securities	17,248	920	(519)	17,649
Total available-for-sale securities	$ 127,986	$ 2,862	$ (1,048)	$ 129,800

As of September 30, 2014 and December 31, 2013, $111 and $105, respectively, of U.S. Treasury securities relate to a statutory deposit held in trust for the Treasurer of Alabama.

Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties. The scheduled contractual maturities of fixed-maturity securities as of September 30, 2014 and December 31, 2013 are as follows:

	Amortized Cost	Estimated Fair Value
As of September 30, 2014		
Available-for-sale		
Due in one year or less	$ 1,518	$ 1,520
Due after one year through five years	35,153	35,313
Due after five years through ten years	39,811	40,365
Due after ten years	11,098	11,448
Commercial mortgage-backed securities	11,163	11,531
	$ 98,743	$ 100,177

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

	Amortized Cost	Estimated Fair Value
As of December 31, 2013		
Available-for-sale		
Due in one year or less	$ 2,366	$ 2,381
Due after one year through five years	24,829	25,145
Due after five years through ten years	59,083	59,582
Due after ten years	13,531	13,711
Commercial mortgage-backed securities	10,929	11,332
	$ 110,738	$ 112,151

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 and nine months ended September 30, 2014 and 2013 were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Three months ended September 30, 2014			
Fixed-maturity securities	$ 47,557	$ 2,759	$
Equity securities	$ 3,302	$ 623	$ (88)
Three months ended September 30, 2013			
Fixed-maturity securities	$ 390	$ 58	$ (1)
Equity securities	$ 708	$ 20	$ (46)
Nine months ended September 30, 2014			
Fixed-maturity securities	$ 67,519	$ 3,623	$ (9)
Equity securities	$ 9,232	$ 1,131	$ (280)
Nine months ended September 30, 2013			

Fixed-maturity securities	$ 1,749	$ 92	$ (4)
Equity securities	$ 2,021	$ 84	$ (129)

Other-than-temporary Impairment (OTTI)

The Company regularly reviews its individual investment securities for OTTI. 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.

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Securities with gross unrealized loss positions at September 30, 2014 and December 31, 2013, 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	
As of September 30, 2014	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Estimated Fair Value**
Fixed-maturity securities						
Corporate bonds	$ (151)	$ 11,164	$ (6)	$ 1,224	$ (157)	$ 12,388
Commercial mortgage-backed securities	(5)	283	(35)	1,377	(40)	1,660
State, municipalities, and political subdivisions	(15)	4,085	(26)	196	(41)	4,281
Redeemable preferred stock	(44)	5,239			(44)	5,239
Total fixed-maturity securities	(215)	20,771	(67)	2,797	(282)	23,568
Equity securities	(980)	19,385	(223)	1,728	(1,203)	21,113
Total available-for-sale securities	$ (1,195)	$ 40,156	$ (290)	$ 4,525	$ (1,485)	$ 44,681

	Less Than Twelve Months		Twelve Months or Greater		Total	
As of December 31, 2013	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Estimated Fair Value**	**Gross Unrealized Loss**	**Estimated Fair Value**
Fixed-maturity securities						
U.S. Treasury and U.S. government agencies	$ (22)	$ 3,291	$	$	$ (22)	$ 3,291
Corporate bonds	(212)	9,502	(7)	230	(219)	9,732
Commercial mortgage-backed securities	(96)	2,179			(96)	2,179
State, municipalities, and political subdivisions	(181)	20,233			(181)	20,233
Redeemable preferred stock	(11)	239			(11)	239
Total fixed-maturity securities	(522)	35,444	(7)	230	(529)	35,674

Equity securities	(273)	10,742	(246)	1,069	(519)	11,811
Total available-for-sale securities	$ (795)	$ 46,186	$ (253)	$ 1,299	$ (1,048)	$ 47,485

The Company believes there are no fundamental issues such as credit losses or other factors with respect to any of its available-for-sale securities. The unrealized losses on investments in fixed-maturity securities were caused primarily by interest-rate changes. It is expected that the securities will not be settled at a price less than the par value of the investments. 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. Because the declines in fair value are attributable to changes in interest rates or market conditions and not credit quality, and because the Company has the ability and intent to hold its available-for-sale investments until a market price recovery or maturity, the Company does not consider any of its investments to be other-than-temporarily impaired at September 30, 2014.

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Investment in Joint Venture

In September 2014, Melbourne FMA, LLC (Melbourne FMA), a wholly owned subsidiary, entered into a joint venture agreement with FMKT Sponsor, LLC (FMKT Sponsor) to organize FMKT Mel JV, LLC (FMJV), a Florida limited liability company. Melbourne FMA and FMKT Sponsor contributed $4,500 and $500, respectively, in cash for equity interests of 90% and 10%, respectively, in FMJV. The joint venture will acquire and develop land on which the joint venture partners plan to construct a retail shopping center for lease or for sale in Melbourne, Florida. FMJV is deemed a variable interest entity (VIE) due to its lack of sufficient equity to finance its operations without direct or indirect additional financial support from parties to the joint venture. Although Melbourne FMA holds a majority interest in FMJV, certain major economic decisions specified in the agreement are not under Melbourne FMA s control. As a result, Melbourne FMA is not the primary beneficiary and is not required to consolidate FMJV.

In addition, FMJV is contractually required to engage affiliates of FMKT Sponsor to manage and develop the project, and also operate the property while the joint venture agreement is in effect. The agreement includes FMKT Sponsor s right of sale and first offer as well as an embedded option under which Melbourne FMA can purchase the entire interest of FMKT Sponsor. Under the right of sale and first offer, Melbourne FMA can either choose to purchase the interest of FMKT Sponsor in the developed property or approve the sale of the developed property to a third party buyer. Either party can initiate these provisions after the expiration of a restricted period.

There were no distributions during the three and nine months ended September 30, 2014. At September 30, 2014, the Company s maximum exposure to loss relating to the VIE was $4,478 representing the carrying value of the investment. At September 30, 2014, an undistributed $22 loss from equity method investees was included in consolidated retained income. The following tables provide summarized operating results and the financial position of FMJV:

		Three and Nine Months Ended September 30, 2014 (Unaudited)
Operating results:		
Revenue	$	
Operating expenses		25
Net loss	$	(25)
Melbourne FMA s share of net loss*	$	22

* Included in other operating expenses in the Company s consolidated statements of income.

