HCI Group, Inc.
Form 10-K
March 10, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2014

OR

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

Commission File Number

001-34126

HCI Group, Inc.

(Exact name of Registrant as specified in its charter)

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

5300 West Cypress Street, Suite 100

Tampa, FL 33607

(Address, including zip code of principal executive offices)

(813) 849-9500

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, no par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange
8.00% Senior Notes due 2020	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2014, computed by reference to the price at which the common stock was last sold on June 30, 2014, was $379,970,934.

The number of shares outstanding of the registrant s common stock, no par value, on March 2, 2015 was 10,761,107.

DOCUMENTS INCORPORATED BY REFERENCE

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

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HCI GROUP, INC. AND SUBSIDIARIES

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PART I

ITEM 1 *Business*

General

HCI Group, Inc. is a Florida-based company owning subsidiaries primarily engaged in the property and casualty insurance business. HCI was incorporated in 2006. References to we, our, us, the Company, or HCI in this Form generally refer to HCI Group, Inc. and its subsidiaries. Our principal executive offices are located at 5300 West Cypress Street, Suite 100, Tampa, Florida 33607, and our telephone number is (813) 849-9500.

Over the years, we have broadened and diversified our business portfolio through acquisitions to include information technologies and investment real estate. Based on the organizational structure, revenue sources, and evaluation of financial and operating performances by management, we manage our operations under one business segment, which includes the following operations:

a) Insurance Operations

- *Property and casualty insurance*
- *Reinsurance*

b) Other Operations

- *Information technology*
- *Real estate*

Insurance Operations

Property and Casualty Insurance

Our principal operating subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc. (HCPCI), was incorporated and began operations in 2007. Through HCPCI, we currently provide property and casualty insurance to homeowners, condominium owners and tenants residing in Florida. HCPCI s operations are supported by certain of HCI s wholly owned subsidiaries as well as HCI Group, Inc.:

- Homeowners Choice Managers, Inc. acts as managing general agent and provides marketing, underwriting, claims settlement, accounting and financial services to HCPCI; and

Southern Administration, Inc. provides policy administration services to HCPCI.

HCPCI began operations by participating in a take-out program through which we assumed insurance policies held by Citizens Property Insurance Corporation (Citizens), a Florida state-supported insurer. The take-out program is a legislatively mandated program designed to reduce the State s risk exposure by encouraging private companies to assume policies from Citizens. We have assumed policies in eleven separate transactions, which took place from July 2007 through December 2014 and included the most recent assumption of primarily wind-only policies in December 2014. In addition, we completed a transaction with HomeWise Insurance Company (HomeWise) in November 2011 through which we acquired its Florida policies. Substantially all of our premium revenue since inception has come from the policies acquired in these assumption transactions and subsequent renewals. Through the Citizens assumptions and HomeWise policies, we have increased our geographic diversification within the state of Florida. Following the December 2014 assumption, we have approximately 175,000 policies in force and approximately $435 million in annualized gross premiums.

Citizens has historically required us to offer renewals on the policies we acquire in the take-out program for a period of three years subsequent to the initial expiration of the assumed policies. The policyholders have the option to renew with us or they may place their coverage with another insurance company. Policyholders also have the option to opt out of the assumption and return to Citizens. With respect to our November 2013 and December 2014 assumptions, the opt-out provision was limited to the thirty-day period preceding and following the assumption date. We strive to retain these policies by offering competitive rates and exceptional service to our policyholders. We may selectively pursue additional assumption transactions with Citizens in the future.

We face various challenges to implementing our operating and growth strategies. Since we currently write policies that cover Florida homeowners, condominium owners, and tenants, we cover losses that may arise from, among other things, catastrophes, which could have a significant effect on our business, results of operations, and financial condition. To mitigate our risk of such catastrophic losses, we cede a portion of our exposure to reinsurers under contracts called catastrophe excess of loss reinsurance and quota share treaties. Even without catastrophic events, we may incur losses and loss adjustment expenses that deviate substantially from our estimates and that may exceed our reserves, in which case our net income and capital would decrease. Our operating and growth strategies may also be impacted by regulation of our business by the State of Florida, which must approve our policy forms and premium rates as well as monitor HCPCI s compliance with financial and regulatory requirements. Additionally, we may compete with large, well-established insurance companies, possessing greater financial resources, larger agency networks, and greater name recognition. See Item 1A, Risk Factors, below.

In addition, HCPCI began writing flood coverage in January 2014 in response to the demand for an alternative to the Federal National Flood Insurance Program for Florida homeowners. The flood coverage is offered on a limited basis as a policy endorsement to eligible new and pre-existing Florida customers who are likely most impacted by the significant rate increases that may result from the Biggert-Waters Flood Insurance Reform and Modernization Act of 2012.

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We seek opportunities to enter the property and casualty insurance market and establish our presence in other states. In August 2013, our subsidiary, Homeowners Choice Assurance Company, Inc., was approved and licensed by the Alabama Department of Insurance.

