UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2017

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

The aggregate number of shares of the Registrant s Common Stock, no par value, outstanding on October 26, 2017 was 9,781,952.

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)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Fixed-maturity securities, available for sale, at fair value (amortized cost: $253,162 and $167,231, respectively)	$ 256,102	$ 166,248
Equity securities, available for sale, at fair value (cost: $58,242 and $47,750, respectively)	63,023	53,035
Equity securities, trading, at fair value (cost: $929 and $0, respectively)	1,003	
Limited partnership investments, at equity	20,998	29,263
Investment in unconsolidated joint venture, at equity	1,664	2,102
Real estate investments (Note 4 Consolidated Variable Interest Entity)	48,961	48,086
Total investments	391,751	298,734
Cash and cash equivalents (Note 4 Consolidated Variable Interest Entity)	292,438	280,531
Accrued interest and dividends receivable	2,241	1,654
Income taxes receivable	24,081	2,811
Premiums receivable	27,179	17,276
Prepaid reinsurance premiums	28,352	24,554
Reinsurance recoverable:		
Paid losses and loss adjustment expenses	17	
Unpaid losses and loss adjustment expenses	213,729	
Deferred policy acquisition costs	21,150	16,639
Property and equipment, net	12,356	11,374
Intangible assets, net	4,498	4,899
Deferred income taxes, net		250
Other assets (Note 4 Consolidated Variable Interest Entity)	11,461	11,342
Total assets	$ 1,029,253	$ 670,064

(continued)

HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets - continued

(Dollar amounts in thousands)

	September 30, 2017 (Unaudited)	December 31, 2016
Liabilities and Stockholders Equity		
Losses and loss adjustment expenses	$ 344,672	$ 70,492
Unearned premiums	206,174	175,803
Advance premiums	10,248	4,651
Assumed reinsurance balances payable	243	3,294
Accrued expenses (Note 4 Consolidated Variable Interest Entity)	11,803	6,513
Reinsurance recovered in advance on unpaid losses	9,882	
Deferred income taxes, net	3,092	
Long-term debt	236,311	138,863
Other liabilities (Note 4 Consolidated Variable Interest Entity)	13,772	26,702
Total liabilities	836,197	426,318
Commitments and contingencies (Note 16)		
Stockholders equity:		
7% Series A cumulative convertible preferred stock (no par value, 1,500,000 shares authorized, no shares issued and outstanding)		
Series B junior participating preferred stock (no par value, 400,000 shares authorized, no shares issued or outstanding)		
Preferred stock (no par value, 18,100,000 shares authorized, no shares issued or outstanding)		
Common stock (no par value, 40,000,000 shares authorized, 9,035,609 and 9,662,761 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively)		
Additional paid-in capital		8,139
Retained income	188,313	232,964
Accumulated other comprehensive income, net of taxes	4,743	2,643
Total stockholders equity	193,056	243,746
Total liabilities and stockholders equity	$ 1,029,253	$ 670,064

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Unaudited)

(Dollar amounts in thousands, except per share amounts)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenue				
Gross premiums earned	$ 88,669	$ 92,542	$ 270,376	$ 286,273
Premiums ceded	(44,705)	(29,242)	(101,529)	(105,998)
Net premiums earned	43,964	63,300	168,847	180,275
Net investment income	2,878	2,785	8,522	6,000
Net realized and unrealized investment (losses) gains	(152)	583	2,350	899
Net other-than-temporary impairment losses recognized in income:				
Total other-than-temporary impairment losses	(474)	(575)	(864)	(1,211)
Portion of loss recognized in other comprehensive income, before taxes		351		(230)
Net other-than-temporary impairment losses	(474)	(224)	(864)	(1,441)
Policy fee income	905	972	2,721	2,967
Gain on repurchases of convertible senior notes				153
Gain on bargain purchase		2,071		2,071
Other	369	321	1,207	1,151
Total revenue	47,490	69,808	182,783	192,075
Expenses				
Losses and loss adjustment expenses	89,231	25,909	142,425	79,261
Policy acquisition and other underwriting expenses	9,926	10,536	29,645	32,525
Salaries and wages	4,605	5,945	15,051	17,009
Interest expense	4,408	2,672	12,328	8,112
Loss on repurchases of senior notes			743	
Other operating expenses	5,338	4,717	15,162	14,213
Total operating expenses	113,508	49,779	215,354	151,120
(Loss) income before income taxes	(66,018)	20,029	(32,571)	40,955
Income tax (benefit) expense	(25,472)	8,696	(13,587)	16,542
Net (loss) income	$ (40,546)	$ 11,333	$ (18,984)	$ 24,413
Basic (loss) earnings per share	$ (4.44)	$ 1.17	$ (2.05)	$ 2.48

Diluted (loss) earnings per share	$	(4.44)	$	1.10	$	(2.05)	$	2.41
Dividends per share	$	0.35	$	0.30	$	1.05	$	0.90

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Unaudited)

(Amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net (loss) income	$ (40,546)	$ 11,333	$ (18,984)	$ 24,413
Other comprehensive income:				
Change in unrealized gain on investments:				
Net unrealized gain arising during the period	2,155	2,234	4,822	10,290
Other-than-temporary impairment loss charged to income	474	224	864	1,441
Call and repayment losses charged to investment income		3	9	14
Reclassification adjustment for net realized losses (gains)	226	(583)	(2,276)	(899)
Net change in unrealized gain	2,855	1,878	3,419	10,846
Deferred income taxes on above change	(1,101)	(724)	(1,319)	(4,184)
Total other comprehensive income, net of income taxes	1,754	1,154	2,100	6,662
Comprehensive (loss) income	$ (38,792)	$ 12,487	$ (16,884)	$ 31,075

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities:		
Net (loss) income	$ (18,984)	$ 24,413
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Stock-based compensation	3,362	3,072
Net amortization of premiums on investments in fixed-maturity securities	884	475
Depreciation and amortization	6,945	3,968
Deferred income tax benefits	(3,822)	(4,967)
Net realized and unrealized investment gains	(2,350)	(899)
Other-than-temporary impairment losses	864	1,441
Income from unconsolidated joint venture	(126)	(153)
Distribution received from unconsolidated joint venture	147	
Gain on repurchases of convertible senior notes		(153)
Gain on bargain purchase		(2,071)
Loss on repurchases of senior notes	743	
Net income from limited partnership interests	(1,724)	(54)
Distributions received from limited partnership interests	854	428
Foreign currency remeasurement (gain) loss	(31)	9
Other	172	5
Changes in operating assets and liabilities:		
Accrued interest and dividends receivable	(587)	(305)
Income taxes	(21,270)	2,510
Premiums receivable	(9,903)	(6,495)
Prepaid reinsurance premiums	(3,798)	11,048
Reinsurance recoverable	(213,746)	
Deferred policy acquisition costs	(4,511)	(2,619)
Other assets	2,441	32,073
Losses and loss adjustment expenses	274,180	5,505
Unearned premiums	30,371	22,032
Advance premiums	5,597	4,894
Assumed reinsurance balances payable	(3,051)	(1,084)
Reinsurance recovered in advance on unpaid losses	9,882	
Accrued expenses and other liabilities	(1,146)	(1,180)
Net cash provided by operating activities	51,393	91,893
Cash flows from investing activities:		
Investments in limited partnership interests	(2,623)	(4,670)

Acquisition of real estate business, net of cash acquired		(12,056)
Distributions received from limited partnership interests	11,758	
Proceeds from investment in real estate under acquisition, development and construction arrangement		10,200
Distribution from unconsolidated joint venture	417	
Purchase of property and equipment	(1,872)	(543)
Purchase of real estate investments	(2,095)	(1,522)
Purchase of fixed-maturity securities - available for sale	(105,258)	(79,232)
Purchase of equity securities - available for sale	(34,512)	(13,259)
Purchase of equity securities - trading	(1,507)	
Proceeds from sales of fixed-maturity securities - available for sale	9,638	37,415
Proceeds from calls, repayments and maturities of fixed-maturity securities - available for sale	8,786	2,637
Proceeds from sales of equity securities - available for sale	25,729	14,155
Proceeds from sales of equity securities - trading	580	
Net cash used in investing activities	(90,959)	(46,875)

(continued)

HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows - continued

(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from financing activities:		
Cash dividends paid	(10,512)	(9,368)
Cash dividends received under share repurchase forward contract	788	561
Proceeds from exercise of common stock options	75	
Proceeds from issuance of long-term debt	143,859	18,200
Repurchases of convertible senior notes		(11,347)
Repurchases of senior notes	(40,250)	
Repayment of debt	(718)	(264)
Repurchases of common stock	(30,636)	(464)
Repurchases of common stock under share repurchase plan	(6,189)	(18,023)
Debt issuance costs	(4,975)	(339)
Tax benefits on stock-based compensation		176
Net cash provided by (used in) financing activities	51,442	(20,868)
Effect of exchange rate changes on cash	31	(8)
Net increase in cash and cash equivalents	11,907	24,142
Cash and cash equivalents at beginning of period	280,531	267,738
Cash and cash equivalents at end of period	$ 292,438	$ 291,880
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 11,506	$ 18,824
Cash paid for interest	$ 8,647	$ 6,417
Non-cash investing and financing activities:		
Unrealized gain on investments in available-for-sale securities, net of tax	$ 2,100	$ 6,662
Details of business acquisition:		
Fair value of assets acquired	$	$ 14,677
Less: purchase price		(12,250)
gain on bargain purchase		(2,071)
Liabilities assumed	$	$ 356

Conversion of revolving credit facility to long-term debt	$	9,441	$	
Receivable from sales of available-for-sale securities	$	3,034	$	270
Payable on purchases of available-for-sale securities	$	3,014	$	388

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

Nine Months Ended September 30, 2017

(Unaudited)

(Dollar amounts in thousands)

	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, 2016	9,662,761	$	$ 8,139	$ 232,964	$ 2,643	$ 243,746
Net loss				(18,984)		(18,984)
Total other comprehensive income, net of income taxes					2,100	2,100
Exercise of common stock options	30,000		75			75
Issuance of restricted stock	154,936					
Forfeiture of restricted stock	(23,218)					
Repurchase and retirement of common stock	(434,505)		(21,236)			(21,236)
Repurchase and retirement of common stock under share repurchase plan	(163,265)		(6,189)			(6,189)
Repurchase of common stock under prepaid forward contract	(191,100)		(9,400)			(9,400)
Equity component on 4.25% convertible senior notes (net of offering costs of $543)			15,151			15,151
Deferred taxes on debt discount			(5,845)			(5,845)
Common stock dividends				(9,724)		(9,724)
Stock-based compensation			3,362			3,362
Additional paid-in capital shortfall allocated to retained income			15,943	(15,943)		
Balance at September 30, 2017	9,035,609	$	$	$ 188,313	$ 4,743	$ 193,056

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity - continued

Nine Months Ended September 30, 2016

(Unaudited)

(Dollar amounts in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive (Loss) Income, Net of Tax	Total Stockholders Equity
Balance at December 31, 2015	10,292,256	$	$ 23,879	$ 215,634	$ (1,791)	$ 237,722
Net income				24,413		24,413
Total other comprehensive income, net of income taxes					6,662	6,662
Issuance of restricted stock	102,440					
Forfeiture of restricted stock	(11,787)					
Cancellation of restricted stock	(160,000)					
Repurchase and retirement of common stock	(14,934)		(464)			(464)
Repurchase and retirement of common stock under share repurchase plan	(574,851)		(18,023)			(18,023)
Common stock dividends				(8,807)		(8,807)
Tax benefits on stock-based compensation			176			176
Tax shortfalls on stock-based compensation			(239)			(239)
Stock-based compensation			3,072			3,072
Balance at September 30, 2016	9,633,124	$	$ 8,401	$ 231,240	$ 4,871	$ 244,512

See accompanying Notes to Consolidated Financial Statements.

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Note 1-- Nature of Operations

HCI Group, Inc., together with its majority-owned and controlled subsidiaries (collectively, the Company), is primarily engaged in the property and casualty insurance business through Homeowners Choice Property & Casualty Insurance Company, Inc. (HCPCI), its principal operating subsidiary. HCPCI is authorized to underwrite various homeowners property and casualty insurance products and allied lines business in the state of Florida. HCPCI also offers flood-endorsed and wind-only policies to new and pre-existing Florida customers. HCPCI s operations are supported by HCI Group, Inc. and certain HCI subsidiaries. During 2017, HCPCI received regulatory approval to write residential property and casualty insurance in the states of Arkansas, Maryland, North Carolina, New Jersey, Pennsylvania, South Carolina and Texas.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements for the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information, and the Securities and Exchange Commission (SEC) rules for interim financial reporting. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been omitted pursuant to such rules and regulations. However, in the opinion of management, the accompanying consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the Company s financial position as of September 30, 2017 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, 2017. 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, 2016 included in the Company s Form 10-K, which was filed with the SEC on February 22, 2017.

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 for reinsurance contracts with retrospective provisions, reinsurance recoverable, deferred income taxes, and stock-based compensation expense involve significant judgments and estimates material to the Company s consolidated financial statements.

All significant intercompany balances and transactions have been eliminated.

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Adoption of New Accounting Standards

Effective January 1, 2017, the Company adopted Accounting Standards Update No. 2016-09, Compensation Stock Compensation (Topic 718), which amends the accounting for share-based payment transactions including the related income taxes, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, and forfeitures, which is applied using a modified retrospective transition method, have no impact on the Company s comparative consolidated financial statements. In addition, the retrospective application of the amendments related to the presentation of employee taxes paid does not have an impact on the Company s comparative consolidated statement of cash flows. Upon adoption of this standard, the Company elected to account for forfeitures of share-based awards when they occur and apply the amendments related to the presentation of excess tax benefits on the statement of cash flows prospectively. Under the new standard, the Company is required to recognize any excess tax benefits and tax deficiencies in the Company s consolidated statement of income.