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	September 30, 2014 (Unaudited)
Balance Sheet:	
Construction in progress - real estate	$ 3,220
Cash	1,880
Total assets	$ 5,100
Other liabilities	125
Members capital	4,975
Total liabilities and members capital	$ 5,100
Investment in joint venture, at equity	$ 4,478

Real Estate Investments

Real estate investments consist of the following as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Land	$ 11,476	$ 11,299
Land improvements	1,399	1,351
Buildings	3,097	3,022
Other	1,317	1,262
Total, at cost	17,289	16,934
Less: accumulated depreciation and amortization	(1,003)	(706)
Real estate, net	16,286	16,228
ADC Arrangement classified as real estate investment	2,652	
Real estate investments	$ 18,938	$ 16,228

Depreciation and amortization expense related to real estate investments was $100 and $99, respectively, for the three months ended September 30, 2014 and 2013 and $298 and $290, respectively, for the nine months ended

September 30, 2014 and 2013.

ADC Arrangement

In June 2014, the Company s wholly owned subsidiary, Greenleaf Capital, LLC, entered into an ADC Arrangement under which it agreed to provide financing up to a maximum of $9,785 for the acquisition, development and construction of a retail shopping center and appurtenant facilities. Greenleaf Capital has an option to purchase the property when the construction project is completed contingent upon tenant rental commitments for at least 90% of rentable space being secured by the developer. The purchase price is calculated at maturity of the loan using a predetermined capitalization rate and the projected net operating income of the developed property. The loan has an initial term of 24 months and can be extended for an additional 12 months if the purchase option is not exercised by Greenleaf Capital. Prepayment is not permitted while the ADC Arrangement is in effect. The loan bears a fixed annual interest rate of 6% due monthly in arrears. The loan agreement is secured by a) a first mortgage on the land and improvements, b) assignment of all leases, rents, issues, and profits from the land and improvements, and c) personal guarantees.

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Under this ADC Arrangement, Greenleaf Capital will provide substantially all necessary funds to complete the development and Greenleaf Capital will receive the entire residual profit of the developed property if it exercises the purchase option. The developer may make multiple draws on the credit facility as the construction progresses. Based on the characteristics of this ADC Arrangement which are similar to those of an investment, combined with the expected residual profit being greater than 50%, the arrangement is accounted for and reported in the balance sheet as a real estate investment. All project costs associated with the ADC Arrangement are capitalized. The loan commitment fee received by Greenleaf Capital is deferred and recognized in investment income on a straight-line basis over the term of the loan agreement.

Because of the purchase option and the substantial financial support provided by Greenleaf Capital, the developer who has no equity interest in the property is a VIE. However, Greenleaf Capital s involvement is solely as the lender on the mortgage loan with protective rights as the lender. Greenleaf Capital does not have power to direct the activities that most significantly impact economic performance of the VIE. As a result, Greenleaf Capital is not the primary beneficiary and is not required to consolidate the VIE. At September 30, 2014, the Company s maximum exposure to loss relating to the VIE was $2,652 representing the carrying value of the ADC Arrangement.

In addition, Greenleaf Capital determined that the option to purchase the entire developed property is not a derivative financial instrument pursuant to U.S. GAAP. As such, the embedded feature is not required to be bifurcated and the fair value accounting for the embedded feature at each reporting date is not applicable.

Note 4 Fair Value Measurements

The Company records and discloses certain financial assets at their estimated fair value but does not elect the fair value option for the ADC Arrangement and its long-term debt. 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.

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The following table presents information about the Company s financial assets measured at estimated fair value on a recurring basis, the estimated fair values of the real estate investment under the ADC Arrangement, and long-term debt that are reflected in the financial statements at carrying value. The table indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as of September 30, 2014 and December 31, 2013:

	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	Total
As of September 30, 2014				
Financial Assets:				
Cash and cash equivalents	$ 304,323	$	$	$ 304,323
Fixed-maturity securities:				
U.S. Treasury and U.S. government agencies	656	708		1,364
Corporate bonds	15,880	999		16,879
Commercial mortgage-backed securities		11,531		11,531
State, municipalities, and political subdivisions		60,913		60,913
Redeemable preferred stock	9,490			9,490
Total fixed-maturity securities	26,026	74,151		100,177
Equity securities	39,097			39,097
Total available-for-sale securities	65,123	74,151		139,274
ADC Arrangement classified as real estate investment			2,592	2,592
Total	$ 369,446	$ 74,151	$ 2,592	$ 446,189
Financial Liabilities:				
Long-term debt:				
8% Senior notes	$	$ 42,343	$	$ 42,343
3.875% Convertible senior notes			95,462	95,462
Total long-term debt	$	$ 42,343	$ 95,462	$ 137,805

	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)	Total
As of December 31, 2013				
Financial Assets:				
Cash and cash equivalents	$ 293,398	$	$	$ 293,398
Fixed-maturity securities:				
U.S. Treasury and U.S. government agencies	3,520	1,044		4,564
Corporate bonds	24,476	928		25,404
Commercial mortgage-backed securities		11,332		11,332
State, municipalities, and political subdivisions		70,451		70,451
Redeemable preferred stock	400			400
Total fixed-maturity securities	28,396	83,755		112,151
Equity securities	17,649			17,649
Total available-for-sale securities	46,045	83,755		129,800
Total	$ 339,443	$ 83,755	$	$ 423,198
Financial Liabilities:				
Long-term debt:				
8% Senior notes	$	$ 43,390	$	$ 43,390
3.875% Convertible senior notes			86,630	86,630
Total long-term debt	$	$ 43,390	$ 86,630	$ 130,020

Valuation Methodology

ADC Arrangement Classified as Real Estate Investment. As described in Note 3 Investments under *ADC Arrangement*, the ADC Arrangement represents a financing agreement with a purchase option between Greenleaf Capital and a property developer. Based on the characteristics of this ADC Arrangement which are similar to those of an investment, combined with the expected residual profit being greater than 50%, the arrangement is included in real estate investments at its carrying value in the balance sheet. Projected future cash inflows at maturity are discounted using a prevailing borrowing rate to estimate its fair value that relies on Level 3 inputs.

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There were no transfers between Level 1, 2 or 3 during the three and nine months ended September 30, 2014. During the year ended December 31, 2013, $10,684 of municipal bonds was transferred into Level 2 from Level 1.