Competition

We operate in highly competitive markets where we face competition from national, regional and residual market insurance companies. We believe that we have approximately 20 significant competitors writing homeowners property and casualty insurance in the state of Florida. Since beginning business in 2007, we have grown our business to become the third largest provider of homeowners property and casualty insurance in the state of Florida based on September 30, 2014 annualized premiums written data from the Florida Office of Insurance Regulation.

Many of our competitors have larger financial capacities, greater resource availability, and more diversification in terms of insurance coverage. Our competitors include companies which market their products through agents, as well as companies which sell insurance directly to their customers. Large national insurers may have certain competitive advantages such as increased name recognition, increased loyalty of their customer base, and reduced policy acquisition costs. We may also face competition from new or temporary entrants in our niche markets. In some cases, such entrants may, because of inexperience, desire for new business, or other reasons, price their insurance products below ours. Although our pricing is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our best interest to compete solely on price.

Our competitive strategies focus on the following key areas:

- <u>Exceptional service</u> We are committed to maintaining superior service to our policyholders and agents.

- <u>Claims settlement practices</u> We focus on fair and timely settlement of policyholder claims.

- <u>Disciplined underwriting</u> We analyze exposures and utilize available underwriting data to ensure policies meet our selective criteria.

- <u>Effective and efficient use of technology</u> We strive to add or improve technology that can effectively and efficiently enhance service to our policyholders and agents. For instance, we currently use our internally developed application, *Exzeo*, to increase the efficiency of our claims processing and settlement.

- <u>New product offerings</u> In addition to our flood-endorsed policies and wind-only program, we may cross-sell additional insurance products to our existing policyholders in order to broaden our lines of business and product mix or identify other lines of insurance to offer.

Geographical expansion   We continue to seek opportunities to expand our business within the state of Florida and perhaps into other states to increase overall geographic diversification.

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Seasonality of Our Business

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

Government Regulation

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

- authorized lines of business;
- capital and surplus requirements;
- approval of allowable rates and forms;
- approval of reinsurance contracts;
- investment parameters;
- underwriting limitations;
- transactions with affiliates;
- dividend limitations;
- changes in control; and
- market conduct.

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

Regulatory Uncertainty

Certain states including Florida have adopted laws or are considering proposed legislation which, among other things, limits the ability of insurance companies to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies. The Florida legislature continuously considers bills affecting the Florida residential property insurance market. Current law penalizes insurers for noncompliance with the insurance code, establishes a private cause of action relating to claims payment practices, extends the notice period applicable to non-renewals of certain residential policies, prevents non-renewals and cancellation except for material misrepresentation and non-payment of premium and establishes procedures governing rate filings. Any changes in such laws and regulations could materially and adversely affect our operations or our ability to expand.

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State Licensure and Approval

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

Statutory Reporting and Examination

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. The National Association of Insurance Commissioners mandates that all insurance companies be examined once every five years. However, the FLOIR has the authority to conduct an examination of HCPCI whenever it is deemed appropriate. HCPCI s latest FLOIR financial examination related to the year ended December 31, 2010.

Liability for Losses and Loss Adjustment Expenses

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

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

For a discussion and summary of the activity in the liability for losses and LAE for the years ended December 31, 2014, 2013 and 2012, see Note 11 Losses and Loss Adjustment Expenses to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

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Loss Development

Our liability for losses and LAE represent estimated costs ultimately required to settle all claims for a given period. The following table illustrates development of the estimated liability for losses and LAE for the years 2007 (inception) through 2014 (amounts in thousands):

Schedule of Loss Development

	Years Ended December 31,							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Original liability for losses and LAE[1]	$ 1,688	$ 14,763	$ 19,178	$ 22,146	$ 27,424	$ 41,168	$ 43,686	$ 48,908
Re-estimated losses and LAE[2] as of:								
1 year later	1,412	10,879	18,399	26,776	27,309	38,712	47,344	
2 years later	1,236	10,991	19,866	26,003	28,536	40,015		
3 years later	1,268	11,661	19,361	27,226	28,499			
4 years later	1,327	11,528	19,617	26,544				
5 years later	1,330	11,424	18,969					
6 years later	1,330	11,361						
7 years later	1,330							
Cumulative redundancy (deficiency)[3]	358	3,402	209	(4,398)	(1,075)	1,153	(3,658)	
Cumulative amount of liability paid as of:								
1 year later	760	7,725	10,481	16,833	15,652	22,365	26,595	
2 years later	1,108	9,229	15,336	20,708	21,707	31,824		
3 years later	1,108	10,339	17,065	23,732	25,350			
4 years later	1,327	10,947	17,992	25,063				
5 years later	1,330	11,121	18,375					
6 years later	1,330	11,167						
7 years later	1,330							
Gross premiums earned	$ 9,546	$ 61,925	$ 110,011	$ 119,757	$ 143,606	$ 233,607	$ 337,113	$ 365,488

1 Represents management s original estimated liability for (i) unpaid claims, (ii) IBNR, and (iii) loss adjustment expenses.