Investments in Trading Securities

The Company holds certain equity securities with the intention of selling them in a short period of time to generate profits. As such, these equity securities are classified as trading and carried at fair value. Realized investment gains and losses from sales are recorded on the trade date and are determined using the first-in first-out (FIFO) method. Unrealized holding gains and losses from the changes in the fair value are reported in the consolidated statement of income as net unrealized investment gains or losses.

Long-Term Debt

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

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

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

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

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

Common Share Repurchases

The Company primarily repurchases its common stock in the open market through share repurchase programs and from institutional investors in private transactions such as prepaid share repurchase forward contracts and share repurchase agreements.

A prepaid share repurchase forward contract is generally a contract that allows a party to buy from the counterparty a specified number of common shares at a specific time at a given forward price. The Company entered into such a contract and evaluated the characteristics of the forward contract to determine whether it met the definition of a derivative financial instrument pursuant to U.S. GAAP. The Company determined the forward contract is an equity contract on the Company s common shares requiring physical settlement in common shares of the Company. As such, the transaction is recognized as a component of stockholders equity and there will be no recognition in earnings for changes in fair value in subsequent periods.

In general, the Company first allocates the purchase price or the prepayment amount to additional paid-in capital to the extent available and the remaining balance is allocated to retained income. Due to past and recent share repurchases, the Company s additional paid-in capital has been exhausted and shall remain so until the Company fully recoups the total amount allocated to retained income.

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

Note 3 Recent Accounting Pronouncements

Accounting Standards Update No. 2017-13. In September 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2017-13 (ASU 2017-13), Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842). ASU 2017-13 adds SEC paragraphs pursuant to the SEC Staff Announcement at the July 20, 2017 Emerging Issues Task Force meeting concerning the transition related to Accounting Standards Updates No. 2014-09, Revenue from Contracts with Customers (Topic 606) and No. 2016-02, Leases (Topic 842). ASU 2017-13 also supersedes SEC paragraphs pursuant to the rescission of SEC Staff Announcement, Accounting for Management Fees Based on a Formula, effective upon the initial adoption of Topic 606 and SEC Staff Announcement, Lessor Consideration of Third-Party Value Guarantees, effective upon the initial adoption of Topic 842. ASU 2017-13 also rescinds three SEC Observer Comments effective upon the initial adoption of Topic 842. One SEC Staff Observer comment is being moved to Topic 842. The Company does not anticipate significant impact from this guidance.

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Accounting Standards Update No. 2017-09. In May 2017, the FASB issued Accounting Standards Update No. 2017-09 (ASU 2017-09), Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an application of modification accounting. ASU 2017-09 is effective for the Company beginning with the first quarter of 2018. Early adoption is permitted. This guidance will impact the future modification of the Company s existing share-based awards.

Accounting Standards Update No. 2017-08. In March 2017, the FASB issued Accounting Standards Update No. 2017-08 (ASU 2017-08), Receivables Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, which amends guidance on the amortization period of premiums on certain purchased callable debt securities. Specifically, this update shortens the amortization period of certain purchased callable debt securities to the earliest call date. ASU 2017-08 is effective for the Company beginning with the first quarter of 2019. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company s consolidated financial statements.

Accounting Standards Update No. 2017-05. In February 2017, the FASB issued Accounting Standards Update No. 2017-05 (ASU 2017-05), Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), which clarifies the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. In addition, ASU 2017-15 eliminates the exception in the financial asset guidance for transfers of investments including equity method investments in real estate entities and supersedes the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest subsection (Topic 845). ASU 2017-05 is effective for the Company beginning with the first quarter of 2018. The Company is currently evaluating the impact of this guidance on the Company s consolidated financial statements.

Accounting Standards Update No. 2017-03. In January 2017, the FASB issued Accounting Standards Update No. 2017-03 (ASU 2017-03), Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323), which adds and amends SEC paragraphs pursuant to the SEC Staff Announcements at the September 22, 2016 and November 17, 2016 Emerging Issues Task Force meetings. The announcement made at the September 22, 2016 meeting provides the SEC staff view on the disclosure of the impact that recently issued accounting standards will have on a public entity s financial statements when the standards are adopted in a future period. This announcement applies to ASU 2014-09, Revenue from Contracts with Customers (Topic 606); ASU 2016-02, Leases (Topic 842); ASU 2016-13, Financial Instruments - Credit Losses (Topic 326) and any subsequent amendments to guidance in the ASUs that are issued prior to the adoption of the aforementioned ASUs.

Accounting Standards Update No. 2017-01. In January 2017, the FASB issued Accounting Standards Update No. 2017-01 (ASU 2017-01), Business Combinations (Topic 805), which clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. If the screen is not met, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output to be considered a business. ASU 2017-01 is effective for the Company beginning with the first quarter of 2018. Early adoption is permitted under certain circumstances. When adopted, this guidance will impact how the Company determines whether a transaction should be accounted for as a business acquisition or disposal in a future period. The Company elected to adopt this standard in the fourth quarter of 2017.

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Accounting Standards to be Adopted in Fiscal Year 2018

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (ASU 2016-01), Financial Instruments Overall (Subtopic 825-10), primarily requiring all equity investments other than those accounted for under the equity method of accounting or those that result in consolidation of the investee to be measured at fair value with changes in the fair value recognized through net income. The application of ASU 2016-01 could cause the Company to experience significant volatility in earnings. Under current accounting policy, the Company recognizes unrealized holding gains and losses on available-for-sale equity securities in stockholders equity as a component of accumulated other comprehensive income. In the year of adoption, available-for-sale equity securities unrealized holding gains and losses reported in accumulated other comprehensive income at December 31, 2017 will be reclassified to beginning retained income. Any subsequent changes in fair value will be recognized in the consolidated statement of income. In addition, the classification of the Company s equity securities with readily determinable fair values as available-for-sale in the consolidated balance sheet and related disclosures will be eliminated.

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 permits two methods of adoption: a full retrospective method or a modified retrospective method. This standard could impact the timing and amounts of revenue recognized. The Company has identified and reviewed impacted revenue generating activities in accordance with the five-step revenue recognition model specified by this standard. The Company elects to use a modified retrospective method for transition to the new revenue recognition standard. Based on the Company s assessment, the impact will be limited to the related disclosures of certain revenue generating activities as its primary source of revenue from insurance premiums is not within the scope of this new standard.

HCI GROUP, INC. AND SUBSIDIARIES

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

Note 4 Investments

a) 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, 2017 and December 31, 2016, 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, 2017				
Fixed-maturity securities				
U.S. Treasury and U.S. government agencies	$ 47,348	$ 5	$ (112)	$ 47,241
Corporate bonds	121,459	1,862	(811)	122,510
State, municipalities, and political subdivisions	74,924	2,099	(83)	76,940
Exchange-traded debt	9,293	194	(211)	9,276
Redeemable preferred stock	138	2	(5)	135
Total	253,162	4,162	(1,222)	256,102
Equity securities	58,242	5,361	(580)	63,023
Total available-for-sale securities	$ 311,404	$ 9,523	$ (1,802)	$ 319,125
As of December 31, 2016				
Fixed-maturity securities				
U.S. Treasury and U.S. government agencies	$ 1,975	$	$ (36)	$ 1,939
Corporate bonds	75,538	607	(1,641)	74,504
State, municipalities, and political subdivisions	78,018	776	(488)	78,306
Exchange-traded debt	11,463	36	(237)	11,262
Redeemable preferred stock	237	3	(3)	237
Total	167,231	1,422	(2,405)	166,248
Equity securities	47,750	5,769	(484)	53,035
Total available-for-sale securities	$ 214,981	$ 7,191	$ (2,889)	$ 219,283

At September 30, 2017, fixed-maturity securities included $252 of U.S. Treasury securities related to a statutory deposit held in trust for the South Carolina Director of Insurance.

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, 2017 and December 31, 2016 are as follows:

	Amortized Cost	Estimated Fair Value
As of September 30, 2017		
Available-for-sale		
Due in one year or less	$ 30,082	$ 30,115
Due after one year through five years	127,627	127,444
Due after five years through ten years	66,146	67,853
Due after ten years	29,307	30,690
	$ 253,162	$ 256,102

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	Amortized Cost	Estimated Fair Value
As of December 31, 2016		
Available-for-sale		
Due in one year or less	$ 2,656	$ 2,662
Due after one year through five years	49,915	50,023
Due after five years through ten years	90,360	89,332
Due after ten years	24,300	24,231
	$ 167,231	$ 166,248

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, 2017 and 2016 were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Three months ended September 30, 2017			
Fixed-maturity securities	$ 2,765	$ 97	$ (23)
Equity securities	$ 4,827	$ 223	$ (525)
Three months ended September 30, 2016			
Fixed-maturity securities	$ 3,891	$ 196	$
Equity securities	$ 5,000	$ 491	$ (104)
Nine months ended September 30, 2017			
Fixed-maturity securities	$ 9,638	$ 126	$ (45)
Equity securities	$ 25,729	$ 3,058	$ (865)
Nine months ended September 30, 2016			
Fixed-maturity securities	$ 37,415	$ 579	$
Equity securities	$ 14,155	$ 850	$ (530)

Other-than-temporary Impairment

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

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

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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Fixed-maturity Securities

There was no impairment loss recognized for the three months ended September 30, 2017. For the nine months ended September 30, 2017, the Company recognized $100 of impairment losses related to the sale of two intent-to-sell fixed-maturity securities. At September 30, 2017, two fixed-maturity securities were considered other-than-temporarily impaired due to their credit risk. The Company intends to hold these two fixed-maturity securities until maturity, but does not expect a full recovery of their carrying value.

In June 2016, the Company sold one impaired fixed-maturity security that was previously intended to hold until maturity due to uncertainties surrounding the issuer s announced restructuring plan. Prior to the sale of this security, the remaining $202 of unrealized impairment loss was reclassified from comprehensive income and recognized in total other-than-temporary impairment losses in the Company s consolidated statement of income. For the three months ended September 30, 2016, the Company recorded $531 of impairment loss, of which $180 was considered other-than-temporarily impaired due to a credit related loss and recorded in the consolidated statement of income, with the remaining amount of $351 related to non-credit factors and recorded in other comprehensive income. For the nine months ended September 30, 2016, the Company recognized $675 of impairment loss in the consolidated statement of income, representing $206 of additional losses recorded during the period and the reclassification of $469 previously recorded in other comprehensive income. At September 30, 2016, one fixed-maturity security the Company intended to hold to maturity had a credit related loss.

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

	2017	**2016**
Balance at January 1	$ 475	$ 111
Additional credit impairments on previously impaired securities		293
Balance at March 31	475	404
Credit impaired security fully disposed of for which there was no prior intent or requirement to sell		(385)
Reduction due to increase in expected cash flows recognized over the remaining life of the previously impaired security		(19)
Balance at June 30	475	
Credit impairment on impaired securities		180
Balance at September 30	$ 475	$ 180

Equity Securities

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, the length of time each security has been in an unrealized loss position, the extent of the decline and the near-term prospect for recovery. The Company recognized impairment losses of $474 and $44 in the consolidated statement of income for the three months ended September 30, 2017 and 2016, respectively. For the nine months ended September 30, 2017 and 2016, the Company recognized impairment losses of $764 and $766, respectively. At September 30, 2017 and 2016, the Company had four and 16 equity securities, respectively, that were other-than-temporarily impaired.

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

Securities with gross unrealized loss positions at September 30, 2017 and December 31, 2016, aggregated by investment category and length of time the individual securities have been in a continuous loss position, are as follows:

	Less Than Twelve Months		Twelve Months or Longer		Total	
As of September 30, 2017	**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	$ (112)	$ 45,344	$	$	$ (112)	$ 45,344
Corporate bonds	(530)	49,789	(281)	15,346	(811)	65,135
State, municipalities, and political subdivisions	(29)	4,332	(54)	3,889	(83)	8,221
Exchange-traded debt	(209)	3,189	(2)	80	(211)	3,269
Redeemable preferred stock	(5)	45			(5)	45
Total fixed-maturity securities	(885)	102,699	(337)	19,315	(1,222)	122,014
Equity securities	(545)	11,154	(35)	1,260	(580)	12,414
Total available-for-sale securities	$ (1,430)	$ 113,853	$ (372)	$ 20,575	$ (1,802)	$ 134,428

At September 30, 2017, there were 127 securities in an unrealized loss position. Of these securities, 17 securities had been in an unrealized loss position for 12 months or longer. The gross unrealized loss of corporate bonds in an unrealized loss position for less than twelve months included $133 of other-than-temporary impairment losses related to non-credit factors.

	Less Than Twelve Months		Twelve Months or Longer		Total	
As of December 31, 2016	**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	$ (36)	$ 1,939	$	$	$ (36)	$ 1,939
Corporate bonds	(1,546)	43,859	(95)	2,814	(1,641)	46,673
State, municipalities, and political subdivisions	(441)	26,029	(47)	3,036	(488)	29,065

Exchange-traded debt	(191)	4,980	(46)	1,954	(237)	6,934
Redeemable preferred stock	(3)	47			(3)	47
Total fixed-maturity securities	(2,217)	76,854	(188)	7,804	(2,405)	84,658
Equity securities	(293)	10,042	(191)	3,209	(484)	13,251
Total available-for-sale securities	$ (2,510)	$ 86,896	$ (379)	$ 11,013	$ (2,889)	$ 97,909

At December 31, 2016, there were 134 securities in an unrealized loss position. Of these securities, 20 securities had been in an unrealized loss position for 12 months or longer. The gross unrealized loss of corporate bonds in an unrealized loss position for twelve months or longer included $76 of other-than-temporary impairment losses related to non-credit factors.

b) Trading Securities

At September 30, 2017, the cost, net unrealized gains, and estimated fair value of the Company s trading equity securities were $929, $74, and $1,003, respectively. There were no investments in trading equity securities at December 31, 2016.