Note 5 Other Assets

The following table summarizes the Company s other assets:

	September 30, 2014	December 31, 2013
Benefits receivable related to retrospective reinsurance contracts	$ 21,734	$ 8,815
Deferred costs related to retrospective reinsurance contracts	413	194
Deferred offering costs on senior notes issued in 2013	3,819	4,305
Prepaid expenses	1,722	771
Other	4,857	1,729
Total other assets	$ 32,545	$ 15,814

In June 2014, the Company received $1,485 under the terms of one of the retrospective reinsurance contracts, which terminated May 31, 2014.

Note 6 Long-Term Debt

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

	September 30, 2014	December 31, 2013
8% Senior Notes, due January 30, 2020	$ 40,250	$ 40,250
3.875% Convertible Senior Notes, due March 15, 2019*	88,615	86,682
Total long-term debt	$ 128,865	$ 126,932

* net carrying value

For the three months ended September 30, 2014 and 2013, interest expense included the contractual interest coupon, discount amortization and amortization of allocated issuance costs aggregating $2,626 and $847, respectively, the amounts of which included non-cash interest expense of $823 and $42, respectively. For the nine months ended September 30, 2014 and 2013, interest expense of $7,809 and $2,379, respectively, included non-cash interest expense of $2,411 and $116, respectively. As of September 30, 2014, the remaining amortization period of the debt discount was 4.5 years.

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

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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 taking into consideration probable maximum 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Premiums Written:				
Direct	$ 86,257	$ 78,140	$ 307,199	$ 281,912
Assumed	(172)	(221)	(1,255)	(2,297)
Gross written	86,085	77,919	305,944	279,615
Ceded	(27,684)	(28,310)	(83,764)	(74,923)
Net premiums written	$ 58,401	$ 49,609	$ 222,180	$ 204,692
Premiums Earned:				
Direct	$ 85,357	$ 75,512	$ 245,638	$ 193,465
Assumed	3,587	5,732	28,415	52,278
Gross earned	88,944	81,244	274,053	245,743
Ceded	(27,684)	(28,310)	(83,764)	(74,923)
Net premiums earned	$ 61,260	$ 52,934	$ 190,289	$ 170,820

During the three and nine months ended September 30, 2014 and 2013, there were no recoveries pertaining to reinsurance contracts that were deducted from losses incurred. At September 30, 2014 and December 31, 2013, prepaid reinsurance premiums related to 28 and 27 reinsurers, respectively, and there were no amounts receivable with respect to reinsurers. Thus, there were no concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums as of September 30, 2014 and December 31, 2013.

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 statements of income as net reductions in ceded premiums of $6,512 and $5,484, respectively, for the three months ended September 30, 2014 and 2013 and $17,052 and $6,785, respectively, for the nine months ended September 30, 2014 and 2013. At September 30, 2014 and December 31, 2013, other assets included $22,147 and $9,009, respectively, and prepaid reinsurance premiums included $5,941 and $3,512, respectively, which are related to these adjustments.

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Balance, beginning of period	$ 43,044	$ 44,749	$ 43,686	$ 41,168
Incurred related to:				
Current period	21,643	14,851	59,205	50,213
Prior period	348	(362)	(266)	(2,438)
Total incurred	21,991	14,489	58,939	47,775
Paid related to:				
Current period	(3,461)	(12,628)	(22,296)	(25,880)
Prior period	(13,920)	(3,086)	(32,675)	(19,539)
Total paid	(17,381)	(15,714)	(54,971)	(45,419)
Balance, end of period	$ 47,654	$ 43,524	$ 47,654	$ 43,524

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 September 30, 2014, the Company experienced unfavorable development of $348 with respect to its net unpaid losses and loss adjustment expenses established as of June 30, 2014. During the nine months ended September 30, 2014, the Company experienced favorable development of $266 with respect to its net unpaid losses and loss adjustment expenses established as of December 31, 2013. Factors attributable to this favorable development may include a lower severity of claims and reduced frequency of 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.

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Note 9 Income Taxes

During the three months ended September 30, 2014 and 2013, the Company recorded approximately $8,723 and $8,266, respectively, of income taxes, which resulted in estimated annual effective tax rates of 38.3% and 38.2%, respectively. During the nine months ended September 30, 2014 and 2013, the Company recorded approximately $29,366 and $31,221, respectively, of income taxes, which resulted in estimated annual effective tax rates of 37.9% and 38.4%, respectively. The slight decrease in the 2014 effective tax rate was attributable to an increase related to the investment income earned on 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. Effective October 20, 2014, the Internal Revenue Service notified the Company that the examination of the Company s 2011 federal income tax return was completed with no change to the Company s reported tax. In addition, as of April 18, 2014, the Florida Department of Revenue completed an audit of the state income tax returns filed for 2010, 2011, and 2012. The audit resulted in no material changes to the state income taxes originally reported.

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.

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

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	$ 14,052			$ 13,378		
Less: Preferred stock dividends				(22)		
Less: Income attributable to participating securities	(1,024)			(823)		
Basic Earnings Per Share:						
Income allocated to common stockholders	13,028	9,736	$ 1.34	12,533	10,749	$ 1.17
Effect of Dilutive Securities:						
Stock options		133			164	
Convertible preferred stock				22	165	
Convertible senior notes	1,090	1,649				
Diluted Earnings Per Share:						
Income available to common stockholders and assumed conversions	$ 14,118	11,518	$ 1.23	$ 12,555	11,078	$ 1.13

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net income	$ 48,102			$ 50,000		
Less: Preferred stock dividends	4			(88)		
Less: Income attributable to	(3,415)			(2,205)		

participating securities						
Basic Earnings Per Share:						
Income allocated to common stockholders	44,691	9,972	$ 4.48	47,707	10,696	$ 4.46
Effect of Dilutive Securities:						
Stock options		139			162	
Convertible preferred stock	(4)	27		88	195	
Convertible senior notes	3,242	1,649				
Diluted Earnings Per Share:						
Income available to common stockholders and assumed conversions	$ 47,929	11,787	$ 4.07	$ 47,795	11,053	$ 4.32

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Note 11 Stockholders Equity

Common Stock

Effective March 18, 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. The repurchase plan allows the Company to repurchase shares from time to time through March 31, 2015. The shares may be purchased for cash in open market purchases, block transactions and privately negotiated transactions in accordance with applicable federal securities laws. The share repurchase plan may be modified, suspended, terminated or extended by the Company any time without prior notice. During the three and nine months ended September 30, 2014, the Company repurchased and retired a total of 246,578 and 734,924 shares, respectively, at a weighted average price per share of $40.56 and $37.83, respectively, under this authorized repurchase plan. The total costs of shares repurchased, inclusive of fees and commissions, during the three and nine months ended September 30, 2014 were $10,005, or $40.58 per share, and $27,815, or $37.85 per share, respectively. At September 30, 2014, a total of $12,200 is available in connection with this plan.