2 Represents the re-estimated liabilities in later years for unpaid claims, IBNR and loss adjustment expenses for each of the respective years.

3 Represents the difference between the latest re-estimate and the original estimate. A redundancy indicates the original estimate is higher than the current estimate whereas a deficiency indicates the original estimate is lower than the current estimate.

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For the years ended December 31, 2014, 2013 and 2012, revenues from property and casualty insurance operations represented 96.1%, 95.0% and 93.0%, respectively, of total revenues of all operating segments. As a result, our property and casualty insurance operations are our only reportable operating segment.

Reinsurance

We have a Bermuda domiciled wholly owned reinsurance subsidiary, Claddaugh Casualty Insurance Company Ltd., which participates in HCPCI s reinsurance program and uses cash as collateral for its loss exposure.

Other Operations

Information Technology

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

Exzeo™

Exzeo is a cloud application available at Exzeo.com that provides automation and intelligence across multiple business processes. The product offers a highly customizable environment for businesses to integrate existing applications and develop new ones to address their unique business needs.

Proplet™

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

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Atlas Viewer

Atlas Viewer is our new interactive cloud-based data mapping and visualization platform. *Atlas Viewer* allows users to upload, view and securely share data feeds on a customized map. *Atlas Viewer*, an industry agnostic data visualization product, allows users to combine data from multiple sources and leverage location coordinates to make more informed business decisions. *Atlas Viewer* is offered as a subscription-based service.

Real Estate

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

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

In June 2014, we entered into an Acquisition, Development and Construction loan arrangement (ADC Arrangement) under which it agreed to provide financing for up to a maximum of $9.8 million for the acquisition, development and construction of a retail shopping center and appurtenant facilities. Greenleaf Capital has an option to purchase the property when the construction project is completed contingent upon tenant rental commitments for at least 90% of rentable space being secured by the developer. We believe this opportunity will enable us to grow our real estate portfolio and diversify our future sources of income. See Note 4 Investments under *ADC Arrangement* to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K for additional information.

In September 2014, we entered into a joint venture agreement with FMKT Sponsor, LLC. The joint venture plans to acquire land and construct a retail shopping center for lease or for sale in Melbourne, Florida. See *Investment in Joint Venture* under Note 4 Investments to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K for additional information.

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Financial Highlights

The following table summarizes our financial performance during the years ended December 31, 2014, 2013 and 2012:

(Amounts in millions except per share amounts)

	2014	2013	2012
For the year ended December 31:			
Net premium earned	$ 252.1	$ 234.2	$ 157.7
Total revenue	$ 266.1	$ 241.1	$ 163.1
Losses and loss adjustment expenses	$ 79.5	$ 65.1	$ 66.3
Income before income taxes	$ 101.0	$ 106.5	$ 49.6
Net income	$ 62.7	$ 65.6	$ 30.2
Income available to common stockholders	$ 62.7	$ 65.5	$ 29.8
Earnings per share of common stock:			
Basic	$ 5.90	$ 5.82	$ 3.45
Diluted	$ 5.36	$ 5.63	$ 3.02
Dividends per common share	$ 1.10	$ 0.95	$ 0.88
Net cash provided by operating activities	$ 88.7	$ 55.5	$ 106.3
Cash dividends paid on common stock	$ 11.7	$ 10.8	$ 8.1
At December 31:			
Total investments	$ 168.8	$ 146.0	$ 60.9
Cash and cash equivalents	$ 314.7	$ 293.4	$ 230.2
Total assets	$ 602.2	$ 526.0	$ 338.3
Total stockholders equity	$ 182.6	$ 160.5	$ 121.3
Common shares outstanding (in millions)	10.2	10.9	10.9

Environmental Matters

Our subsidiaries that own waterfront property, including marina facilities, are subject to regulation under various federal, state, and local laws concerning the environment, including laws addressing the discharge of pollutants into the air and water and the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites.

Employees

As of February 20, 2015, we employed approximately 200 full-time individuals working primarily from our corporate offices in Florida and approximately 80 employees located in India. In addition, our real estate operations have approximately 70 employees leased through professional employer organizations.

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Available Information

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

ITEM 1A ***Risk Factors***

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

Although we plan to enter the insurance market in other states, our insurance business is currently in Florida only. Thus, any single catastrophic event or other condition affecting losses in Florida could adversely affect our financial condition and results of operations.