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Sales of Trading Securities

Proceeds received, and the gross realized gains and losses from sales of trading equity securities, for the three and nine months ended September 30, 2017 were as follows:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Three months ended September 30, 2017			
Equity securities	$ 580	$ 12	$ (10)
Nine months ended September 30, 2017			
Equity securities	$ 580	$ 12	$ (10)

The Company did not hold any trading equity security during 2016.

c) Limited Partnership Investments

The Company has interests in limited partnerships that are not registered or readily tradeable on a securities exchange. These partnerships are private equity funds managed by general partners who make all decisions with regard to financial policies and operations. As such, the Company is not the primary beneficiary and does not consolidate these partnerships. In August 2017, the Company entered into a subscription agreement with another limited partnership. The following table provides information related to the Company s investments in limited partnerships.

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

	September 30, 2017			December 31, 2016		
	Carrying	Unfunded		Carrying	Unfunded	
vestment Strategy	**Value**	**Balance**	**(%)(a)**	**Value**	**Balance**	**(%)(a**
imarily in senior secured loans and, to a limited extent, in other debt and uity securities of private U.S. lower-middle-market companies. (b)(c)(e)	$ 7,134	$ 5,505	15.37	$ 6,246	$ 6,428	16.5
alue creation through active distressed debt investing primarily in bank ans, public and private corporate bonds, asset-backed securities, and equity curities received in connection with debt restructuring. (b)(d)(e)	7,630	1,746	1.76	7,358	1,360	1.7
aximum long-term capital appreciation through long and short positions in uity and/or debt securities of publicly traded U.S. and non-U.S. issuers, rivative instruments and certain other financial instruments. (f)				11,333		66.5
gh returns and long-term capital appreciation through investments in the wer, utility and energy industries, and in the infrastructure sector. (b)(g)(h)	6,148	3,766	0.18	4,326	5,766	0.1
alue-oriented investments in less liquid and mispriced senior and junior bts of private equity-backed companies. (b)(i)(j)	86	4,914	0.62			
otal	$ 20,998	$ 15,931		$ 29,263	$ 13,554	

(a) Represents the Company s percentage investment in the fund at each balance sheet date.
(b) Except under certain circumstances, withdrawals from the funds or any assignments are not permitted. Distributions, except income from late admission of a new limited partner, will be received when underlying investments of the funds are liquidated.
(c) Expected to have a 10-year term and the capital commitment is expected to expire on September 3, 2019.
(d) Expected to have a three-year term from the end of the capital commitment period, which is March 31, 2018.
(e) At the fund manager s discretion, the term of the fund may be extended for up to two additional one-year periods.
(f) The withdrawal was effective on February 15, 2017. As a result, the Company s investment in this limited partnership was terminated.
(g) Expected to have a 10-year term and the capital commitment is expected to expire on June 30, 2020.
(h) With the consent of a super majority of partners, the term of the fund may be extended for up to three additional one-year periods.
(i) Expected to have a six-year term from the commencement date, which can be extended for up to two additional one-year periods with the consent of either the advisory committee or a majority of limited partners.
(j) Unless extended or terminated for reasons specified in the agreement, the capital commitment is expected to expire on December 1, 2018.

The following is the aggregated summarized unaudited financial information of limited partnerships included in the investment strategy table above, which in certain cases is presented on a three-month lag due to the unavailability of information at the Company s respective balance sheet dates. In applying the equity method of accounting, the Company uses the most recently available financial information provided by the general partner of each of these partnerships. The financial statements of these limited partnerships are audited annually.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Operating results:				
Total income	$ 71,854	$ 166,374	$ 301,604	$ 143,305
Total expenses	(24,663)	(54,577)	(78,482)	(184,598)
Net income (loss)	$ 47,191	$ 111,797	$ 223,122	$ (41,293)

For the three and nine months ended September 30, 2017, the Company recognized net investment income of $392 and $1,724, respectively, for these investments. During the third quarter of 2017, the Company received in cash a return on investment totaling $428. During the nine-month period ended September 30, 2017, the Company received total cash distributions of $12,612, representing $11,758 of returned capital and $854 of return on investment. Included in the return of capital was $11,626 from one limited partnership the Company withdrew from in February 2017.

For the three and nine months ended September 30, 2016, the Company recognized net investment income of $1,119 and $54, respectively. During the three and nine months ended September 30, 2016, the Company received cash distributions of $384 and $428, respectively, of return on investment. At September 30, 2017 and December 31, 2016, the Company s cumulative contributed capital to the partnerships existing at each respective balance sheet date totaled $19,569 and $31,946, respectively, and the Company s maximum exposure to loss aggregated $20,998 and $29,263, respectively.

d) Investment in Unconsolidated Joint Venture

The Company has an equity investment in FMKT Mel JV, which is a limited liability company treated as a joint venture under U.S. GAAP. In March 2017, FMKT Mel JV sold a portion of its outparcel land for gross proceeds of $825 and recognized a $331 gain on sale of which $199 was allocated to the Company in accordance with the profit allocation specified in the operating agreement.

At September 30, 2017 and December 31, 2016, the Company s maximum exposure to loss relating to this variable interest entity was $1,664 and $2,102, respectively, representing the carrying value of the investment. At September 30, 2017, there was $0 of undistributed income from this equity method investment as compared with an undistributed loss, after an equity distribution, of $25 at December 31, 2016, the amounts of which were included in the Company s consolidated retained income.

The limited liability company members received no cash distributions during the three months ended September 30, 2017 and 2016. During the nine months ended September 30, 2017, the Company received a cash distribution of $564, representing a combined distribution of $147 in earnings and $417 in capital as compared with no cash distribution during the nine months ended September 30, 2016. The following tables provide FMKT Mel JV s summarized unaudited financial results and the unaudited financial positions:

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

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Operating results:				
Total revenues and gain	$	$ 235	$ 331	$ 949
Total expenses	(18)	(318)	(83)	(801)
Net (loss) income	$ (18)	$ (83)	$ 248	$ 148
The Company s share of net (loss) income*	$ (16)	$ (75)	$ 126	$ 153

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

	September 30, 2017	December 31, 2016
Balance Sheet:		
Construction in progress - real estate	$ 375	$ 334
Property and equipment, net	1,213	1,654
Cash	110	179
Other	180	180
Total assets	$ 1,878	$ 2,347
Accounts payable	$ 15	$ 11
Other liabilities	14	
Members capital	1,849	2,336
Total liabilities and members capital	$ 1,878	$ 2,347
Investment in unconsolidated joint venture, at equity*	$ 1,664	$ 2,102

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

e) Real Estate Investments

Real estate investments include office and retail space that is leased to tenants, wet and dry boat storage, one restaurant, and two marinas. Real estate investments consist of the following as of September 30, 2017 and December 31, 2016.

	September 30, 2017	December 31, 2016
Land	$ 20,422	$ 17,592
Land improvements	9,904	9,336
Buildings	17,742	16,154
Tenant and leasehold improvements	996	872
Construction in progress*		3,404
Other	2,911	2,683
Total, at cost	51,975	50,041
Less: accumulated depreciation and amortization	(3,014)	(1,955)
Real estate investments	$ 48,961	$ 48,086

* This project, which was developed by the Company s consolidated variable interest entity, was completed in July 2017. The costs were reclassified to land, land improvement, and building.

Depreciation and amortization expense related to real estate investments was $374 and $126 for the three months ended September 30, 2017 and 2016, respectively, and $1,062 and $314 for the nine months ended September 30, 2017 and 2016, respectively.

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f) Consolidated Variable Interest Entity

The Company has a commercial property in Riverview, Florida. The development project of this property was completed in July 2017 through a limited liability company treated under U.S. GAAP as a joint venture in which the Company s subsidiary has a controlling financial interest and, as a result, it is the primary beneficiary. The following table summarizes the assets and liabilities related to this variable interest entity which are included in the accompanying consolidated balance sheets.

	September 30, 2017		December 31, 2016	
Cash and cash equivalents	$	90	$	65
Construction in progress included in real estate investments	$		$	3,404
Real estate investments	$	4,472	$	
Other assets	$	139	$	
Accrued expenses	$	59	$	68
Other liabilities	$	42	$	11

g) Net Investment Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Available-for-sale securities:				
Fixed-maturity securities	$ 1,532	$ 1,164	$ 4,172	$ 3,394
Equity securities	790	817	2,461	2,552
Investment expense	(176)	(165)	(526)	(488)
Limited partnership investments	392	1,119	1,724	54
Real estate investments	(292)	(372)	(856)	(455)
(Loss) income from unconsolidated joint venture	(16)	(75)	126	153
Cash and cash equivalents	648	285	1,415	755
Other		12	6	35
Net investment income	$ 2,878	$ 2,785	$ 8,522	$ 6,000

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Note 5 Comprehensive Income (Loss)

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

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Before Tax	Income Tax Expense (Benefit)	Net of Tax	Before Tax	Income Tax Expense (Benefit)	Net of Tax
Unrealized gain arising during the period	$ 2,155	$ 831	$ 1,324	$ 2,234	$ 862	$ 1,372
Other-than-temporary impairment loss	474	183	291	224	86	138
Call and repayment losses charged to investment income				3	1	2
Reclassification adjustment for realized losses (gains)	226	87	139	(583)	(225)	(358)
Total other comprehensive income	$ 2,855	$ 1,101	$ 1,754	$ 1,878	$ 724	$ 1,154

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Before Tax	Income Tax Expense (Benefit)	Net of Tax	Before Tax	Income Tax Expense (Benefit)	Net of Tax
Unrealized gain arising during the period	$ 4,822	$ 1,860	$ 2,962	$ 10,290	$ 3,970	$ 6,320
Other-than-temporary impairment loss	864	333	531	1,441	556	885
Call and repayment losses charged to investment income	9	4	5	14	5	9
Reclassification adjustment for realized gains	(2,276)	(878)	(1,398)	(899)	(347)	(552)
Total other comprehensive income	$ 3,419	$ 1,319	$ 2,100	$ 10,846	$ 4,184	$ 6,662

Note 6 Fair Value Measurements

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

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

Valuation Methodology

Cash and cash equivalents

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

Available-for-sale and trading securities

Estimated fair values of the Company s available-for-sale and trading securities are determined in accordance with U.S. GAAP, using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either

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directly or indirectly, such as quoted prices for similar securities. In those instances where observable inputs are not available, fair values are measured using unobservable inputs. Unobservable inputs reflect the Company s own assumptions about the assumptions that market participants would use in pricing the security and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are significantly affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange.

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

Limited Partnership Investments

As described in Note 4 Investments under *Limited Partnership Investments*, the Company has interests in limited partnerships which are private equity funds. Pursuant to U.S. GAAP, these funds are required to use fair value accounting; therefore, the estimated fair value approximates the carrying value of these funds.

Revolving Credit Facility

The interest rate on the Company s revolving credit facility was periodically adjusted based on the London Interbank Offered Rate plus a spread. As a result, its carrying value at December 31, 2016 approximated fair value. In February 2017, this credit facility was converted into a 3.95% three-year promissory note. See Note 8 Long-Term Debt under *3.95% Promissory Note.*

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Long-term debt

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

	Maturity Date	Valuation Methodology
8% Senior Notes	*	Closing price listed on the New York Stock Exchange
3.875% Convertible Senior Notes	2019	Quoted price at September 30, 2017; Discounted cash flow method/Level 3 inputs at December 31, 2016
4.25% Convertible Senior Notes	2037	Quoted price
3.95% Promissory Note	2020	Discounted cash flow method/Level 3 inputs
4% Promissory Note	2031	Discounted cash flow method/Level 3 inputs
3.75% Promissory Note	2036	Discounted cash flow method/Level 3 inputs

* Redeemed on April 3, 2017.

Assets Measured at Estimated Fair Value on a Recurring Basis

The following table presents information about the Company s financial assets measured at estimated fair value on a recurring basis. The table indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value as of September 30, 2017 and December 31, 2016:

	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	Total
As of September 30, 2017				
Financial Assets:				
Cash and cash equivalents	$ 292,438	$	$	$ 292,438
Fixed-maturity securities:				
U.S. Treasury and U.S. government agencies	45,739	1,502		47,241
Corporate bonds	121,516	994		122,510
State, municipalities, and political subdivisions		76,940		76,940
Exchange-traded debt	9,276			9,276
Redeemable preferred stock	135			135
Total fixed-maturity securities	176,666	79,436		256,102

Equity securities	63,023			63,023
Total available-for-sale securities	239,689	79,436		319,125
Trading equity securities	1,003			1,003
Total	$ 533,130	$ 79,436	$	$ 612,566

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	Fair Value Measurements Using			
	(Level 1)	(Level 2)	(Level 3)	Total
As of December 31, 2016				
Financial Assets:				
Cash and cash equivalents	$ 280,531	$	$	$ 280,531
Fixed-maturity securities:				
U.S. Treasury and U.S. government agencies	1,939			1,939
Corporate bonds	73,519	985		74,504
State, municipalities, and political subdivisions		78,306		78,306
Exchange-traded debt	11,262			11,262
Redeemable preferred stock	237			237
Total fixed-maturity securities	86,957	79,291		166,248
Equity securities	53,035			53,035
Total available-for-sale securities	139,992	79,291		219,283
Total	$ 420,523	$ 79,291	$	$ 499,814

Assets and Liabilities Carried at Other Than Fair Value

The following tables present fair value information for assets and liabilities that are carried on the balance sheet at amounts other than fair value as of September 30, 2017 and December 31, 2016.