On October 16, 2014, the Company s Board of Directors declared a quarterly dividend of $0.275 per common share. The dividends are payable on December 19, 2014 to stockholders of record on November 21, 2014.

Preferred Stock

On February 4, 2014, the Company announced its Board of Directors fixed April 1, 2014 as the cancellation date for the conversion rights on its 7% Series A cumulative convertible preferred stock. The Company later extended the conversion privilege in April 2014. On June 2, 2014, 3,386 shares of Series A Preferred were redeemed at $10 per share. During the nine months ended September 30, 2014, holders of 107,298 shares of Series A Preferred converted their Series A Preferred shares to 107,298 shares of common stock, respectively. As of September 30, 2014, no shares of Series A Preferred were outstanding.

Note 12 Stock-Based Compensation

Incentive Plans

The Company currently has outstanding stock options and restricted stock granted under the 2007 Stock Option and Incentive Plan and the 2012 Omnibus Incentive Plan. Only the 2012 Plan is available for future grants. At September 30, 2014, there were 4,244,115 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.

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A summary of the stock option activity for the three and nine months ended September 30, 2014 and 2013 is as follows (option amounts not in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 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
Outstanding at June 30, 2014	230,000	$ 3.00	3.5 years	$ 8,649
Outstanding at September 30, 2014	230,000	$ 3.00	3.3 years	$ 7,589
Exercisable at September 30, 2014	230,000	$ 3.00	3.3 years	$ 7,589
Outstanding at January 1, 2013	280,000	$ 2.91	4.9 years	$ 5,007
Outstanding at March 31, 2013	280,000	$ 2.91	4.7 years	$ 6,816
Outstanding at June 30, 2013	280,000	$ 2.91	4.4 years	$ 7,788
Outstanding at September 30, 2013	280,000	$ 2.91	4.2 years	$ 10,621
Exercisable at September 30, 2013	270,000	$ 2.78	4.0 years	$ 10,276

There were no options exercised during the three months ended September 30, 2014 and 2013. The following table summarizes information about options exercised during the nine months ended September 30, 2014 and 2013 (option amounts not in thousands):

	Nine Months Ended September 30,	
	2014	2013

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

The Company recognized compensation expense related to stock options, which is included in other operating expenses, of approximately $0 and $5, respectively, for the three months ended September 30, 2014 and 2013 and $6 and $14, respectively, for the nine months ended September 30, 2014 and 2013. At September 30, 2014, there was no unrecognized compensation expense related to stock options. Deferred tax benefits related to stock options for the three and nine months ended September 30, 2014 and 2013 were immaterial.

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.

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Information with respect to the activity of unvested restricted stock awards during the three and nine months ended September 30, 2014 and 2013 is as follows (share amounts not in thousands):

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value
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
Vested	(32,000)	$ 12.95
Forfeited	(2,825)	$ 43.43
Nonvested at June 30, 2014	777,215	$ 28.95
Granted	10,000	$ 37.28
Vested	(2,000)	$ 37.68
Forfeited	(5,155)	$ 39.85
Nonvested at September 30, 2014	780,060	$ 28.96
Nonvested at January 1, 2013	246,320	$ 14.54
Forfeited	(920)	$ 21.56
Nonvested at March 31, 2013	245,400	$ 14.51
Granted	544,000	$ 26.58
Vested	(29,000)	$ 13.06
Forfeited	(28,160)	$ 14.68
Nonvested at June 30, 2013	732,240	$ 23.53

Granted	20,000	$	32.85
Vested	(56,000)	$	11.57
Forfeited	(180)	$	21.56
Nonvested at September 30, 2013	696,060	$	24.75

The Company recognized compensation expense related to restricted stock, which is included in other operating expenses, of $2,267 and $1,939, respectively, for the three months ended September 30, 2014 and 2013 and $6,594 and $3,404, respectively, for the nine months ended September 30, 2014 and 2013. At September 30, 2014 and 2013, there was approximately $11,947 and $14,078, 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 26 months. The following table summarizes information about deferred tax benefits recognized and tax benefits realized related to restricted stock awards as well as their paid dividends, and the fair value of vested restricted stock for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2014	**2013**	**2014**	**2013**
Deferred tax benefits recognized	$ 875	$ 748	$ 2,544	$ 1,313
Tax benefits realized	$ 80	$ 612	$ 781	$ 892
Fair value of vested restricted stock	$ 75	$ 648	$ 960	$ 1,027

HCI GROUP, INC. AND SUBSIDIARIES

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

The following presents assumptions used in a Monte Carlo simulation model to determine the fair value of the awards with market-based conditions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Expected dividends per share	$1.10	$0.90	$1.10	$0.90
Expected volatility	42.1 42.6%	41.5 48.7%	42.1 42.6%	41.5 51.6%
Risk-free interest rate	0.1 1.5%	0.0 1.1%	0.1 1.5%	0.0 1.1%
Estimated cost of capital	11.5%	9.9%	11.5%	9.3 9.9%
Expected life (in years)	4.00	4.00	4.00	4.00 6.00

Note 13 Commitments and Contingencies

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 September 30, 2014, $7,177 of the available commitment was unused by the property developer.

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 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. Management has held discussions with the FDR staff and continues working with the Department to resolve this matter. The Company is confident in the merits of its position in claiming the Florida salary credits and intends to vigorously defend its position. As such, and based on the current status and expected final resolution, the Company has no amount accrued as of September 30, 2014 related to this contingency.