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

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

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

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

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

Our operations are highly dependent on the efforts of our senior executive officers, particularly our chief executive officer, Paresh Patel, as well as our chief financial officer, Richard Allen, and HCPCI s president, Scott Wallace. The loss of their leadership, industry knowledge and experience could negatively impact our operations. However, we have management succession plans to lessen any such negative impact. With the exception of Mr. Patel, Mr. Allen and Mr. Wallace, we have no employment agreements with any of our personnel nor do we offer any guarantee of any employee s ongoing service. We maintain key-man life insurance on Mr. Patel although such policy may be insufficient to cover us for the damage resulting to our company from the loss of Mr. Patel s services.

Our information technology systems may fail or suffer a loss of security, which could adversely affect our business.

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

The development and expansion of our insurance business is dependent upon the successful development and implementation of advanced computer and data processing systems. Because HCPCI intends to expand its writing of voluntary policies, we are enhancing our information technology systems to handle and process an increased volume of voluntary policies. The failure of these systems to function as planned could slow our growth and adversely affect our future business volume and results of operations.

In addition, a security breach of our computer systems could damage our reputation or result in liability. We retain confidential business and policyholder information in our computer systems. We may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. It is critical that these facilities and infrastructure remain secure. Despite the implementation of security measures, this infrastructure may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, we could be subject to liability if hackers were able to penetrate our network security or otherwise misappropriate confidential information.

We conduct our business primarily from offices located in Tampa, Florida where tropical storms could damage our facilities or interrupt our power supply. The loss or significant impairment of functionality in these facilities for any reason could have a material, adverse effect on our business although we believe we have sufficient redundancies to replace our facilities if functionality is impaired. We contract with a third party vendor to maintain complete daily backups of our systems, which are stored at the vendor s facility in Atlanta, Georgia. Access to these databases is strictly controlled and limited to authorized personnel. In the event of a disaster causing a complete loss of functionality at our Tampa location, we plan to use temporarily the secondary office in Ocala, Florida to continue our operations.

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

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

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

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

- an influx of new capital in the marketplace as existing companies attempt to expand their businesses and new companies attempt to enter the insurance business as a result of better pricing and/or terms;
- new programs or changes to existing programs in which federally or state-sponsored entities provide property insurance in catastrophe-prone areas or other alternative markets;
- changes in Florida or any other states regulatory climate; and
- the enactment of federal proposals for an optional federal charter that would allow some competing insurers to operate under regulations different or less stringent than those applicable to our insurance subsidiaries.

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

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

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

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

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

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

We rely on our claims personnel to accurately evaluate and pay the claims made under our policies. Many factors could affect our ability to accurately evaluate and pay claims, including the accuracy of our external independent adjusters as they make their assessments and submit their estimates of damages; the training, background, and experience of our claims representatives; the ability of our claims personnel to ensure consistent claims handling given the input by our external

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independent adjusters; the ability of our claims department to translate the information provided by our external independent adjusters into acceptable claims settlements; and the ability of our claims personnel to maintain and update our claims handling procedures and systems as they evolve over time based on claims and geographical trends in claims reporting. Any failure to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our corporate image and negatively affect our financial results.

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

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

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

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

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

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

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

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

Limited markets for and restrictions on certain holdings in our investment portfolio.

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

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

A portion of our income is, and likely will continue to be, generated by the investment of our available cash. The amount of income so generated is a function of our investment policy, available investment opportunities, and the amount of available cash invested. We may alter our investment policy to accept higher levels of risk with the expectation of higher returns. Fluctuating interest rates and other economic factors make it impossible to estimate accurately the amount of investment income that will be realized. In fact, we may realize losses on our investments.

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

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

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

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

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

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

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

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

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

- engaging in vigorous underwriting;
- carefully evaluating terms and conditions of our policies;
- focusing on our risk aggregations by geographic zones and other bases; and
- ceding insurance risk to reinsurance companies.

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

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

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

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

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

Although voluntary policies comprise a small percentage of our business, we expect to increase the number of voluntary policies we write as our business expands. An inability to sell our products through independent agents would negatively affect our revenues.

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

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

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

- the availability of sufficient reliable data;
- the uncertainties that inherently characterize estimates and assumptions;
- our selection and application of appropriate rating and pricing techniques;
- changes in legal standards, claim settlement practices, and restoration costs; and
- legislatively imposed consumer initiatives.

In addition, we could underprice risks, which would negatively affect our profit margins. We could also overprice risks, which could reduce our retention, sales volume and competitiveness. In any event, our profitability could be materially and adversely affected.

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

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

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

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

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

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

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

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

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

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

- the content and timing of required notices and other policyholder information;
- the amount of premiums the insurer may write in relation to its surplus;
- the amount and nature of reinsurance a company is required to purchase;
- participation in guaranty funds and other statutorily created markets or organizations;
- business operations and claims practices;
- approval of policy forms and premium rates;
- standards of solvency, including risk-based capital measurements;
- licensing of insurers and their products;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the ability of insurance company subsidiaries to pay dividends to insurance holding companies;
- restrictions on transactions between insurance companies and their affiliates;
- restrictions on the size of risks insurable under a single policy;

requiring deposits for the benefit of policyholders;

requiring certain methods of accounting;

periodic examinations of our operations and finances;

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

the level of reserves.