	Carrying	Fair Value Measurements Using			Estimated
	Value	(Level 1)	(Level 2)	(Level 3)	Fair Value
As of September 30, 2017					
Financial Assets:					
Limited partnership investments	$ 20,998	$	$	$ 20,998	$ 20,998
Financial Liabilities:					
Long-term debt:					
3.875% Convertible senior notes	$ 84,547	$	$ 88,874	$	$ 88,874
4.25% Convertible senior notes	125,581		128,656		128,656
3.95% Promissory note	9,317			9,361	9,361
4% Promissory note	8,321			8,108	8,108
3.75% Promissory note	8,545			7,984	7,984

Total long-term debt	$ 236,311	$	$ 217,530	$ 25,453	$ 242,983

	Carrying Value	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)	Estimated Fair Value
As of December 31, 2016					
Financial Assets:					
Limited partnership investments	$ 29,263	$	$	$ 29,263	$ 29,263
Financial Liabilities:					
Revolving credit facility	$ 9,463	$	$	$ 9,463	$ 9,463
Long-term debt:					
8% Senior notes	$ 39,448	$	$ 41,618	$	$ 41,618
3.875% Convertible senior notes	81,988			84,696	84,696
4% Promissory note	8,660			8,664	8,664
3.75% Promissory note	8,767			8,506	8,506
Total long-term debt	$ 138,863	$	$ 41,618	$ 101,866	$ 143,484

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Note 7 Other Assets

The following table summarizes the Company s other assets:

	September 30, 2017	December 31, 2016
Benefits receivable related to retrospective reinsurance contracts	$ 1,969	$ 5,810
Prepaid expenses	2,233	1,581
Lease acquisition costs, net	580	615
Restricted cash	709	600
Other	5,970	2,736
Total other assets	$ 11,461	$ 11,342

Note 8 Long-Term Debt

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

	September 30, 2017	December 31, 2016
8% Senior Notes, redeemed in April 2017	$	$ 40,250
3.875% Convertible Senior Notes, due March 15, 2019	89,990	89,990
4.25% Convertible Senior Notes, due March 1, 2037	143,750	
3.95% Promissory note, due through February 17, 2020	9,417	
4% Promissory note, due through February 1, 2031	8,468	8,821
3.75% Promissory note, due through September 1, 2036	8,692	8,924
Total principal amount	260,317	147,985
Less: unamortized discount and issuance costs	(24,006)	(9,122)
Total long-term debt	$ 236,311	$ 138,863

The following table summarizes future maturities of long-term debt as of September 30, 2017, which takes into consideration the assumption that the 4.25% Convertible Senior Notes are repurchased at the earliest call date.

Due in 12 months following September 30,	
2017	$ 1,039
2018	91,070
2019	9,815
2020	906
2021	144,693
Thereafter	12,794
Total	$ 260,317

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Interest Expense:				
Contractual interest	$ 2,662	$ 1,810	$ 7,766	$ 5,466
Non-cash expense (a)	1,746	862	4,623	2,646
Capitalized interest (b)			(61)	
Total	$ 4,408	$ 2,672	$ 12,328	$ 8,112

(a) Represents amortization of debt discount and issuance costs.
(b) Interest was capitalized for a construction project in Riverview, Florida which is intended for lease.

Convertible Senior Notes

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

Convertible Senior Notes	**Interest Payment Terms**
3.875% Convertible Notes, due March 15, 2019	Semiannually in arrears: March 15 and September 15
4.25% Convertible Notes, due March 1, 2037	Semiannually in arrears: March 1 and September 1

The Convertible Senior Notes rank equally in right of payment to the Company s existing and future unsecured and unsubordinated obligations. These Convertible Senior Notes do not contain any financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Company or any of its subsidiaries. The Convertible Senior Notes provide no protection to the note holders in the event of a fundamental change or other corporate transaction involving the Company except those described in each respective indenture. These Convertible Senior Notes do not require a sinking fund to be established for the purpose of redemption. In conjunction with the issuances of the Convertible Senior Notes, the Company entered into prepaid share repurchase forward contracts and share repurchase agreements providing for the repurchase of shares of the Company s common stock. See Note 14 Stockholders Equity under *Share Repurchase Agreements* and *Prepaid Share Repurchase Forward Contracts* for additional information.

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

	September 30, 2017	December 31 2016
Principal amount	$ 233,740	$ 89,990
Unamortized discount	(18,790)	(6,795)
Liability component net carrying value before issuance costs	$ 214,950	$ 83,195
Equity component conversion, net of offering costs	$ 31,051	$ 15,900

Embedded Conversion Feature

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

3.875% Convertible Notes. Since January 2015, the Company s cash dividends on common stock have exceeded $0.275 per share, resulting in adjustments to the conversion rate of the 3.875% Convertible Notes. Accordingly, as of September 30, 2017, the conversion rate of the Company s 3.875% Convertible Notes was 16.1801 shares of common stock for each $1 in principal amount, which was the equivalent of approximately $61.80 per share.

4.25% Convertible Notes. The conversion rate of the 4.25% Convertible Notes is currently 16.2635 shares of common stock for each $1 in principal amount, which is the equivalent of approximately $61.49 per share.

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

The note holders who elect to convert their Convertible Senior Notes in connection with a fundamental change as described in the indentures will be entitled to a make-whole adjustment in the form of an increase in the conversion rate. Upon conversion, the Company has options to satisfy its conversion obligation by paying or delivering cash, shares of its common stock or a combination of cash and shares of its common stock. As of September 30, 2017, none of the conditions allowing the holders of either class of the Convertible Senior Notes to convert had been met.

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

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Embedded Redemption Feature Fundamental Change

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

Embedded Redemption Feature Put Option of the Note Holder

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

The effective interest rates for the 3.875% Convertible Notes and the 4.25% Convertible Notes, taking into account both cash and non-cash components, approximate 8.3% and 7.6%, respectively. Had a 20-year term been used for the amortization of the liability component and issuance costs of the 4.25% Convertible Notes, the annual effective interest rate charged to earnings would have been decreased to approximately 5.4%. As of September 30, 2017, the remaining amortization periods of the debt discounts were expected to be 1.5 years for the 3.875% Convertible Notes and 4.4 years for the 4.25% Convertible Notes.

8% Senior Notes

On April 3, 2017, the Company redeemed its 8% publicly traded, unsecured senior notes which had unamortized debt issuance costs of $743 at par for $40,805, including accrued and unpaid interest of $555. For the nine months ended September 30, 2017, the Company recognized a loss of $743 associated with the early extinguishment of this debt. The redemption was funded by the net proceeds from the issuance of the 4.25% Convertible Senior Notes.

3.95% Promissory Note

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

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Note 9 Reinsurance

The Company cedes a portion of its homeowners insurance exposure to other entities under catastrophe excess of loss reinsurance treaties and one quota share reinsurance agreement. Under the terms of the quota share reinsurance agreement effective January 1, 2017, the Company was entitled to a 30% ceding commission on ceded premiums written. During the third quarter of 2017, the Company entered into a three-year flood catastrophe excess of loss reinsurance contract effective July 1, 2017. The reinsurance premiums under this three-year contract are generally determined on a quarterly basis based on the premiums associated with the applicable flood total insured value in force on the last day of the preceding quarter. Effective September 1, 2017, the quota share reinsurance agreement was terminated and replaced with a new quota share agreement with revised terms and conditions. Under the new agreement, the Company is also entitled to a 30% ceding commission on ceded premiums written.

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

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	**2016**	**2017**	**2016**
Premiums Written:				
Direct	$ 94,935	$ 93,282	$ 301,930	$ 308,682
Assumed	(63)	(18)	(1,184)	(377)
Gross written	94,872	93,264	300,746	308,305
Ceded	(44,704)	(29,242)	(101,528)	(105,998)
Net premiums written	$ 50,168	$ 64,022	$ 199,218	$ 202,307
Premiums Earned:				
Direct	$ 87,118	$ 92,112	$ 259,698	$ 283,011
Assumed	1,551	430	10,678	3,262
Gross earned	88,669	92,542	270,376	286,273

Ceded	(44,705)	(29,242)	(101,529)	(105,998)
Net premiums earned	$ 43,964	$ 63,300	$ 168,847	$ 180,275

During the three and nine months ended September 30, 2017, reinsurance recoveries of $213,746 and $213,751, respectively, were deducted from losses incurred. During the three and nine months ended September 30, 2016, there were no recoveries pertaining to reinsurance contracts that were deducted from losses incurred. The recoveries in 2017 were related to Hurricane Irma which

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made landfall in the Florida Peninsula and caused significant property damages across the region. At September 30, 2017 and December 31, 2016, there were 37 and 35 reinsurers, respectively, participating in the Company s reinsurance program. Amounts receivable with respect to reinsurers at September 30, 2017 and December 31, 2016 were $213,746 and $0, respectively. Included in the amounts receivable at September 30, 2017 was $7,400 related to the Company s contract with Oxbridge Reinsurance Limited, a related party. Approximately 31.3% of the reinsurance recoverable balance at September 30, 2017 was concentrated in two reinsurers. Based on the insurance ratings, the payment history and the financial strength of the reinsurers, management believes there was no significant credit risk associated with its reinsurers obligations to perform on any prepaid reinsurance contract and to fund any reinsurance recoverable balance as of September 30, 2017.

Certain of the reinsurance contracts include retrospective provisions that adjust premiums, increase the amount of future coverage, or result in a profit commission in the event losses are minimal or zero. The Company s preliminary losses related to Hurricane Irma before reinsurance recoveries are estimated to be in the range of $250,000 to $300,000. As a result, the balances of previously accrued benefits and deferred reinsurance premiums were adjusted with the changes recognized in the consolidated statement of income as additional ceded premiums. For the three and nine months ended September 30, 2017, the Company recognized net ceded premiums of $12,464 and $5,508, respectively, related to these adjustments. Included in these amounts attributable to the Company s contract with Oxbridge for the three and nine months ended September 30, 2017 were $2,415 and $903, respectively. In contrast, these adjustments were reflected as a net reduction in ceded premiums of $3,428 for the three months ended September 30, 2016, of which $594 related to the Company s contract with Oxbridge. For the nine months ended September 30, 2016, these adjustments were $9,250, of which $1,334 related to the Company s contract with Oxbridge. In June 2016, the Company received a total of $37,800 in cash benefits related to two retrospective reinsurance contracts that terminated May 31, 2016 of which $7,560 was received from Oxbridge. In September 2016, the Company received the final cash payment of $5,716 under the terms of the remaining retrospective reinsurance contract which terminated May 31, 2016.

In addition, these adjustments are reflected in other assets and prepaid reinsurance premiums. At September 30, 2017 and December 31, 2016, other assets included $1,969 and $5,810, respectively, of which $393 and $1,043 related to the contract with Oxbridge and prepaid reinsurance premiums included $484 and $2,152, respectively, of which $85 and $338 related to the contract with Oxbridge. Management believes the credit risk associated with the collectability of these accrued benefits is minimal as the amount receivable is concentrated with one reinsurer and the Company monitors the creditworthiness of this reinsurer based on available information about the reinsurer s financial position.

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Note 10 Losses and Loss Adjustment Expenses

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

The Company writes insurance in the state of Florida, which could be exposed to hurricanes or other natural catastrophes. The occurrence of a major catastrophe could have a significant effect on the Company s quarterly results and cause a temporary disruption of the normal operations of the Company. However, the Company is unable to predict the frequency or severity of any such events that may occur in the near term or thereafter.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gross balance, beginning of period	$ 73,089	$ 54,727	$ 70,492	$ 51,690
Less: reinsurance recoverable	5			
Net balance, beginning of period	73,084	54,727	70,492	51,690
Incurred, net of reinsurance, related to:				
Current period	78,337	21,283	123,710	68,703
Prior period	10,894	4,626	18,715	10,558
Total incurred, net of reinsurance	89,231	25,909	142,425	79,261
Paid, net of reinsurance, related to:				
Current period	(20,888)	(16,078)	(40,392)	(38,674)
Prior period	(10,484)	(7,363)	(41,582)	(35,082)
Total paid, net of reinsurance	(31,372)	(23,441)	(81,974)	(73,756)
Net balance, end of period	130,943	57,195	130,943	57,195
Add: reinsurance recoverable	213,729		213,729	
Gross balance, end of period	$ 344,672	$ 57,195	$ 344,672	$ 57,195

The establishment of loss reserves is an inherently uncertain process and changes in loss reserve estimates are expected as these estimates are subject to the outcome of future events. Changes in estimates, or differences between estimates and amounts ultimately paid, are reflected in the operating results of the period during which such estimates are adjusted. During the three and nine months ended September 30, 2017, the Company incurred $267,000 of estimated gross losses or $54,000 of estimated net losses related to Hurricane Irma and experienced unfavorable development of $10,894 and $18,715, respectively, of which $9,442 and $17,438, respectively, pertain to claims in the 2015 and 2016 loss years.

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Note 11 Segment Information

The Company s businesses consist of four operating divisions: property and casualty insurance, reinsurance, investment real estate and information technology. The Company s chief executive officer, who serves as the Company s chief operating decision maker, evaluates each division s financial and operating performances based on revenue and operating income. The Company aggregates its operating divisions into segments based on organizational structure and revenue source.

Due to their economic characteristics, the Company s property and casualty insurance division and reinsurance division are grouped together into one reportable segment under insurance operations. For the three months ended September 30, 2017 and 2016, revenues from the Company s insurance operations before intracompany elimination represented 96.1% and 94.8%, respectively, of total revenues of all operating segments. For the nine months ended September 30, 2017 and 2016, revenues from the Company s insurance operations before intracompany elimination represented 96.4% of total revenues of all operating segments in each of the periods. At September 30, 2017 and December 31, 2016, insurance operations total assets represented 90.7% and 87.9%, respectively, of the combined assets of all operating segments. There was no other operating division representing ten percent or more of the Company s total revenues or combined assets. In addition, there was no other operating division representing ten percent or more of the greater, in absolute amount, of the combined profits of all operating divisions reporting a profit or the combined losses of all operating divisions reporting a loss. The following tables present segment information reconciled to the Company s consolidated statements of income. Other non-reportable divisions are combined and disclosed in Corporate and Other. Intersegment transactions are not eliminated from segment results. However, intracompany transactions are eliminated in segment results below.