Note 14 Related Party Transactions

Claddaugh Casualty Insurance Company, Ltd. (Claddaugh), the Company s Bermuda domiciled captive reinsurer has reinsurance treaties with Oxbridge Reinsurance Limited (Oxbridge) whereby a portion of the business assumed from the Company s insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc. (HCPCI), is ceded by Claddaugh to Oxbridge. With respect to the period from June 1, 2013 through May 31, 2014, Oxbridge assumed $10,100 of the total covered exposure for approximately $4,900 in premiums. With respect to the period from June 1, 2014 through May 31, 2015, Oxbridge assumed $17,800 of the total covered exposure for approximately $4,935 in premiums. In addition, HCPCI has a reinsurance treaty with Oxbridge for the period from June 1, 2014 through May 31, 2015 under which Oxbridge assumed $9,000 of the total covered exposure for approximately $1,350 in premiums. The premiums charged by Oxbridge are at rates which management believes to be competitive with market rates available to Claddaugh. Oxbridge has deposited funds into trust accounts to satisfy certain collateral

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

requirements under its reinsurance contracts with HCPCI and Claddaugh. Trust assets may be withdrawn by the trust beneficiary, which is either HCPCI or Claddaugh, in the event amounts are due under the Oxbridge reinsurance agreements. Among the Oxbridge shareholders are Paresh Patel, the Company s chief executive officer, who is also chairman of the board of directors for Oxbridge, and members of his immediate family and three of the Company s non-employee directors including Sanjay Madhu who serves as Oxbridge s president and chief executive officer.

Prior to June 1, 2014, Claddaugh also had one reinsurance treaty with Moksha Re SPC Ltd. and multiple capital partners whereby a portion of the business assumed from HCPCI was ceded by Claddaugh to Moksha. With respect to the period from June 1, 2013 through May 31, 2014, Moksha assumed approximately $15,400 of the total covered exposure for approximately $4,300 in premiums, a rate which management believes to be competitive with market rates available to Claddaugh. The $4,300 premium was fully paid by Claddaugh on June 27, 2013. Moksha deposited funds into a trust account to satisfy certain collateral requirements under its reinsurance contract with Claddaugh. This contract also contained retrospective provisions resulting in a profit commission of $1,485, which was received by the Company in June 2014. Among the Moksha capital partner participants are the Company s chief executive officer, Paresh Patel, and certain of his immediate family members and Sanjay Madhu, one of the Company s non-employee directors. This agreement terminated effective May 31, 2014 and has not been renewed.

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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 12, 2014. 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, except per share amounts stated in this Management s Discussion and Analysis of Financial Condition and Results of Operations are in thousands 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. owns 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

For the three months ended September 30, 2014 and 2013, revenues from property and casualty insurance operations represented 96.4% and 95.9%, respectively, of total revenues of all

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operating segments. For the nine months ended September 30, 2014 and 2013, revenues from property and casualty insurance operations represented 96.1% and 95.1%, 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 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 under our *Homeowners Choice* brand. HCPCI offers 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 from Citizens and one from HomeWise Insurance Company. This growth track has been beneficial to us in terms of reduced policy acquisition costs and periods of lower reinsurance costs. Even though expanding our policyholder base through opportunistic assumptions continues to be important to our growth plan, we plan to seek other opportunities to expand and to provide new or additional product offerings. In January 2014, HCPCI began offering flood coverage on a limited basis as a policy endorsement to eligible new and pre-existing Florida customers.

As part of our plan for geographical expansion, Homeowners Choice Assurance Company, Inc. (HCA) was organized and was approved and licensed by the Alabama Department of Insurance in August 2013.

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 primarily in India, 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. *Exzeo*™ is a free to join, web-based application available at Exzeo.com that enables seamless integration between organizations, co-workers and business partners. *Exzeo* allows users to manage projects through communication and collaboration with other participants in a real-time work environment.

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We introduced to a selected group of independent insurance agents our new web-based tool called *Proplet*™. Agents can search a property s insurance-related information such as wind mitigation reports, inspection reports, claims activity reports or flood zone areas by name or address or by dropping a pin on a specific location on a map interface. In addition, agents can get an instant insurance quote from HCPCI through the use of *Proplet*. We plan to continually improve this technology as part of our commitment to exceptional service to policyholders and agents.

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 180 boats; b) approximately 70 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 June 2014, our wholly owned subsidiary, Greenleaf Capital, LLC, entered into an Acquisition, Development and Construction loan arrangement (ADC Arrangement) under which it agreed to provide financing up to a maximum of $9,785 for the acquisition, development and construction of a retail shopping center and appurtenant facilities. Greenleaf Capital has an option to purchase the property when the construction project is completed contingent upon tenant rental commitments for at least 90% of rentable space being secured by the developer. We believe this opportunity will enable us to grow our real estate portfolio and diversify our future sources of income. See Note 3 Investments under *ADC Arrangement* to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

In September 2014, Melbourne FMA, LLC, a wholly owned subsidiary, entered into a joint venture agreement with FMKT Sponsor, LLC. The joint venture will acquire and develop land on which the joint venture partners plan to construct a retail shopping center for lease or for sale in Melbourne, Florida. See Note 3 Investments under *Investment in Joint Venture* to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

Recent Events

On October 16, 2014, our Board of Directors declared a quarterly dividend of $0.275 per common share. The dividends are payable on December 19, 2014 to stockholders of record on November 21, 2014.

HCPCI recently received approval from the Florida Office of Insurance Regulation to assume up to 69,000 policies from Citizens effective December 19, 2014.

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RESULTS OF OPERATIONS

The following table summarizes our results of operations for the three and nine months ended September 30, 2014 and 2013 (dollar amounts in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Operating Revenue				
Gross premiums earned	$ 88,944	$ 81,244	$ 274,053	$ 245,743
Premiums ceded	(27,684)	(28,310)	(83,764)	(74,923)
Net premiums earned	61,260	52,934	190,289	170,820
Net investment income	1,213	380	3,753	814
Policy fee income	931	815	1,826	3,013
Net realized investment gains	3,294	31	4,465	43
Other income	257	532	1,023	1,146
Total operating revenue	66,955	54,692	201,356	175,836
Operating Expenses				
Losses and loss adjustment expenses	21,991	14,489	58,939	47,775
Policy acquisition and other underwriting expenses	9,986	8,887	28,674	22,163
Interest expense	2,626	847	7,809	2,379
Other operating expenses	9,577	8,825	28,466	22,298
Total operating expenses	44,180	33,048	123,888	94,615
Income before income taxes	22,775	21,644	77,468	81,221
Income tax expense	8,723	8,266	29,366	31,221
Net income	$ 14,052	$ 13,378	$ 48,102	$ 50,000
Preferred stock dividends		(22)	4	(88)
Income available to common stockholders	$ 14,052	$ 13,356	$ 48,106	$ 49,912
Ratios to Net Premiums Earned:				
Loss Ratio	35.90%	27.37%	30.97%	27.97%
Expense Ratio	36.22%	35.06%	34.14%	27.42%
Combined Ratio	72.12%	62.43%	65.11%	55.39%

Ratios to Gross Premiums Earned:				
Loss Ratio	24.73%	17.84%	21.51%	19.44%
Expense Ratio	24.94%	22.84%	23.70%	19.06%
Combined Ratio	49.67%	40.68%	45.21%	38.50%
Per Share Data:				
Basic earnings per common share	$ 1.34	$ 1.17	$ 4.48	$ 4.46
Diluted earnings per common share	$ 1.23	$ 1.13	$ 4.07	$ 4.32

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Comparison of the Three Months ended September 30, 2014 to the Three Months ended September 30, 2013

Our results of operations for the three months ended September 30, 2014 reflect income available to common stockholders of $14,052, or $1.23 earnings per diluted common share, compared with $13,356, or $1.13 earnings per diluted common share, for the three months ended September 30, 2013.