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

HCPCI is subject to assessments levied by the Florida Insurance Guaranty Association, Inc. While we can recover these assessments from policyholders through policy surcharges, our payment of the assessments and our recoveries may not offset each other in the same reporting period in our financial statements and may cause a material, adverse effect on our results of operations in a particular reporting period.

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

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

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

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

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

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

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

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

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Unintended consequences of the anti-takeover provisions of our shareholder rights agreement.

Our shareholder rights agreement is intended to deter coercive or unfair takeover tactics and to protect our shareholders interests by encouraging anyone seeking control of our company to negotiate with our board of directors. However, these rights may discourage, delay or prevent a tender offer or takeover attempt, including offers or attempts that could be beneficial to our shareholders. In addition, the rights agreement may deter investors from participating in any future equity offerings we propose.

ITEM 1B ***Unresolved Staff Comments***

Not applicable.

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ITEM 2 *Properties*

Real Estate Owned and Used in Operations

Tampa, Florida. The real estate consists of 3.5 acres of land, a building with gross area of 122,000 square feet, and a four-level parking garage. This facility is used by us and our U.S. subsidiaries and serves as our headquarters. In addition, we lease an aggregate of approximately 42,500 square feet to non-affiliates.

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

Investment Real Estate

Treasure Island, Florida. The real estate consists of approximately 10 acres of waterfront property and land improvements, a restaurant and a marina facility. The marina facility and the restaurant are currently operated by us.

Tierra Verde, Florida. The real estate consists of 7.1 acres of waterfront property, a dry rack storage building with gross area of 57,500 square feet, and three buildings with retail space having an aggregate gross area of 28,893 square feet. This marina facility is operated by us. Approximately 49% of the available retail space is leased to non-affiliates.

Leased Property

Noida, India. We lease 15,000 square feet of office space for our information technology operations. The lease commenced January 15, 2013 and has an initial term of nine years. We are permitted to terminate the lease after the 36-month period following the commencement date by providing 3 months written notice to the landlord.

Rental expense under all facility leases was $222,000, $248,000 and $527,000 during the years ended December 31, 2014, 2013 and 2012, respectively. The 2012 expense included $179,000 related to our former corporate headquarters.

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ITEM 3 *Legal Proceedings*

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

ITEM 4 *Mine Safety Disclosures*

Not applicable.

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PART II

ITEM 5 ***Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Markets for Common Stock

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

	Common Stock Price	
	High	**Low**
Calendar Quarter - 2014		
First Quarter	$ 52.07	35.92
Second Quarter	$ 41.41	34.24
Third Quarter	$ 43.35	35.99
Fourth Quarter	$ 50.84	35.36
Calendar Quarter - 2013		
First Quarter	$ 27.25	20.16
Second Quarter	$ 35.21	24.66
Third Quarter	$ 41.66	29.99
Fourth Quarter	$ 53.50	37.79

Holders

As of February 27, 2015, the market price for our common stock was $47.32 and there were 21 holders of record of our common stock.

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Dividends

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

Declaration Date	Payment Date	Date of Record	Per Share Amount
1/22/2013	3/15/2013	2/15/2013	$ 0.225
4/8/2013	6/21/2013	5/17/2013	$ 0.225
7/16/2013	9/20/2013	8/16/2013	$ 0.225
10/18/2013	12/20/2013	11/15/2013	$ 0.275
1/27/2014	3/21/2014	2/21/2014	$ 0.275
3/17/2014	6/20/2014	5/16/2014	$ 0.275
6/26/2014	9/19/2014	8/15/2014	$ 0.275
10/21/2014	12/19/2014	11/21/2014	$ 0.275

Under Florida law, a domestic insurer such as HCPCI may not pay any dividend or distribute cash or other property to its stockholders unless certain requirements, which are discussed in Note 19 Regulatory Requirements and Restrictions to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K, are met.

In the first quarter of 2015, we increased cash dividends on our common stock from 27.5 cents per share to 30 cents per share, although we are not obligated to do so and may discontinue cash dividends or change the cash-dividend rate on our common stock at any time and for any reason.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plans as of December 31, 2014. We currently have no equity compensation plans not approved by our stockholders.

Plan Category	**(a) Number of Securities To be Issued Upon Exercise of Outstanding Options**	**(b) Weighted-Average Exercise Price of Outstanding Options**	**(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))**
Equity Compensation Plans Approved by Stockholders	230,000	$ 3.00	4,246,470

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Performance Graph

The following graph compares the 5-year cumulative total dollar return to shareholders on our common stock relative to the cumulative total returns of the Russell 2000 Index and the NASDAQ Insurance Index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each index on December 31, 2008 and its relative performance is tracked through December 31, 2014. The returns shown are based on historical results and are not intended to suggest future performance.