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Three Months Ended September 30, 2017	**Insurance Operations**	**Corporate/Other(a)**	**Reclassification/Elimination**	**Consolidated**
Revenue:				
Net premiums earned	$ 43,964	$	$	$ 43,964
Net investment income	2,563	623	(308)	2,878
Net realized and unrealized investment (losses) gains	(226)	74		(152)
Net other-than-temporary impairment losses	(464)	(10)		(474)
Policy fee income	905			905
Other	85	2,706	(2,422)	369
Total revenue	46,827	3,393	(2,730)	47,490
Expenses:				
Losses and loss adjustment expenses	89,231			89,231
Amortization of deferred policy acquisition costs	9,031			9,031
Interest expense		4,408		4,408
Depreciation and amortization	33	785	(494)	324
Other	7,155	5,595	(2,236)	10,514
Total expenses	105,450	10,788	(2,730)	113,508
Loss before income taxes	$ (58,623)	$ (7,395)	$	$ (66,018)

Three Months Ended September 30, 2016	**Insurance Operations**	**Corporate/Other(a)**	**Reclassification/Elimination**	**Consolidated**
Revenue:				
Net premiums earned	$ 63,300	$	$	$ 63,300
Net investment income	2,316	989	(520)	2,785
Net realized investment gains	532	51		583
Net other-than-temporary impairment losses	(225)	1		(224)
Policy fee income	972			972
Gain on bargain purchase		2,071		2,071
Other	106	2,001	(1,786)	321
Total revenue	67,001	5,113	(2,306)	69,808
Expenses:				
Losses and loss adjustment expenses	25,909			25,909
Amortization of deferred policy acquisition costs	9,335			9,335

Interest expense		2,672		2,672
Depreciation and amortization	31	419	(147)	303
Other	8,426	5,293	(2,159)	11,560
Total expenses	43,701	8,384	(2,306)	49,779
Income before income taxes	$ 23,300	$ (3,271)	$	$ 20,029

(a) Other revenue under corporate and other primarily consisted of rental income from investment properties and revenue from restaurant and marina businesses.

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Nine Months Ended September 30, 2017	Insurance Operations	Corporate/ Other(a)	Reclassification/ Elimination	Consolidated
Revenue:				
Net premiums earned	$ 168,847	$	$	$ 168,847
Net investment income	7,153	2,099	(730)	8,522
Net realized and unrealized investment gains	2,193	157		2,350
Net other-than-temporary impairment losses	(854)	(10)		(864)
Policy fee income	2,721			2,721
Other	428	8,063	(7,284)	1,207
Total revenue	180,488	10,309	(8,014)	182,783
Expenses:				
Losses and loss adjustment expenses	142,425			142,425
Amortization of deferred policy acquisition costs	26,668			26,668
Interest expense		12,328		12,328
Loss on repurchases of senior notes		743		743
Depreciation and amortization	94	2,227	(1,425)	896
Other	22,601	16,282	(6,589)	32,294
Total expenses	191,788	31,580	(8,014)	215,354
Loss before income taxes	$ (11,300)	$ (21,271)	$	$ (32,571)

Nine Months Ended September 30, 2016	Insurance Operations	Corporate/ Other(a)	Reclassification/ Elimination	Consolidated
Revenue:				
Net premiums earned	$ 180,275	$	$	$ 180,275
Net investment income	5,802	876	(678)	6,000
Net realized investment gains	856	43		899
Net other-than-temporary impairment losses	(1,426)	(15)		(1,441)
Policy fee income	2,967			2,967
Gain on repurchases of convertible senior notes		153		153
Gain on bargain purchase		2,071		2,071
Other	543	5,808	(5,200)	1,151
Total revenue	189,017	8,936	(5,878)	192,075
Expenses:				
Losses and loss adjustment expenses	79,261			79,261

Amortization of deferred policy acquisition costs	28,674			28,674
Interest expense		8,112		8,112
Depreciation and amortization	131	1,191	(335)	987
Other	25,159	14,470	(5,543)	34,086
Total expenses	133,225	23,773	(5,878)	151,120
Income before income taxes	$ 55,792	$ (14,837)	$	$ 40,955

(a) Other revenue under corporate and other primarily consisted of rental income from investment properties and revenue from restaurant and marina businesses.

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

	September 30, 2017	December 31, 2016
Segment:		
Insurance Operations	$ 871,601	$ 651,927
Corporate and Other	213,299	116,849
Consolidation and Elimination	(55,647)	(98,712)
Total assets	$ 1,029,253	$ 670,064

Note 12 Income Taxes

During the three months ended September 30, 2017, the Company recorded approximately $25,472 of income tax benefits, which resulted in an effective tax rate of 38.6%. During the three months ended September 30, 2016, the Company recorded approximately $8,696 of income taxes, which resulted in an effective tax rate of 43.4%. During the nine months ended September 30, 2017, the Company recorded approximately $13,587 of income tax benefits, resulting in an effective tax rate of 41.7%. During the nine months ended September 30, 2016, the Company recorded approximately $16,542 of income taxes, which resulted in an effective tax rate of 40.4%. The Company s estimated annual effective tax rate differs from the statutory federal tax rate due to state and foreign income taxes as well as certain nondeductible and tax-exempt items.

In July 2017, the Company received notice from the Internal Revenue Service stating the Company s 2015 federal income tax return would be examined. The examination is currently in the process of gathering information.

Note 13 Earnings Per Share

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

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Notes to Consolidated Financial Statements (unaudited)

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

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

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Loss (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net (loss) income	$ (40,546)			$ 11,333		
Less: Loss (income) attributable to participating securities	2,737			(557)		
Basic (Loss) Earnings Per Share:						
(Loss) income allocated to common stockholders	(37,809)	8,519	$ (4.44)	10,776	9,209	$ 1.17
Effect of Dilutive Securities:						
Stock options*					62	
Convertible senior notes*				1,028	1,447	
Diluted (Loss) Earnings Per Share:						
(Loss) income available to common stockholders and assumed conversions	$ (37,809)	8,519	$ (4.44)	$ 11,804	10,718	$ 1.10

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Loss (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net (loss) income	$ (18,984)			$ 24,413		
Less: Loss (income) attributable to participating securities	1,236			(1,158)		
Basic (Loss) Earnings Per Share:						
(Loss) income allocated to common stockholders	(17,748)	8,648	$ (2.05)	23,255	9,395	$ 2.48
Effect of Dilutive Securities:						

Stock options*					62	
Convertible senior notes*				3,206	1,507	
Diluted (Loss) Earnings Per Share:						
(Loss) income available to common stockholders and assumed conversions	$ (17,748)	8,648	$ (2.05)	$ 26,461	10,964	$ 2.41

* Excluded in 2017 due to anti-dilutive effect.

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

Note 14 Stockholders Equity

Common Stock

In December 2016, the Company s Board of Directors authorized a one-year plan to repurchase up to $20,000 of the Company s common shares before commissions and fees. During the three months ended September 30, 2017, the Company repurchased and retired a total of 124,849 shares at a weighted average price per share of $36.79 under this repurchase plan. The total cost of shares repurchased, inclusive of fees and commissions, during the three months ended September 30, 2017 was $4,599, or $36.83 per share. During the nine months ended September 30, 2017, the Company repurchased and retired a total of 163,265 shares at a weighted average price per share of $37.86 under this authorized repurchase plan. The total cost of shares repurchased, inclusive of fees and commissions, during the nine months ended September 30, 2017 was $6,189, or $37.91 per share.

In December 2015, the Company s Board of Directors authorized a one-year plan to repurchase up to $20,000 of the Company s common shares before commissions and fees. During the three months ended September 30, 2016, the Company repurchased and retired a total of 198,055 shares at a weighted average price per share of $30.29 under this repurchase plan. The total cost of shares repurchased, inclusive of fees and commissions, during the three months ended September 30, 2016 was $6,008, or $30.33 per share. During the nine months ended September 30, 2016, the Company repurchased and retired a total of 574,851 shares at a weighted average price per share of $31.31. The total cost of shares repurchased, inclusive of fees and commissions, during the nine months ended September 30, 2016 was $18,023, or $31.35 per share.

On October 19, 2017, the Company s Board of Directors declared a quarterly dividend of $0.35 per common share. The dividends are payable on December 15, 2017 to shareholders of record on November 17, 2017.

Share Repurchase Agreements

In conjunction with the issuance of the 4.25% Convertible Notes as described in Note 8 Long-Term Debt under *Convertible Senior Notes*, the Company used $20,345 of the net proceeds to repurchase and retire an aggregate of 413,600 shares of its common stock at a price of $49.19 per share from institutional investors.

Prepaid Share Repurchase Forward Contracts

The Company has two outstanding prepaid share repurchase forward contracts, one of which was entered into with Deutsche Bank AG, London Branch in conjunction with the issuance of the 3.875% Convertible Notes. The other was entered into with Societe Generale in conjunction with the issuance of the 4.25% Convertible Notes as described in Note 8 Long-Term Debt under *Convertible Senior Notes*. Both Deutsche Bank AG, London Branch and Societe Generale are considered forward counterparties. Under these forward contracts, the Company made initial upfront payments in exchange for the future deliveries of the Company s common stock from the forward counterparties. Pursuant to the forward contract entered into in December 2013 with Deutsche Bank AG, London Branch, the Company prepaid $29,923 to repurchase 622,751 shares of the Company s

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common stock, which shares will be delivered over a settlement period in 2019. Pursuant to the forward contract entered into in March 2017 with Societe Generale, the Company prepaid $9,400 of the net proceeds of the offering to repurchase 191,100 shares of the Company s common stock, which shares will be delivered over a settlement period in 2022.

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

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

Note 15 Stock-Based Compensation

Incentive Plans

The Company currently has outstanding stock-based awards granted under the 2007 Stock Option and Incentive Plan and the 2012 Omnibus Incentive Plan. Only the 2012 Plan is active and available for future grants. On March 17, 2017, the Company s board of directors amended the 2012 Omnibus Incentive Plan and reduced the number of shares reserved under the plan from 5,000,000 shares to 3,000,000 shares. At September 30, 2017, there were 1,995,107 shares available for grant.

Stock Options

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

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

A summary of the stock option activity for the three and nine months ended September 30, 2017 and 2016 is as follows (option amounts not in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2017	50,000	$ 4.02	2.3 years	$ 1,773
Granted	110,000	$ 40.00		
Outstanding at March 31, 2017	160,000	$ 28.76	7.4 years	$ 2,591
Exercised	(30,000)	$ 2.50		
Outstanding at June 30, 2017	130,000	$ 34.82	8.7 years	$ 1,675
Outstanding at September 30, 2017	130,000	$ 34.82	8.5 years	$ 639
Exercisable at September 30, 2017	20,000	$ 6.30	3.9 years	$ 639
Outstanding at January 1, 2016	110,000	$ 3.19	2.3 years	$ 3,482
Outstanding at March 31, 2016	110,000	$ 3.19	2.1 years	$ 3,312
Outstanding at June 30, 2016	110,000	$ 3.19	1.8 years	$ 2,650
Outstanding at September 30, 2016	110,000	$ 3.19	1.6 years	$ 2,989
Exercisable at September 30, 2016	110,000	$ 3.19	1.6 years	$ 2,989

The aggregate intrinsic value and realized tax benefits of the options exercised during the nine months ended September 30, 2017 were $1,319 and $509. There were no options exercised during the three and nine months ended September 30, 2016. For the three months ended September 30, 2017 and 2016, the Company recognized $79 and $0, respectively, of compensation expense. For the nine months ended September 30, 2017 and 2016, the Company recognized $228 and $0, respectively, of compensation expense which was included in other operating expenses. Deferred tax benefits related to stock options were $30 and $0 for the three months ended September 30, 2017 and 2016, respectively, and $88 and $0 for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017 and December 31, 2016, there was $1,020 and $0, respectively, of unrecognized compensation expense related to nonvested stock options. The Company expects to recognize the remaining compensation expense over a weighted-average period of 3.3 years.

The following table provides assumptions used in the Black-Scholes option-pricing model to estimate the fair value of the stock options granted during the nine months ended September 30, 2017:

Expected dividend yield	3.53%
Expected volatility	42.86%
Risk-free interest rate	1.92%
Expected life (in years)	5

Restricted Stock Awards

From time to time, the Company has granted and may grant restricted stock awards to its executive officers, other employees and nonemployee directors in connection with their service to the Company. The terms of the Company s outstanding restricted stock grants may include service,

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

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 concerning only performance or service-based conditions is based on the market value of the Company s common stock on the grant date.

Information with respect to the activity of unvested restricted stock awards during the three and nine months ended September 30, 2017 and 2016 is as follows:

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2017	542,503	$ 30.81
Granted	45,000	$ 40.15
Vested	(20,109)	$ 48.42
Forfeited	(926)	$ 35.52
Nonvested at March 31, 2017	566,468	$ 30.92
Granted	109,936	$ 44.05
Vested	(45,874)	$ 34.51
Forfeited	(9,948)	$ 40.90
Nonvested at June 30, 2017	620,582	$ 32.82
Forfeited	(12,344)	$ 32.34
Nonvested at September 30, 2017	608,238	$ 32.83
Nonvested at January 1, 2016	620,513	$ 30.33
Vested	(20,917)	$ 48.42
Cancelled	(160,000)	$ 26.27
Forfeited	(750)	$ 45.25
Nonvested at March 31, 2016	438,846	$ 30.93
Granted	102,440	$ 32.21
Vested	(24,235)	$ 37.34

Forfeited	(5,147)	$	42.20
Nonvested at June 30, 2016	511,904	$	30.77
Vested	(2,000)	$	37.68
Forfeited	(5,890)	$	36.67
Nonvested at September 30, 2016	504,014	$	30.67

The Company recognized compensation expense related to restricted stock, which is included in other operating expenses, of $1,144 and $1,124 for the three months ended September 30, 2017 and 2016, respectively, and $3,134 and $3,072 for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017 and December 31, 2016, there was approximately $10,208 and $7,531, 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 35 months. The following table summarizes information about deferred tax benefits recognized and tax benefits realized related to restricted stock awards and paid dividends, and the fair value of vested restricted stock for the three and nine months ended September 30, 2017 and 2016.

HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Deferred tax benefits recognized	$ 403	$ 434	$ 1,097	$ 1,185
Tax benefits realized for restricted stock and paid dividends	$ 49	$ 45	$ 1,232	$ 176
Fair value of vested restricted stock	$	$ 75	$ 2,557	$ 1,993

Note 16 Commitments and Contingencies

Obligations under Multi-Year Reinsurance Contracts

As of September 30, 2017, the Company has contractual obligations related to three multi-year reinsurance contracts. Two of these contracts have effective dates of June 1, 2016 and the other has an effective date of July 1, 2017. These contracts may be cancelled only with the other party s consent. The table below presents the future minimum aggregate premiums amount payable to the reinsurers.