Revenue

Gross Premiums Earned for the three months ended September 30, 2014 and 2013 were $88,944 and $81,244, respectively. The $7,700 increase over the corresponding period in 2013 was primarily attributable to revenue from the Citizens assumption completed in November 2013.

Premiums Ceded for the three months ended September 30, 2014 and 2013 were approximately $27,684 and $28,310, respectively. Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed thresholds defined by our catastrophe excess of loss reinsurance treaties. For the three months ended September 30, 2014 and 2013, premiums ceded reflect net reductions of $6,512 and $5,484, respectively, related to the 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 31.1% and 34.8% of gross premiums earned during the three months ended September 30, 2014 and 2013, respectively.

Net Premiums Written during the three months ended September 30, 2014 and 2013 totaled $58,401 and $49,609, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less any applicable reinsurance costs.

Net Premiums Earned for the three months ended September 30, 2014 and 2013 were $61,260 and $52,934, 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 September 30, 2014 and 2013:

	Three Months Ended September 30,	
	2014	**2013**
Net Premiums Written	$ 58,401	$ 49,609
Decrease in Unearned Premiums	2,859	3,325
Net Premiums Earned	$ 61,260	$ 52,934

Net Investment Income for the three months ended September 30, 2014 and 2013 was $1,213 and $380, respectively. The increase in 2014 is primarily due to the increase in our investment portfolio, which has grown from $90,522 at September 30, 2013 to $158,212 at September 30, 2014.

Policy Fee Income for the three months ended September 30, 2014 and 2013 was $931 and $815, respectively. The increase in 2014 from the corresponding period in 2013 is primarily attributable to an increase in policy renewals.

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Expenses

Our *Losses and Loss Adjustment Expenses* amounted to $21,991 and $14,489, respectively, during the three months ended September 30, 2014 and 2013. The increase is due in part to an increase in the number of policies written. In addition, our results for the three months ended September 30, 2014 include a year over year increase in frequency by type of claim. See Reserves for Losses and Loss Adjustment Expenses under Critical Accounting Policies and Estimates.

Policy Acquisition and Other Underwriting Expenses for the three months ended September 30, 2014 and 2013 of $9,986 and $8,887, 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 $1,099 increase from the corresponding period in 2013 is primarily attributable to commissions and premium taxes related to the policies assumed from Citizens in 2012 and 2013 that have renewed and are included in 2014 direct written premiums.

Interest Expense for the three months ended September 30, 2014 and 2013 was $2,626 and $847, respectively. The $1,779 increase was a result of the 3.875% convertible debt offering completed in December 2013.

Other Operating Expenses for the three months ended September 30, 2014 and 2013 were $9,577 and $8,825, respectively. The $752 increase is primarily attributable to a $992 increase in compensation and related expenses of which $192 relates to stock-based compensation and accrued bonus expense, offset by a decrease in other administrative expenses. As of September 30, 2014, we had 181 employees located at our headquarters in Florida compared with 171 employees as of September 30, 2013. We also had 76 employees located in Noida, India at September 30, 2014 versus 68 at September 30, 2013.

Income Tax Expense for the three months ended September 30, 2014 and 2013 were $8,723 and $8,266, respectively, for state, federal, and foreign income taxes resulting in an effective tax rate of 38.3% for 2014 and 38.2% for 2013.

Ratios:

The loss ratio applicable to the three months ended September 30, 2014 (losses and loss adjustment expenses incurred related to net premiums earned) was 35.9% compared with 27.4% for the three months ended September 30, 2013. (See *Gross Premiums Earned* and *Losses and Loss Adjustment Expenses* above).

The expense ratio applicable to the three months ended September 30, 2014 (defined as underwriting expenses, interest and other operating expenses related to net premiums earned) was 36.2% compared with 35.0% for the three months ended September 30, 2013. The increase in our expense ratio is primarily attributable to the increase in 2014 specific to compensation and related costs and interest expense.

The combined ratio (total of all expenses in relation to net premiums earned) is the measure of underwriting profitability before other income. Our combined ratio for the three months ended September 30, 2014 was 72.1% compared with 62.4% 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 September 30, 2014 was 49.7% compared with 40.7% for the three months ended September 30, 2013.

Comparison of the Nine Months ended September 30, 2014 to the Nine Months ended September 30, 2013

Our results of operations for the nine months ended September 30, 2014 reflect income available to common stockholders of $48,106, or $4.07 earnings per diluted common share, compared with $49,912, or $4.32 earnings per diluted common share, for the nine months ended September 30, 2013.

Revenue

Gross Premiums Earned for the nine months ended September 30, 2014 and 2013 were $274,053 and $245,743, respectively. The $28,310 increase over the corresponding period in 2013 was primarily attributable to revenue from the Citizens assumption completed in November 2013.

Premiums Ceded for the nine months ended September 30, 2014 and 2013 were approximately $83,764 and $74,923, respectively. Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed thresholds defined by our catastrophe excess of loss reinsurance treaties. During the nine months ended September 30, 2014 and 2013, premiums ceded reflect net reductions of $17,052 and $6,785, 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 30.6% and 30.5% of gross premiums earned during the nine months ended September 30, 2014 and 2013, respectively.

Net Premiums Written during the nine months ended September 30, 2014 and 2013 totaled $222,180 and $204,692, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less any applicable reinsurance costs.