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Recent Sales of Unregistered Securities

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

Issuer Purchases of Equity Securities

The table below summarizes the number of common shares repurchased under a share repurchase plan and also the number of shares of common stock surrendered by employees to satisfy their minimum federal income tax liability associated with the vesting of restricted shares during the three months ended December 31, 2014 (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)	Approximate Dollar Value of Shares That May Yet Be Purchased Under The Plans or Programs (b)
October 31, 2014	81,020	$ 39.83	81,020	$ 8,972
November 30, 2014	153,949	$ 42.05	153,402	$ 2,526
December 31, 2014	21,355	$ 40.31	21,355	$ 1,666
	256,324	$ 41.20	255,777	

(a) In March 2014, our Board of Directors approved a one-year plan to repurchase up to $40 million of common shares. See Note 14 Stockholders Equity to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

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

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ITEM 6 ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes appearing in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2014, 2013, and 2012 and the consolidated balance sheet data at December 31, 2014 and 2013 are derived from our audited consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. The consolidated statements of income data for the years ended December 31, 2011 and 2010, and the consolidated balance sheet data at December 31, 2012, 2011, and 2010, are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

	As of or for the Years Ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(Dollar amounts in thousands, except per share amounts)				
Operating Revenue					
Gross premiums earned	$ 365,488	$ 337,113	$ 233,607	$ 143,606	$ 119,757
Premiums ceded	(113,423)	(102,865)	(75,939)	(55,525)	(57,322)
Net premiums earned	252,065	234,248	157,668	88,081	62,435
Net investment income	4,781	1,469	980	2,061	1,962
Policy fee income	2,820	3,098	2,538	1,438	1,464
Net realized investment gains	4,735	80	276	290	2,003
Gain on bargain purchase			179	936	
Other income	1,707	2,193	1,424	1,003	751
Total operating revenue	266,108	241,088	163,065	93,809	68,615
Operating Expenses					
Losses and loss adjustment expenses	79,468	65,123	66,310	48,243	37,667
Policy acquisition and other underwriting expenses	37,952	31,619	25,930	18,129	14,878
Salaries and wages	16,483	14,714	10,545	4,916	3,066
Interest expense	10,453	3,607			
Goodwill impairment loss			161		
Other operating expenses	20,790	19,572	10,539	6,116	4,418
Total operating expenses	165,146	134,635	113,485	77,404	60,029
Income before income taxes	100,962	106,453	49,580	16,405	8,586
Income tax expense	38,298	40,891	19,423	6,441	3,164
Net income	$ 62,664	$ 65,562	$ 30,157	$ 9,964	$ 5,422
Preferred stock dividends	4	(104)	(322)	(815)	

Income available to common stockholders	$ 62,668	$ 65,458	$ 29,835	$ 9,149	$ 5,422
Per Share Data:					
Basic earnings per common share	$ 5.90	$ 5.82	$ 3.45	$ 1.49	$ 0.88
Diluted earnings per common share	$ 5.36	$ 5.63	$ 3.02	$ 1.34	$ 0.81
Dividends per common share	$ 1.10	$ 0.95	$ 0.88	$ 0.53	$ 0.30
Ratios to Net Premium Earned:					
Loss Ratio	31.53%	27.80%	42.06%	54.77%	60.33%
Expense Ratio	33.99%	29.67%	29.92%	33.11%	35.82%
Combined Ratio	65.52%	57.47%	71.98%	87.88%	96.15%
Ratios to Gross Premiums Earned:					
Loss Ratio	21.74%	19.32%	28.39%	33.59%	31.45%
Expense Ratio	23.45%	20.62%	20.19%	20.31%	18.67%
Combined Ratio	45.19%	39.94%	48.58%	53.90%	50.12%
Consolidated Balance Sheet Data:					
Total investments	$ 168,799	$ 146,028	$ 60,916	$ 58,759	$ 43,481
Total cash and cash equivalents	$ 314,716	$ 293,398	$ 230,214	$ 100,355	$ 54,849
Total assets	$ 602,210	$ 526,316	$ 338,288	$ 214,818	$ 140,948
Total stockholders equity	$ 182,585	$ 160,521	$ 121,253	$ 63,830	$ 46,629

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

The following discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report on Form 10-K. All dollar amounts, except per share amounts, stated in this Management s Discussion and Analysis of Financial Condition and Results of Operations are in thousands unless specified otherwise.

Forward-Looking Statements

In addition to historical information, this annual report on Form 10-K 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. The important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include but are not limited to the effect of governmental regulation; changes in insurance regulations; the frequency and extent of claims; uncertainties inherent in reserve estimates; catastrophic events; a change in the demand for, pricing of, availability of or collectability of reinsurance; restrictions on our ability to change premium rates; increased rate pressure on premiums; and other risks and uncertainties and other factors listed under Item 1A - Risk Factors and elsewhere in this annual report on Form 10-K and in our other Securities and Exchange Commission filings.