Due in 12 months following September 30,	
2017*	$ 21,971
2018*	2,571
2019*	1,929
Total	$ 26,471

* Premiums payable after December 31, 2017 under one contract are estimated. See Note 9 Reinsurance for additional information.

Capital Commitment

As described in Note 4 Investments under *Limited Partnership Investments*, the Company is contractually committed to capital contributions for four limited partnership interests. At September 30, 2017, there was an aggregate unfunded balance of $15,931.

Note 17 Related Party Transactions

Claddaugh Casualty Insurance Company, Ltd., the Company s Bermuda domiciled reinsurance subsidiary, has a reinsurance agreement with Oxbridge Reinsurance Limited whereby a portion of the business assumed from the Company s insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc., is ceded by Claddaugh to Oxbridge. With respect to the period from June 1, 2016 through May 31, 2017, Oxbridge assumed $6,000 of the total covered exposure for approximately $3,400 in premiums. With respect to the period from June 1, 2017 through May 31, 2018, Oxbridge assumed $7,400 of the total covered exposure for approximately $3,400 in premiums. See Note 9 Reinsurance which includes the amounts due from and paid by Oxbridge during the nine months ended September 30, 2017 and 2016 with respect to benefits accrued in connection with the Oxbridge agreements. 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 a trust account to satisfy certain collateral requirements under its reinsurance contract with Claddaugh. Trust assets may be withdrawn by Claddaugh, the trust beneficiary, 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.

Note 18 Subsequent Event

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

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 February 22, 2017. Unless the context requires otherwise, as used in this Form 10-Q, the terms HCI, we, us, our, the Company, our company, and similar references refer to HCI Group, Inc., a Florida corporation incorporated in 2006, and its subsidiaries. All dollar amounts in this Management s Discussion and Analysis of Financial Condition and Results of Operations are in whole dollars unless specified otherwise.

Forward-Looking Statements

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

OVERVIEW ***General***

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

a) Insurance Operations

Property and casualty insurance

Reinsurance

b) Other Operations

Real estate

Information technology

For the three months ended September 30, 2017 and 2016, revenues from insurance operations before intracompany elimination represented 96.1% and 94.8%, respectively, of total revenues of all operating segments. For the nine months ended September 30, 2017 and 2016, revenues from insurance operations before intracompany elimination represented 96.4% of total revenues of all operating segments in each of the periods. At September 30, 2017 and December 31, 2016, insurance operations total assets represented 90.7% and 89.8%, respectively, of the combined assets of all operating segments. There was no other operating division representing ten percent or more of our total revenues or combined assets. See Note 11 Segment Information to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

<u>Insurance Operations</u>

Property and Casualty Insurance

Homeowners Choice Property & Casualty Insurance Company, Inc.

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

HCPCI began operations in 2007 by participating in a take-out program, which is a legislatively mandated program designed to encourage private insurance companies to assume policies from Citizens Property Insurance Corporation, a Florida state-supported insurer. Our growth since inception has resulted primarily from a series of policy assumptions. This growth track has been beneficial to us although there are fewer policies available for assumption today as a result of increased competition in the Florida market. Thus, we plan to seek other opportunities to expand by providing new or additional product offerings in and outside the state of Florida. During 2017, HCPCI received regulatory approval to write residential property and casualty insurance in the states of Arkansas, Maryland, New Jersey, North Carolina, Pennsylvania, South Carolina and Texas. HCPCI expects to begin writing flood policies in those states during 2018.

TypTap Insurance Company

TypTap Insurance Company was organized by HCI Group, Inc. and approved by the Florida Office of Insurance Regulation in January 2016 to transact insurance business in the state of Florida. TypTap began writing standalone flood coverage to Florida homeowners in March 2016.

We expect the flood insurance products offered by TypTap and HCPCI to become significant contributors to future financial results.

Reinsurance

We have a Bermuda domiciled wholly-owned reinsurance subsidiary, Claddaugh Casualty Insurance Company Ltd. We selectively retain risk in Claddaugh, displacing the need for HCPCI to pay premiums to third party reinsurers. Claddaugh fully collateralizes its exposure to HCPCI by depositing funds into a trust account. Claddaugh also from time to time mitigates a portion of its risk through retrocession contracts.

Other Operations

Real Estate

Our real estate operations consist of multiple properties we own and operate. Properties used in operations consist of our Tampa headquarters building and a secondary insurance operations site in Ocala, Florida. Properties held as investments include two retail shopping centers and a combined 24 acres of waterfront property where two marinas and one restaurant are located.

In July 2017, we completed one real estate development and construction project described as a joint venture arrangement under U.S. GAAP, which we consolidate with our operations. In October 2017, we added commercial real estate in Tampa, Florida to our portfolio of real estate investments. See Note 4 Investments and Note 18 Subsequent Event to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

Information Technology

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

Recent Events

On October 17, 2017, we acquired commercial real estate in Tampa, Florida for $9,215,000, including acquisition-related costs. The acquired assets primarily consisted of land, building and in-place lease agreements.

On October 19, 2017, our Board of Directors declared a quarterly dividend of $0.35 per common share. The dividends are payable on December 15, 2017 to stockholders of record on November 17, 2017.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the three and nine months ended September 30, 2017 and 2016 (dollar amounts in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue				
Gross premiums earned	$ 88,669	$ 92,542	$ 270,376	$ 286,273
Premiums ceded	(44,705)	(29,242)	(101,529)	(105,998)
Net premiums earned	43,964	63,300	168,847	180,275
Net investment income	2,878	2,785	8,522	6,000
Net realized and unrealized investment (losses) gains	(152)	583	2,350	899
Net other-than-temporary impairment losses recognized in income:				
Total other-than-temporary impairment losses	(474)	(575)	(864)	(1,211)
Portion of loss recognized in other comprehensive income, before taxes		351		(230)
Net other-than-temporary impairment losses	(474)	(224)	(864)	(1,441)
Policy fee income	905	972	2,721	2,967
Gain on repurchases of convertible senior notes				153
Gain on bargain purchase		2,071		2,071
Other income	369	321	1,207	1,151
Total revenue	47,490	69,808	182,783	192,075
Expenses				
Losses and loss adjustment expenses	89,231	25,909	142,425	79,261
Policy acquisition and other underwriting expenses	9,926	10,536	29,645	32,525
Salaries and wages	4,605	5,945	15,051	17,009
Interest expense	4,408	2,672	12,328	8,112
Loss on repurchases of senior notes			743	
Other operating expenses	5,338	4,717	15,162	14,213
Total operating expenses	113,508	49,779	215,354	151,120
(Loss) income before income taxes	(66,018)	20,029	(32,571)	40,955
Income tax (benefit) expense	(25,472)	8,696	(13,587)	16,542
Net (loss) income	$ (40,546)	$ 11,333	$ (18,984)	$ 24,413
Ratios to Net Premiums Earned:				
Loss Ratio	202.96%	40.93%	84.35%	43.97%
Expense Ratio	55.22%	37.71%	43.19%	39.86%

Combined Ratio	258.18%	78.64%	127.54%	83.83%
Ratios to Gross Premiums Earned:				
Loss Ratio	100.63%	28.00%	52.68%	27.69%
Expense Ratio	27.38%	25.79%	26.97%	25.10%
Combined Ratio	128.01%	53.79%	79.65%	52.79%
(Loss) Earnings Per Share Data:				
Basic	$ (4.44)	$ 1.17	$ (2.05)	$ 2.48
Diluted	$ (4.44)	$ 1.10	$ (2.05)	$ 2.41

Comparison of the Three Months ended September 30, 2017 with the Three Months ended September 30, 2016

Our results of operations for the three months ended September 30, 2017 reflected net losses allocable to common stockholders of approximately $40,546,000, or $4.44 loss per share, compared with net income of approximately $11,333,000, or $1.10 earnings per diluted share, for the three months ended September 30, 2016. The quarter-over-quarter decrease was primarily due to a $63,322,000 increase in losses and loss adjustment expenses, which included $54,000,000 of estimated net losses from Hurricane Irma, and a $15,463,000 increase in ceded premiums, which included $12,464,000 of adjustments to ceded premiums related to retrospective provisions. The losses in the quarter were offset by $25,472,000 of income tax benefits.

Revenue

Gross Premiums Earned for the three months ended September 30, 2017 and 2016 were approximately $88,669,000 and $92,542,000, respectively. The decrease in 2017 was attributable to policy attrition as well as a rate decrease effective on new and renewal policies beginning in January 2016.

Premiums Ceded for the three months ended September 30, 2017 and 2016 were approximately $44,705,000 and $29,242,000, respectively, representing 50.4% and 31.6%, respectively, of gross premiums earned. The $15,463,000 increase was primarily attributable to the adjustment of the previously accrued benefits and deferred reinsurance premiums related to retrospective provisions under certain reinsurance contracts due to increased losses caused by Hurricane Irma.

Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed the retention levels defined by our catastrophe excess of loss reinsurance treaties or to assume a proportional share of losses as defined by a quota share arrangement. For the three months ended September 30, 2017, premiums ceded included a net increase of approximately $12,465,000 related to the adjustment under the provisions of certain reinsurance contracts. For the three months ended September 30, 2016, premiums ceded reflected a net reduction of approximately $3,428,000 attributable to these reinsurance contract provisions. See Economic Impact of Reinsurance Contracts with Retrospective Provisions under Critical Accounting Policies and Estimates. The rates we pay for reinsurance are based primarily on policy exposures reflected in gross premiums earned.

Net Premiums Written during the three months ended September 30, 2017 and 2016 totaled approximately $50,168,000 and $64,022,000, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less any applicable reinsurance costs. The $13,854,000 decrease in 2017 resulted from the increase in premiums ceded during the period as described above. We had approximately 141,000 policies in force at September 30, 2017 as compared with approximately 145,000 policies in force at September 30, 2016.

Net Premiums Earned for the three months ended September 30, 2017 and 2016 were approximately $43,964,000 and $63,300,000, respectively, and reflect the gross premiums earned less reinsurance costs as described above.

The following is a reconciliation of our total Net Premiums Written to Net Premiums Earned for the three months ended September 30, 2017 and 2016 (amounts in thousands):

	Three Months Ended September 30,	
	2017	2016
Net Premiums Written	$ 50,168	$ 64,022
Increase in Unearned Premiums	(6,204)	(722)
Net Premiums Earned	$ 43,964	$ 63,300

Net Other-Than-Temporary Impairment Losses for the three months ended September 30, 2017 and 2016 were approximately $474,000 and $224,000, respectively. During the third quarter of 2017, we recognized impairment losses specific to four equity securities. These equity securities were impaired because each security had been in an unrealized loss position for a length of time with no near-term prospect of recovery. During the quarter ended September 30, 2016, we recognized impairment losses specific to one fixed-maturity security and four equity securities.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to approximately $89,231,000 and $25,909,000 for the three months ended September 30, 2017 and 2016, respectively. During the third quarter of 2017, our losses and loss adjustment expenses included $54,000,000 of net estimated losses related to Hurricane Irma and approximately $2,500,000 of additional losses related to Hurricane Matthew. In addition, we continued to strengthen our loss reserves in response to trends involving assignment of insurance benefits and related litigation. Our 2016 losses and loss adjustment expenses reflected initially estimated losses from Hurricane Hermine of approximately $2,500,000. 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, 2017 and 2016 of approximately $9,926,000 and $10,536,000, respectively, primarily reflect commissions and premium taxes related to the policies that have renewed. The $610,000 decrease from the corresponding period in 2016 was primarily attributable to a decrease in commissions and premium taxes resulting from policy attrition and the effect of the rate decrease.

Salaries and Wages for the three months ended September 30, 2017 and 2016 were approximately $4,605,000 and $5,945,000, respectively. The decrease from the corresponding period in 2016 was primarily attributable to the capitalization of approximately $418,000 of payroll costs related to a software development project for internal use and lower bonuses for senior management. As of September 30, 2017, we had approximately 250 employees located at our offices in Florida compared with 243 employees as of September 30, 2016. We also had 81 employees located in Noida, India at September 30, 2017 versus 80 at September 30, 2016.

Interest Expense for the three months ended September 30, 2017 and 2016 was approximately $4,408,000 and $2,672,000, respectively. The increase was primarily attributable to the net increase in long-term debt resulting from the issuance of 4.25% Convertible Senior Notes in March 2017 and the redemption of 8% Senior Notes in April 2017.

Income Tax Benefit for the three months ended September 30, 2017 was approximately $25,472,000 for state, federal, and foreign income taxes resulting in an effective tax rate of 38.6%. This compared with approximately $8,696,000 of income tax expense for the three months ended September 30, 2016, resulting in an effective tax rate of 43.4%.

Ratios:

The loss ratio applicable to the three months ended September 30, 2017 (losses and loss adjustment expenses incurred related to net premiums earned) was 203.0% compared with 40.9% for the three months ended September 30, 2016. The increase in 2017 was attributable to losses related to Hurricane Irma and decreased net premiums earned.

The expense ratio applicable to the three months ended September 30, 2017 (defined as underwriting expenses, salaries and wages, interest and other operating expenses related to net premiums earned) was 55.2% compared with 37.7% for the three months ended September 30, 2016.

The combined ratio (total of all expenses in relation to net premiums earned) is the measure of overall underwriting profitability before other income. Our combined ratio for the three months ended September 30, 2017 was 258.2% compared with 78.6% for the three months ended September 30, 2016.

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, 2017 was 128.0% compared with 53.8% for the three months ended September 30, 2016. The increase was primarily attributable to the combined impact of decreased gross premiums earned, increased operating expenses and losses from Hurricane Irma.

Comparison of the Nine Months ended September 30, 2017 with the Nine Months ended September 30, 2016

Our results of operations for the nine months ended September 30, 2017 reflect net losses allocable to common stockholders of approximately $18,984,000, or $2.05 loss per share, compared with net income of approximately $24,413,000, or $2.41 earnings per diluted share, for the nine months ended September 30, 2016. The period-over-period decrease was primarily due to net estimated losses of approximately $54,000,000 resulting from Hurricane Irma.