Net Premiums Earned for the nine months ended September 30, 2014 and 2013 were $190,289 and $170,820, 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 nine months ended September 30, 2014 and 2013:

	Nine Months Ended September 30,	
	2014	**2013**
Net Premiums Written	$ 222,180	$ 204,692
Increase in Unearned Premiums	(31,891)	(33,872)
Net Premiums Earned	$ 190,289	$ 170,820

Net Investment Income for the nine months ended September 30, 2014 and 2013 was $3,753 and $814, respectively. The increase in 2014 is primarily due to the increase in our investment portfolio, which has grown from $90,522 at

September 30, 2013 to $158,212 at September 30, 2014.

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Policy Fee Income for the nine months ended September 30, 2014 and 2013 was $1,826 and $3,013, respectively. The decrease in 2014 from the corresponding period in 2013 is primarily due to the change in the fourth quarter of 2013 in the method of recognizing policy fees, which are recognized ratably over the policy coverage period.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to $58,939 and $47,775, respectively, during the nine months ended September 30, 2014 and 2013. See Reserves for Losses and Loss Adjustment Expenses under Critical Accounting Policies and Estimates.

Policy Acquisition and Other Underwriting Expenses for the nine months ended September 30, 2014 and 2013 of $28,674 and $22,163, 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 $6,511 increase from the corresponding period in 2013 is primarily attributable to commissions and premium taxes related to the policies assumed from Citizens in 2012 and 2013 that have renewed and are included in 2014 direct written premiums.

Interest Expense for the nine months ended September 30, 2014 and 2013 was $7,809 and $2,379, respectively. The $5,430 increase was a result of the 3.875% convertible debt offering completed in December 2013.

Other Operating Expenses for the nine months ended September 30, 2014 and 2013 were $28,466 and $22,298, respectively. The $6,168 increase is primarily attributable to a $6,378 increase in compensation and related expenses of which $4,290 relates to stock-based compensation and accrued bonus expense. As of September 30, 2014, we had 181 employees located at our headquarters in Florida compared to 171 employees as of September 30, 2013. We also have 76 employees located in Noida, India at September 30, 2014 versus 68 at September 30, 2013.

Income Tax Expense for the nine months ended September 30, 2014 and 2013 were $29,366 and $31,221, respectively, for state, federal, and foreign income taxes resulting in an effective tax rate of 37.9% for 2014 and 38.4% for 2013. The slight decrease in the 2014 effective tax rate was attributable to an increase related to the investment income earned on tax-exempt securities.

Ratios:

The loss ratio applicable to the nine months ended September 30, 2014 (losses and loss adjustment expenses incurred related to net premiums earned) was 31.0% compared with 28.0% for the nine months ended September 30, 2013. (See *Gross Premiums Earned* and *Losses and Loss Adjustment Expenses* above).

The expense ratio applicable to the nine months ended September 30, 2014 (defined as underwriting expenses, interest and other operating expenses related to net premiums earned) was 34.1% compared with 27.4% for the nine months ended September 30, 2013. The increase in our expense ratio is primarily attributable to the increase in 2014 specific to compensation and related costs and interest expense.

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 nine months ended September 30, 2014 was 65.1% compared with 55.4% for the nine 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 nine months ended September 30, 2014 was 45.2% compared with 38.5% for the nine months ended September 30, 2013.

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. Moreover, 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 insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc. (HCPCI), 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 loss 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 commissions, taxes, payroll, and general overhead expenses.

We believe that we maintain sufficient liquidity to pay HCPCI s claims and expenses, as well as to satisfy commitments in the event of unforeseen events such as reinsurer insolvencies, inadequate premium rates, or reserve deficiencies. We maintain a comprehensive reinsurance program at levels management considers adequate to diversify risk and safeguard our financial position.

In the future, we anticipate our primary use of funds will be to pay claims, reinsurance premiums, interest, and dividends and also to fund operating expenses. There is also a contingency with regard to the outcome of our premium tax audit as described in Note 13 Commitments and Contingencies to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q. In addition, we have an outstanding commitment to provide financing under the ADC Arrangement.

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Senior Notes

Our long-term debt at September 30, 2014 consisted of 8% Senior Notes due 2020 and 3.875% Senior Convertible Notes due 2019, which were issued for gross proceeds of $40,250 and $103,000, respectively, during 2013. We make quarterly interest payments of $805 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 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.

Share Repurchase Plan

On March 18, 2014, our Board of Directors approved a one-year plan to repurchase up to $40,000 of common shares under which we may purchase shares of common stock in open market purchases, block transactions and privately negotiated transactions in accordance with applicable federal securities laws. See Note 11 Stockholders Equity to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q and Part II Item 2 Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

ADC Arrangement

In June 2014, we entered into an ADC Arrangement under which we agreed to provide financing up to a maximum of $9,785 for the acquisition, development and construction of a retail shopping center and appurtenant facilities. At September 30, 2014, $7,177 of the commitment is available and unused. See Note 3 Investments under *ADC Arrangement* to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

Cash Flows

Cash Flows for the Nine months ended September 30, 2014

Net cash provided by operating activities for the nine months ended September 30, 2014 was approximately $63,881, 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 $16,910 was primarily due to the purchases of available-for-sale securities of $88,837, the funding of the ADC Arrangement of $2,608 and the $4,500 cash contribution to a joint venture, offset by redemptions and repayments of fixed-maturity securities of $2,960, and the proceeds from sales of available-for-sale securities of $76,751. Net cash used in financing activities totaled $36,033, which was primarily due to $27,815 used in our share repurchase plan and $8,843 of net cash dividend payments.

Cash Flows for the Nine months ended September 30, 2013

Net cash provided by operating activities for the nine months ended September 30, 2013 was approximately $46,620, which consisted primarily of cash received from net written premiums less cash disbursed for operating expenses, reinsurance premiums and losses and loss adjustment expenses. Net cash used in investing activities of $33,922 was primarily due to the purchases of available-for-sale securities of $36,453, the purchase of $3,107 in property and equipment and the

purchase of $666 in real estate investments offset by redemptions and repayments of fixed-maturity securities of $2,534, and the proceeds from sales of available-for-sale securities of $3,770. Net cash provided by financing activities totaled $31,020, which was primarily due to $40,250 from the sale of the 8% Senior Notes due 2020, offset by $1,525 in related underwriting and issuance costs paid during the period and $7,704 of cash dividend payments.

Investments

The main objective of our investment policy is to maximize our after-tax investment income with a minimum of risk given the current financial market. Our excess cash is invested primarily in money market accounts and available-for-sale investments.