OVERVIEW

General

HCI Group, Inc. is a Florida-based holding company primarily providing property and casualty insurance to homeowners, condominium owners, and tenants in the state of Florida through its subsidiaries. We offer insurance products at competitive rates, while pursuing profitability using selective underwriting criteria.

We began operations in 2007 by participating in a take-out program which is a legislatively mandated program designed to encourage private companies to assume policies from Citizens, a Florida state sponsored insurance carrier. Our growth since inception has resulted primarily from a series of policy assumptions from Citizens and one assumption transaction with HomeWise Insurance Company. This growth track has been beneficial to us in terms of reduced policy acquisition costs and, depending on the timing of the transaction, temporarily lower reinsurance costs. Even though expanding our policyholder base through opportunistic assumptions may continue to be a part of our growth plan, we will also seek opportunities to expand and to provide new product offerings such as our flood product, which we began offering as an endorsement in January 2014, and our wind-only policies, which we assumed from Citizens in December 2014.

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Recent Developments

On January 19, 2015, our Board of Directors declared a quarterly dividend of $0.30 per common share. The dividends will be paid March 20, 2015 to stockholders of record on February 20, 2015.

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2014 to the Year Ended December 31, 2013

Our results of operations for the year ended December 31, 2014 reflect income available to common stockholders of $62,668, or $5.36 earnings per diluted common share, compared with income available to common stockholders of $65,458, or $5.63 earnings per diluted common share, for the year ended December 31, 2013.

Revenue

Gross Premiums Earned for the years ended December 31, 2014 and 2013 were $365,488 and $337,113, respectively. The increase in 2014 was primarily attributable to revenue from the Citizens assumptions completed in November 2013 and December 2014.

Premiums Ceded for the years ended December 31, 2014 and 2013 were $113,423 and $102,865, respectively. Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed the retention levels defined by our catastrophe excess of loss reinsurance treaties. During the years ended December 31, 2014 and 2013, premiums ceded reflect net reductions of $23,543 and $12,521, respectively, that relate to certain provisions under certain reinsurance contracts. See Economic Impact of Reinsurance Contracts with Retrospective Provisions under Critical Accounting Policies and Estimates. Our reinsurance rates are based primarily on policy exposures reflected in gross premiums earned. Premiums ceded were 31.0% and 30.5% of gross premiums earned during the years ended December 31, 2014 and 2013, respectively.

Net Premiums Written during the years ended December 31, 2014 and 2013 totaled $294,230 and $251,906, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less any applicable reinsurance costs.

Net Premiums Earned for the years ended December 31, 2014 and 2013 were $252,065 and $234,248, respectively, and reflect the gross premiums earned less reinsurance costs as described above.

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The following is a reconciliation of our total Net Premiums Written to Net Premiums Earned for the years ended December 31, 2014 and 2013:

	Years Ended December 31,	
	2014	**2013**
Net Premiums Written	$ 294,230	$ 251,906
Increase in Unearned Premiums	(42,165)	(17,658)
Net Premiums Earned	$ 252,065	$ 234,248

Net Investment Income for the years ended December 31, 2014 and 2013 was $4,781 and $1,469, respectively. The increase in 2014 is primarily due to the increase in late 2013 in our investments in available-for-sale securities that comprise the majority of our investment portfolio and the change in the mix of our available-for-sale investments during 2014. See Note 4 Investments under *Net Investment Income (Loss)* to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Policy Fee Income for the years ended December 31, 2014 and 2013 was $2,820 and $3,098, respectively. The decrease in 2014 is primarily due to the change in the fourth quarter of 2013 in the method of recognizing policy fees, which are recognized ratably over the policy coverage period.

Net Realized Investment Gains for the years ended December 31, 2014 and 2013 was $4,735 and $80, respectively. The increase in 2014 is due to sales of fixed-maturity securities primarily in the third quarter of 2014.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to $79,468 and $65,123, respectively, during the years ended December 31, 2014 and 2013. See Reserves for Losses and Loss Adjustment Expenses under Critical Accounting Policies and Estimates.

Policy Acquisition and Other Underwriting Expenses for the years ended December 31, 2014 and 2013 were $37,952 and $31,619, respectively, and primarily reflect the amortization of deferred acquisition costs, commissions payable to agents for production and renewal of policies, and premium taxes and brokerage fees. The increase in 2014 is primarily attributable to commissions and premium taxes related to the policies assumed from Citizens in 2013 that have renewed and are included in 2014 direct written premiums.

Salaries and Wages for the years ended December 31, 2014 and 2013 were $16,483 and $14,714, respectively. The $1,769 increase in 2014 was primarily attributable to an increase in employee headcount. As of December 31, 2014, we had 200 employees located at our headquarters in Florida compared with 177 employees as of December 31, 2013. We also had 79 employees located in Noida, India at December 31, 2014 versus 67 at December 31, 2013.