Revenue

Gross Premiums Earned for the nine months ended September 30, 2017 and 2016 were approximately $270,376,000 and $286,273,000, respectively. The decrease in 2017 was attributable to policy attrition as well as a rate decrease effective on new and renewal policies beginning in January 2016.

Premiums Ceded for the nine months ended September 30, 2017 and 2016 were approximately $101,529,000 and $105,998,000, respectively, representing 37.6% and 37.0%, respectively, of gross premiums earned. The percentage increase from the corresponding period in 2016 was primarily attributable to the adjustments related to the retrospective provisions under certain reinsurance contracts offset in part by lower reinsurance costs as described earlier. For the nine months ended September 30, 2017, premiums ceded included a net increase of approximately $5,509,000 related to these provisions. For the nine months ended September 30, 2016, premiums ceded reflected a net reduction of approximately $9,250,000. See Economic Impact of Reinsurance Contracts with Retrospective Provisions under Critical Accounting Policies and Estimates.

Net Premiums Written for the nine months ended September 30, 2017 and 2016 totaled approximately $199,218,000 and $202,307,000, respectively. The decrease in 2017 resulted from a decrease of approximately $7,600,000 in gross premiums written combined with a decrease of approximately $4,500,000 in premiums ceded during the year.

Net Premiums Earned for the nine months ended September 30, 2017 and 2016 were approximately $168,847,000 and $180,275,000, respectively, and reflected gross premiums earned less reinsurance costs as described above.

The following is a reconciliation of our total Net Premiums Written to Net Premiums Earned for the nine months ended September 30, 2017 and 2016 (amounts in thousands):

	Nine Months Ended September 30,	
	2017	**2016**
Net Premiums Written	$ 199,218	$ 202,307
Increase in Unearned Premiums	(30,371)	(22,032)
Net Premiums Earned	$ 168,847	$ 180,275

Net Investment Income for the nine months ended September 30, 2017 and 2016 was approximately $8,522,000 and $6,000,000, respectively. The increase in 2017 was primarily due to $1,724,000 of income from limited partnership investments compared with $54,000 of income during the corresponding period in 2016. See Note 4 Investments under *Net Investment Income* to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

Net Other-Than-Temporary Impairment Losses for the nine months ended September 30, 2017 and 2016 were approximately $864,000 and $1,441,000, respectively. During the nine months ended September 30, 2017, we recognized impairment losses specific to two fixed-maturity securities and five equity securities. The fixed-maturity securities were subject to impairment resulting from our intention to sell these securities before their recovery. Five equity securities were impaired as a result of the length of time each security had been in an unrealized loss position with no near-term prospect of recovery. During the nine months ended September 30, 2016, we recognized impairment losses specific to two fixed-maturity securities and 16 equity securities.

Gain on Repurchases of Convertible Senior Notes for the nine months ended September 30, 2016 was approximately $153,000. The gain was attributable to the repurchase of $13,010,000 in principal of our 3.875% Convertible Senior Notes during the first quarter of 2016.

Gain on bargain purchase for the nine months ended September 30, 2016 was approximately $2,071,000, resulting from the August 2016 acquisition of one real estate business.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to approximately $142,425,000 and $79,261,000, respectively, for the nine months ended September 30, 2017 and 2016. Our 2017 losses and loss adjustment expenses included a net initial estimate of $54,000,000 of losses related to Hurricane Irma and additional losses of approximately $2,500,000 related to Hurricane Matthew. In addition, our losses and loss adjustment expenses reflected the continuation of reserve strengthening

in response to trends involving assignment of insurance benefits and related litigation. Compared with the corresponding period in 2016, our losses and loss adjustment expenses were impacted by weather-related events including Hurricane Hermine. 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, 2017 and 2016 were approximately $29,645,000 and $32,525,000, respectively. The $2,880,000 decrease from the corresponding period in 2016 was primarily attributable to decreased commissions and premium taxes resulting from policy attrition and the effect of the rate decrease.

Salaries and Wages for the nine months ended September 30, 2017 and 2016 were approximately $15,051,000 and $17,009,000, respectively. The $1,958,000 decrease from the corresponding period in 2016 was primarily attributable to the capitalization of approximately $1,360,000 of payroll costs related to a software development project for internal use and lower bonuses for senior management.

Loss on repurchases of Senior Notes for the nine months ended September 30, 2017 was approximately $743,000, resulting from the early extinguishment of our 8% Senior Notes. See Note 8 Long-Term Debt under 8% Senior Notes to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

Income Tax Benefit for the nine months ended September 30, 2017 was $13,587,000 for state, federal, and foreign income taxes compared with income tax expense of $16,542,000 for the nine months ended September 30, 2016, resulting in an effective tax rate of 41.7% for 2017 and 40.4% for 2016.

<u>Ratios:</u>

The loss ratio applicable to the nine months ended September 30, 2017 was 84.3% compared with 44.0% for the nine months ended June 30, 2016. The increase was primarily due to the increase in losses and loss adjustment expenses described above combined with the decrease in net premiums earned which was driven in large part by the increase in ceded premiums due to the aforementioned adjustments.

The expense ratio applicable to the nine months ended September 30, 2017 was 43.2% compared with 39.8% for the nine months ended September 30, 2016. The increase in our expense ratio is primarily attributable to the decrease in net premiums earned as described above.

The combined ratio is the measure of overall underwriting profitability before other income. Our combined ratio for the nine months ended September 30, 2017 was 127.5% compared with 83.8% for the nine months ended September 30, 2016.

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, 2017 was 79.7% compared with 52.8% for the nine months ended September 30, 2016.

Seasonality of Our Business

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

Senior Notes and Promissory Note

The following table summarizes our long-term debt s principal and interest payment obligations at September 30, 2017:

	Maturity Date	Interest Payment Due Date
3.875% Convertible Senior Notes	March 2019	March 15 and September 15
4.25% Convertible Senior Notes	March 2037	March 1 and September 1
4% Promissory Note	Through February 2031	1st day of each month
3.75% Callable Promissory Note	Through September 2036	1st day of each month
3.95% Promissory Note	Through February 2020	17th of each month

See Note 8 Long-Term Debt to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

Limited Partnership Investments

Our limited partnership investments consist of four private equity funds managed by their general partners. These funds have unexpired capital commitments which are callable at the discretion of the fund s general partner for funding new investments or expenses of the fund. At September 30, 2017, there was an aggregate unfunded capital balance of $15,931,000. See *Limited Partnership Investments* under Note 4 Investments to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q for additional information.

Share Repurchase Plan

In December 2016, our Board of Directors approved a one-year plan to repurchase up to $20,000,000 of common shares under which we may purchase shares of common stock in open market purchases, block transactions and privately negotiated transactions in accordance with applicable federal securities laws. At September 30, 2017, there was approximately $13,818,000 available under the plan. See Note 14 Stockholders Equity to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

Real Estate Development and Acquisition

We may contemplate the acquisition of land for future development through one of our existing joint ventures. Although we have no outstanding commitment to fund any future project and we expect to finance future development projects with cash from real estate operations and through property financings, we may be required to make additional capital contributions when warranted.

In October 2017, we used approximately $9,215,000, including acquisition-related costs, to purchase commercial real estate in Tampa, Florida. In addition, we completed our development project in Riverview, Florida in July 2017. We have the option to acquire the joint venture partner s interest in this project.

Sources and Uses of Cash

Cash Flows for the Nine months ended September 30, 2017

Net cash provided by operating activities for the nine months ended September 30, 2017 was approximately $51,393,000, which consisted primarily of cash received from net premiums written less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash used in investing activities of $90,959,000 was primarily due to the purchases of available-for-sale and trading securities of $141,277,000, the limited partnership investments of $2,623,000, and the real estate investments of $2,095,000, offset by the proceeds from sales of available-for-sale securities of $35,367,000, the distributions of $11,758,000 from limited partnership investments and the redemptions and repayments of fixed-maturity securities of $8,786,000. Net cash provided by financing activities totaled $51,442,000, which was primarily due to the proceeds from issuance of 4.25% Convertible Senior Notes of $143,750,000, offset by $40,250,000 used in the repurchases of our 8% senior notes, $4,975,000 of related underwriting and issuance costs, $36,825,000 used in our share repurchases and $9,724,000 of net cash dividend payments.

Cash Flows for the Nine months ended September 30, 2016

Net cash provided by operating activities for the nine months ended September 30, 2016 was approximately $91,893,000, which consisted primarily of cash received from net premiums written less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash used in investing activities of $46,875,000 was primarily due to the purchases of available-for-sale securities of $92,491,000, and the limited partnership investments of $4,670,000, offset by the proceeds from sales of available-for-sale securities of $51,570,000. Net cash used in financing activities totaled $20,868,000, which was primarily due to $11,347,000 used in the repurchases of our convertible senior notes, $18,023,000 used in our share repurchase plan and $8,807,000 of net cash dividend payments, offset by $18,200,000 in aggregate proceeds from the issuance of two promissory notes.

Investments

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

At September 30, 2017, we had $320,128,000 of available-for-sale and trading 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 $10,000,000 in any one bank at any time. From time to time, we may have in excess of $10,000,000 of cash designated for investment and on deposit at a single national brokerage firm. In the future, we may alter our investment policy as to investments in federal, state and municipal obligations, preferred and common equity securities and real estate mortgages, as permitted by applicable law, including insurance regulations.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2017, we had unexpired capital commitments for four limited partnerships in which we hold interests. Such commitments are not recognized in the financial statements but are required to be disclosed in the notes to the financial statements. See Note 16 Commitments and Contingencies to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q and Contractual Obligations and Commitment below for additional information.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes our material contractual obligations and commitments as of September 30, 2017 (amounts in thousands):

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease (1)	$ 614	147	279	188	
Service agreement (1)	107	23	50	34	
Reinsurance contracts (2)	26,471	21,971	2,571	1,929	
Unfunded capital commitments (3)	15,931	15,931			
Long-term debt obligations (4)	300,645	12,163	116,816	155,828	15,838
Total	$ 343,768	50,235	119,716	157,979	15,838

(1) Represents the lease for office space in Miami, Florida and the lease and maintenance service agreement for office space in Noida, India. Liabilities related to our India operations were converted from Indian rupees to U.S. dollars using the October 2, 2017 exchange rate.

(2) Represents the minimum payment of reinsurance premiums under multi-year reinsurance contracts. Reinsurance premiums payable after December 31, 2017 under one contract are estimated and subject to subsequent revision as the premiums are determined on a quarterly basis based on the premiums associated with the applicable flood total insured value on the last day of the preceding quarter.

(3) Represents the unfunded balance of capital commitments under the subscription agreements related to four limited partnerships in which we hold an interest.

(4) Amounts represent principal and interest payments over the lives of various long-term debt obligations. See Note 8 Long-Term Debt to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We believe our critical accounting policies and estimates are those related to losses and loss adjustment expenses, amounts receivable with respect to reinsurers, 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, reinsurance recoverable balance and reinsurance contracts with retrospective provisions.

<u>Reserves for Losses and Loss Adjustment Expenses</u>

Our gross liability for losses and loss adjustment expense (Reserves) is specific to property insurance, which is our insurance division s only line of business. The Reserves include both case reserves on reported claims and our reserves for incurred but not reported (IBNR) losses. At each

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period end date, the balance of our Reserves is based on our best estimate of the ultimate cost of each claim for those known cases and the IBNR loss reserves are estimated based primarily on our historical experience. Changes in the estimated liability are charged or credited to operations as the losses and loss adjustment expenses are adjusted.

The IBNR represents our estimate of the ultimate cost of all claims that have occurred but have not been reported to us, and in some cases may not yet be known to the insured, and future development of reported claims. Estimating the IBNR component of our Reserves involves considerable judgment on the part of management. At September 30, 2017, $213,825,000 of the total $344,672,000 we have reserved for losses and loss adjustment expenses is attributable to our estimate of IBNR. The remaining $130,847,000 relates to known cases which have been reported but not yet fully settled in which case we have established a reserve based on currently available information and our best estimate of the cost to settle each claim. At September 30, 2017, $16,688,000 of the $130,847,000 in reserves for known cases relates to claims incurred during prior years.

Our Reserves increased from $70,492,000 at December 31, 2016 to $344,672,000 at September 30, 2017. The $274,180,000 increase in our Reserves is comprised of $297,047,000 in reserves related to claims occurring in the 2017 loss year offset by reductions in our Reserves of $13,765,000 for 2016 and $9,102,000 for 2015 and prior loss years. The $297,047,000 in Reserves established for 2017 claims is primarily driven by losses from Hurricane Irma, an allowance for subsequent development of claims reported for the accident year, and an allowance for those claims that have been incurred but not reported to the company as of September 30, 2017. The decrease of $22,867,000 specific to our 2016 and prior loss-year reserves is primarily due to settlement of claims related to those loss years.

Based on all information known to us, we consider our Reserves at September 30, 2017 to be adequate to cover our claims for losses that have occurred as of that date including losses yet to be reported to us. However, these estimates are continually reviewed by management as they are subject to significant variability and may be impacted by trends in claim severity and frequency or unusual exposures that have not yet been identified. As part of the process, we review historical data and consider various factors, including known and anticipated regulatory and legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data becomes available, these estimates are revised, as required, resulting in increases or decreases to the existing unpaid losses and loss adjustment expenses. Adjustments are reflected in the results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

Reinsurance Recoverable Balance

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

Economic Impact of Reinsurance Contracts with Retrospective Provisions

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

As described in Note 9 Reinsurance to our unaudited consolidated financial statements under Item 1 of this Quarterly Report on Form 10-Q, we adjusted the balances of accrued benefits and deferred reinsurance premiums during the third quarter of 2017 due to the impact of Hurricane Irma. For the three months ended September 30, 2017, we derecognized $9,300,000 of net accrued benefits. For the three months ended September 30, 2017, we recognized $3,163,000 in ceded premiums, including the reversal of the majority of reinsurance costs deferred in prior periods. In contrast, for the three months ended September 30, 2016, we accrued benefits of $2,490,000. For the three months ended September 30, 2016, we deferred recognition of $937,000 in ceded premiums. In combination, for the three months ended September 30, 2017, we recognized a net increase in ceded premiums of $12,464,000 as opposed to a net reduction in ceded premiums of $3,428,000 for the three months ended September 30, 2016.