At September 30, 2014, we had $139,274 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 in any one bank at any time. From time to time, we may have in excess of $5,500 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

As of September 30, 2014, we are contractually committed to provide financing for the acquisition, development and construction of one real estate property (which is referred to herein as the ADC Arrangement). Such commitment is not recognized in the financial statements but is 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. As of December 31, 2013, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of SEC Regulation S-K.

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CONTRACTUAL OBLIGATIONS AND COMMITMENT

The following table summarizes our contractual obligations and commitment as of September 30, 2014:

	Payment Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease (1)	$ 1,008	119	256	282	351
Service agreement (1)	181	21	46	51	63
Reinsurance contracts (2)	30,000	20,000	10,000		
Acquisition, development and construction loan commitment (3)	7,177	7,177			
Long-term debt obligations (4)	178,921	7,211	14,423	115,427	41,860
Total	$ 217,287	34,528	24,725	115,760	42,274

(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 September 30, 2014 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) 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 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 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.

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The IBNR represents our estimate of the ultimate cost of all claims that have occurred but have not been reported to us, and in some cases may not yet be known to the insured, and future development of reported claims. Estimating the IBNR component of our Reserves involves considerable judgment on the part of management. At September 30, 2014, $21,756 of the total $47,654 we have reserved for losses and loss adjustment expenses is attributable to our estimate of IBNR. The remaining $25,898 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 September 30, 2014, $11,324 of the $25,898 in reserves for known cases relates to claims incurred during prior years.

Our Reserves increased from $43,686 at December 31, 2013 to $47,654 at September 30, 2014. The $3,968 increase in our Reserves is comprised of $26,530 in reserves related to claims occurring in the 2014 loss year offset by reductions in our Reserves of $15,051 for 2013 and $7,511 for 2012 and prior loss years. The $26,530 in Reserves established for 2014 claims is primarily due to the increase in our policy count and exposures. The decrease of $22,562 specific to our 2013 and prior loss-year reserves is due both to settlement of claims and favorable development related to those loss years. Factors that are attributable to favorable development may include a lower severity of claims than the severity of claims considered in establishing our Reserves, a lower number of new claims reported than anticipated, and actual case development may be more favorable than originally anticipated.

Based on all information known to us, we consider our Reserves at September 30, 2014 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 the reinsurance agreements 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.

For the three months ended September 30, 2014 and 2013, we accrued benefits of $6,410 and $3,880, respectively, and deferred recognition of $102 and $1,604, respectively, in ceded premiums for total reductions in ceded premiums of $6,512 and $5,484, respectively. For the nine months

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ended September 30, 2014 and 2013, we accrued benefits of $14,405 and $4,682, respectively, and deferred recognition of $2,647 and $2,103, respectively, in ceded premiums for total reductions in ceded premiums of $17,052 and $6,785, respectively. As of September 30, 2014, we have accrued a benefit of $21,734 and deferred recognition of $6,354 in ceded premiums, 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.

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 12, 2014. For the nine months ended September 30, 2014, 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 U.S. GAAP, resulting in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. We determine deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Valuation allowances are provided against assets that are not likely to be realized, if any. We have elected to classify 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.

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ITEM 3 *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Our investment portfolio at September 30, 2014 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. 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 primarily 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 September 30, 2014 (in thousands):

Hypothetical Change in Interest Rates	Estimated Fair Value	Change in Estimated Fair Value	Percentage Increase (Decrease) in Estimated Fair Value
300 basis point increase	$ 90,192	$ (9,985)	(9.97)%
200 basis point increase	93,522	(6,655)	(6.64)%
100 basis point increase	96,850	(3,327)	(3.32)%
100 basis point decrease	103,394	3,217	3.21%
200 basis point decrease	106,241	6,064	6.05%
300 basis point decrease	108,148	7,971	7.96%

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 September 30, 2014 (in thousands):

Comparable Rating	Amortized Cost	% of Total Amortized Cost	Estimated Fair Value	% of Total Estimated Fair Value
AAA	$ 14,553	15	$ 14,942	15
AA+, AA, AA-	17,334	18	17,525	17
A+, A, A-	34,676	35	35,309	35
BBB+, BBB, BBB-	18,756	19	19,048	19
BB+, BB, BB-	6,260	6	6,216	6
Not rated	7,164	7	7,137	8
Total	$ 98,743	100	$ 100,177	100

Equity Price Risk

Our equity investment portfolio at September 30, 2014 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 September 30, 2014 (in thousands):

	Estimated Fair Value	% of Total Estimated Fair Value
Stocks by sector:		
Financial	$ 24,960	64
Energy	3,777	10
Other (1)	2,120	5
	30,857	79
Mutual funds and Exchange traded funds by type:		
Debt	7,302	19
Equity	938	2
	8,240	21
Total	$ 39,097	100

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

Foreign Currency Exchange Risk

At September 30, 2014, 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 September 30, 2014 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 12, 2014.

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

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds

None.

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(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 September 30, 2014 (share amounts not in thousands):

For the Month Ended	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (b)
July 31, 2014	125,721	$ 40.88	125,721	$ 17,060
August 31, 2014	120,857	$ 40.22	120,857	$ 12,200
September 30, 2014	529	$ 36.52		$ 12,200
	247,107	$ 40.55	246,578	

(a) In March 2014, our Board of Directors approved a one-year plan to repurchase up to $40,000 of common shares. See Note 11 Stockholders Equity to our consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

(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

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business days prior to the dividend payment or distribution and (4) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115% of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (1) subject to prior approval by the Florida Office of Insurance Regulation or (2) 30 days after the Florida Office of Insurance Regulation has received notice of such dividend or distribution and has not disapproved it within such time.

ITEM 3 *DEFAULTS UPON SENIOR SECURITIES*

None.

ITEM 4 *MINE SAFETY DISCLOSURES*

None.

ITEM 5 *OTHER INFORMATION*

None.

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ITEM 6 *EXHIBITS*

The following documents are filed as part of this report:

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation, with amendments. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 7, 2013.
3.1.1	Articles of Amendment to Articles of Incorporation designating the rights, preferences and limitations of Series B Junior Participating Preferred Stock. Incorporated by reference to Exhibit 3.1 to our Form 8-K filed October 18, 2013.
3.2	Bylaws. 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. 333-185228) 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. 333-185228) 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.

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.

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.

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.

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.
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.
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.
November 7, 2014	By: /s/ Paresh Patel Paresh Patel Chief Executive Officer (Principal Executive Officer)
November 7, 2014	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.