For the nine months ended September 30, 2017, we derecognized $3,841,000 of net accrued benefits. For the nine months ended September 30, 2017, we recognized ceded premiums of $1,667,000, including the reversal of the majority of previously deferred reinsurance costs. By comparison, we accrued benefits of $11,120,000 for the nine months ended September 30, 2016. For the nine months ended September 30, 2016, we recognized net ceded premiums of $1,871,000, representing amortization of $3,085,000 of previously deferred reinsurance costs for increased coverage offset by $1,214,000 of ceded premiums deferred for the period. In combination, for the nine months ended September 30, 2017, we recognized a net increase in ceded premiums of $5,508,000 as opposed to a net reduction in ceded premiums of $9,250,000 for the nine months ended September 30, 2016. In June 2016, we received cash totaling $37,800,000 in connection with the benefits accrued for two retrospective reinsurance contracts that were terminated effective May 31, 2016. In September 2016, we received a cash payment of $5,716,000 under the terms of one retrospective reinsurance contract which terminated May 31, 2016.

As of September 30, 2017, we had $1,969,000 of accrued benefits and $484,000 of ceded premiums deferred, amounts that would be charged to earnings in the event we experience a catastrophic loss that exceeds the coverage limits provided under such agreements and in the period that the increased coverage is applicable. At December 31, 2016, we had $5,810,000 of accrued benefits and $2,152,000 of ceded premiums deferred related to these agreements.

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

The above and other accounting estimates and their related risks that we consider to be our critical accounting estimates are more fully described in our Annual Report on Form 10-K, which we filed with the SEC on February 22, 2017. For the nine months ended September 30, 2017, there have been no material changes with respect to any of our critical accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

Our investment portfolio at September 30, 2017 included fixed-maturity and equity securities, the primary purposes of which are for value preservation. Our main objective is to maximize after-tax investment income and maintain sufficient liquidity to meet our obligations while minimizing market risk, which is the potential economic loss from adverse fluctuations in securities prices. We consider many factors including credit ratings, investment concentrations, regulatory requirements, anticipated fluctuation of interest rates, durations and market conditions in developing investment strategies. Our investment securities are managed primarily by outside investment advisors and are overseen by the investment committee appointed by our board of directors.

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

We classify fixed-maturity securities and the majority of 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, 2017 (amounts in thousands):

Hypothetical Change in Interest Rates	Estimated Fair Value	Change in Estimated Fair Value	Percentage Increase (Decrease) in Estimated Fair Value
300 basis point increase	$ 232,088	$ (24,014)	(9.38)%
200 basis point increase	240,087	(16,015)	(6.25)%
100 basis point increase	248,092	(8,010)	(3.13)%
100 basis point decrease	264,115	8,013	3.13%
200 basis point decrease	271,506	15,404	6.02%
300 basis point decrease	275,881	19,779	7.72%

Credit Risk

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

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The following table presents the composition of our fixed-maturity securities, by rating, at September 30, 2017 (amounts in thousands):

Comparable Rating	Amortized Cost	% of Total Amortized Cost	Estimated Fair Value	% of Total Estimated Fair Value
AAA	$ 2,521	1	$ 2,527	1
AA+, AA, AA-	70,830	28	71,256	28
A+, A, A-	93,220	37	93,630	37
BBB+, BBB, BBB-	57,523	23	59,024	23
BB+, BB, BB-	9,446	4	9,647	4
B+, B, B-	6,133	2	6,130	2
CCC+, CC and Not rated	13,489	5	13,888	5
Total	$ 253,162	100	$ 256,102	100

Equity Price Risk

Our equity investment portfolio at September 30, 2017 included common stocks, perpetual preferred stocks, mutual funds and exchange traded funds. We may incur losses due to adverse changes in equity security prices. We manage the risk primarily through industry and issuer diversification and asset mix.

The following table illustrates the composition of our equity securities at September 30, 2017 (amounts in thousands):

	Estimated Fair Value	% of Total Estimated Fair Value
Stocks by sector:		
Financial	$ 26,121	41
Industrial	5,378	8
Consumer	4,996	8
Energy	3,281	5
Other (1)	6,467	10
	46,243	72
Mutual funds and Exchange traded funds by type:		
Debt	16,840	27
Equity	943	1
	17,783	28
Total	$ 64,026	100

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

Foreign Currency Exchange Risk

At September 30, 2017, we did not have any material exposure to foreign currency related risk.

ITEM 4 *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our chief executive officer (our principal executive officer) and our chief financial officer (our principal financial 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, 2017 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 February 22, 2017.

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

(a) Sales of Unregistered Securities and Use of Proceeds

All information related to sales of unregistered securities had been reported in a current report on Form 8-K.

(b) Repurchases of Securities

The table below summarizes the number of common shares repurchased during the three months ended September 30, 2017 under a share repurchase plan (dollar amounts in thousands, except share and per share amounts):

For the Month Ended	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)	Maximum Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (b)
July 31, 2017	895	$ 44.53	895	$ 18,371
August 31, 2017	38,530	$ 40.31	38,530	$ 16,818
September 30, 2017	85,424	$ 35.12	85,424	$ 13,818
	124,849	$ 36.79	124,849	

(a) The share repurchase plan approved by our Board of Directors on December 15, 2016 commenced in January 2017.

(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 subsidiaries, however, are subject to restrictions on the dividends they may pay. Those restrictions could impact HCI s ability to pay future dividends.

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

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

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net operating profits and realized net capital gains derived during the immediately preceding calendar year, (2) the insurer will have policy holder capital surplus equal to or exceeding 115.0% of the minimum required statutory capital surplus after the dividend or distribution, (3) the insurer files a notice of the dividend or distribution with the Florida Office of Insurance Regulation at least ten business days prior to the dividend payment or distribution and (4) the notice includes a certification by an officer of the insurer attesting that, after the payment of the dividend or distribution, the insurer will have at least 115% of required statutory capital surplus as to policyholders. Except as provided above, a Florida domiciled insurer may only pay a dividend or make a distribution (1) subject to prior approval by the Florida Office of Insurance Regulation or (2) 30 days after the Florida Office of Insurance Regulation has received notice of such dividend or distribution and has not disapproved it within such time.

During the nine months ended September 30, 2017, HCPCI paid a $18,000,000 dividend to HCI.

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

None.

ITEM 4 ***MINE SAFETY DISCLOSURES***

None.

ITEM 5 ***OTHER INFORMATION***

None.

ITEM 6 ***EXHIBITS***

The following documents are filed as part of this report:

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

4.7.1	Amendment, dated as of April 18, 2017, to the Rights Agreement, by and between the Company and American Stock Transfer & Trust Company, LLC, dated as of October 18, 2013. Incorporated by reference to Exhibit 4.1 to our Form 8-K filed April 24, 2017.
4.8	Indenture, dated December 11, 2013, between HCI Group, Inc. and The Bank of New York Mellon Trust Company, N.A. (including Global Note). Incorporated by reference to Exhibit 4.1 to our Form 8-K filed December 12, 2013.
4.9	See Exhibits 3.1, 3.1.1 and 3.2 of this report for provisions of the Articles of Incorporation, as amended, and our Bylaws, as amended, defining certain rights of security holders.
4.10	Indenture, dated March 3, 2017, between HCI Group, Inc. and The Bank of New York Mellon Trust Company, N.A. Incorporated by reference to Exhibit 4.1 of our Form 8-K filed March 3, 2017.
4.11	Form of Global 4.25% Convertible Senior Note due 2037 (included in Exhibit 4.1). Incorporated by reference to Exhibit 4.1 of our Form 8-K filed March 3, 2017.
10.1	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, 2016 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 3, 2016.
10.4	Reimbursement Contract effective June 1, 2017 between Homeowners Choice Property & Casualty Insurance Company and the State Board of Administration which administers the Florida Hurricane Catastrophe Fund. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
10.5**	Restated HCI Group, Inc. 2012 Omnibus Incentive Plan. Incorporated by reference to Exhibit 99.1 of our Form 8-K filed March 23, 2017.

10.6**	HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) 2007 Stock Option and Incentive Plan. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 29, 2008.
10.7**	Executive Employment Agreement dated November 23, 2016 between Mark Harmsworth and HCI Group, Inc. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
10.8	Working Layer Catastrophe Excess of Loss Reinsurance Contract, effective: June 1, 2016, issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (National Fire). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 3, 2016.
10.9	Working Layer Catastrophe Excess of Loss Reinsurance Contract, effective June 1, 2016, issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers (Claddaugh). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 3, 2016.
10.10	Working Layer Catastrophe Excess of Loss Specific Retrocession Contract effective June 1, 2016 issued to Claddaugh Casualty Insurance Company Ltd. 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 3, 2016.
10.11	Property Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2016, 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 3, 2016.
10.12	Property Catastrophe First Excess of Loss Specific Retrocession Contract effective June 1, 2016 issued to Claddaugh Casualty Insurance Company Ltd. 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 3, 2016.

10.13	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2016 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 3, 2016.
10.14	Property Catastrophe Third Excess of Loss Reinsurance Contract effective June 1, 2016 issued to 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 3, 2016.
10.15	Property Catastrophe First Excess of Loss Reinsurance Contract effective June 1, 2016 issued to 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 3, 2016.
10.16	Working Layer Catastrophe Excess of Loss Specific Retrocession Contract effective June 1, 2017 issued to Claddaugh Casualty Insurance Company Ltd. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
10.17	Property Catastrophe Excess of Loss Reinsurance Contract effective June 1, 2017 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding number exhibit to our Form 10-Q filed August 3, 2017.
10.18	Property Catastrophe Second Event Excess of Loss Reinsurance Contract effective June 1, 2017 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
10.19	Reinstatement Premium Protection Reinsurance Contract effective June 1, 2017 issued to Homeowners Choice Property & Casualty Insurance Company, Inc. by subscribing reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.

10.23	Assumption Agreement effective October 15, 2014 by and between Homeowners Choice Property & Casualty Insurance Company, Inc. and Citizens Property Insurance Corporation. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed January 28, 2015.
10.28**	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.
10.34**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 400,000 shares of restricted common stock to Paresh Patel. Incorporated by reference to Exhibit 10.34 of our Form 8-K filed May 21, 2013. See Exhibit 10.90
10.35**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Sanjay Madhu. Incorporated by reference to Exhibit 10.35 of our Form 8-K filed May 21, 2013. See Exhibit 10.91
10.36**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to George Apostolou. Incorporated by reference to Exhibit 10.36 of our Form 8-K filed May 21, 2013. See Exhibit 10.92
10.37**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Harish Patel. Incorporated by reference to Exhibit 10.37 of our Form 8-K filed May 21, 2013. See Exhibit 10.93
10.38**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Gregory Politis. Incorporated by reference to Exhibit 10.38 of our Form 8-K filed May 21, 2013. See Exhibit 10.94
10.39**	Restricted Stock Agreement dated May 16, 2013 whereby HCI Group, Inc. (formerly known as Homeowners Choice, Inc.) issued 24,000 shares of restricted common stock to Anthony Saravanos. Incorporated by reference to Exhibit 10.39 of our Form 8-K filed May 21, 2013. See Exhibit 10.95

10.40**	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. See Exhibit 10.96
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. See Exhibit 10.97
10.54**	Restricted Stock Agreement dated November 12, 2013 whereby HCI Group, Inc. issued 24,000 shares of restricted common stock to James J. Macchiarola. Incorporated by reference to Exhibit 10.12 of our Form 8-K filed November 13, 2013. See Exhibit 10.98
10.56	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.
10.58	Purchase Agreement, dated February 28, 2017, by and between HCI Group, Inc. and JMP Securities LLC and SunTrust Robinson Humphrey, Inc., as representatives of the several initial purchasers named therein. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed February 28, 2017.
10.59	Prepaid Forward Contract, dated February 28, 2017 and effective as of March 3, 2017, between HCI Group, Inc. and Societe Generale. Incorporated by reference to Exhibit 10.1 of our Form 8-K filed March 3, 2017.
10.88**	Nonqualified Stock Option Agreement between Paresh Patel and HCI Group, Inc. dated January 7, 2017. Incorporated by reference to exhibit 99.2 to our Form 8-K filed January 11, 2017.
10.89**	Employment Agreement between Paresh Patel and HCI Group, Inc. dated December 30, 2016. Incorporated by reference to the exhibit numbered 99.1 to our Form 8-K filed December 30, 2016.

10.90**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Paresh Patel and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.91**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Sanjay Madhu and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.92**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between George Apostolou and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.93**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Harish Patel and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.94**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Gregory Politis and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.95**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Anthony Saravanos and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.96**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Martin Traber and HCI Group, Inc. dated May 16, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.97**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Wayne Burks and HCI Group, Inc. dated November 12, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.98**	Amendment dated March 2, 2016 to Restricted Stock Award Contract between Jim Macchiarola and HCI Group, Inc. dated November 12, 2013. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 4, 2016.
10.99**	Restricted Stock Award Contract between Paresh Patel and HCI Group, Inc. dated January 7, 2017. Incorporated by reference to exhibit 99.1 to our Form 8-K filed January 11, 2017.

10.100**	Restricted Stock Award Contract between Mark Harmsworth and HCI Group, Inc. dated December 5, 2016. Incorporated by reference to the corresponding numbered exhibit to our Form 10-Q filed August 3, 2017.
31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C.ss.1350
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

** Management contract or compensatory plan.

SIGNATURES

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

	HCI GROUP, INC.
November 3, 2017	By: /s/ Paresh Patel Paresh Patel Chief Executive Officer (Principal Executive Officer)
November 3, 2017	By: /s/ James Mark Harmsworth James Mark Harmsworth Chief Financial Officer (Principal Financial and Accounting Officer)

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