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Interest Expense for the years ended December 31, 2014 and 2013 were $10,453 and $3,607, respectively. The increase in 2014 was primarily the result of the 3.875% convertible debt offering completed in December 2013.

Other Operating Expenses for the years ended December 31, 2014 and 2013 were $20,790 and $19,572, respectively. The $1,218 increase in 2014 was primarily attributable to a $3,383 increase in stock-based compensation and employee benefit expenses offset by a decrease in other general expenses such as professional service fees, director fees, and charitable contributions.

Income Tax Expense for the years ended December 31, 2014 and 2013 was $38,298 and $40,891, respectively, for state, federal and foreign income taxes resulting in an effective tax rate of 37.9% for 2014 and 38.4% for 2013.

Ratios:

The loss ratio applicable to the year ended December 31, 2014 (losses and loss adjustment expenses related to net premiums earned) was 31.5% compared with 27.8% for the year ended December 31, 2013. (See *Gross Premiums Earned* and *Losses and Loss Adjustment Expenses* above).

The expense ratio applicable to the year ended December 31, 2014 (defined as underwriting expenses, salaries and wages, interest and other operating expenses related to net premiums earned) was 34.0% compared with 29.7% for the year ended December 31, 2013. The increase in our expense ratio is primarily attributable to the increase in 2014 specific to interest expense and compensation and related costs.

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 year ended December 31, 2014 was 65.5% compared with 57.5% for the year ended December 31, 2013. Our combined ratio was negatively impacted by an increase in interest expense and compensation and related costs and, also, the increase in 2014 in our losses and loss adjustment expenses.

Due to the impact our reinsurance costs have on net premiums earned from period to period, our management believes the combined ratio measured to gross premiums earned is more relevant in assessing overall performance. The combined ratio to gross premiums earned for the year ended December 31, 2014 was 45.2% compared with 39.9% for the year ended December 31, 2013.

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Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012

Our results of operations for the year ended December 31, 2013 reflect income available to common stockholders of $65,458, or $5.63 earnings per diluted common share, compared with income available to common stockholders of $29,835, or $3.02 earnings per diluted common share, for the year ended December 31, 2012.

Revenue

Gross Premiums Earned for the years ended December 31, 2013 and 2012 were $337,113 and $233,607, respectively, and primarily reflect the revenue from policies acquired from HomeWise and Citizens and subsequent renewals. The increase in 2013 was primarily attributable to revenue from the Citizens assumptions completed in November 2013 and 2012.

Premiums Ceded for the years ended December 31, 2013 and 2012 were $102,865 and $75,939, respectively. Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed the retention levels defined by our catastrophe excess of loss reinsurance treaties. During the year ended December 31, 2013, premiums ceded reflect a net reduction of $12,521 related to the provisions under certain reinsurance contracts. Our reinsurance rates are based primarily on policy exposures reflected in gross premiums earned. Premiums ceded were 30.5% and 32.5% of gross premiums earned during the years ended December 31, 2013 and 2012, respectively.

Net Premiums Written during the years ended December 31, 2013 and 2012 totaled $251,906 and $203,240, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less any applicable reinsurance costs.

Net Premiums Earned for the years ended December 31, 2013 and 2012 were $234,248 and $157,668, 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 years ended December 31, 2013 and 2012:

	Years Ended December 31,	
	2013	**2012**
Net Premiums Written	$ 251,906	$ 203,240
Increase in Unearned Premiums	(17,658)	(45,572)
Net Premiums Earned	$ 234,248	$ 157,668

Net Investment Income for the years ended December 31, 2013 and 2012 was $1,469 and $980, respectively. The increase in 2013 is primarily due to higher returns on our investment portfolio, which has grown from $44,829 in 2012 to $129,800 in 2013, and lower operating losses related to certain of our real estate investments.

Policy Fee Income for the years ended December 31, 2013 and 2012 was $3,098 and $2,538, respectively, and reflects the policy fee income we earn with respect to our issuance of renewal policies.

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Other Income for the years ended December 31, 2013 and 2012 was $2,193 and $1,424, respectively. The increase in other income in 2013 is primarily due to the recognition of income related to the Aon Benfield settlement.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to $65,123 and $66,310, respectively, during the years ended December 31, 2013 and 2012. During the year ended December 31, 2013, we experienced favorable development of $2,456 with respect to our net unpaid losses and loss adjustment expenses established as of December 31, 2012, which contributed to the overall favorable variance of $1,187 with respect to the total losses and loss adjustment expenses incurred in 2013 as compared with 2012. In addition, our losses and loss adjustment expenses for the year ended December 31, 2012 included approximately $3,500 related to claims from Tropical Storm Debby and Tropical Storm Isaac, which occurred in June and August 2012, respectively.

Policy Acquisition and Other Underwriting Expenses for the years ended December 31, 2013 and 2012 were $31,619 and $25,930, respectively, and primarily reflect the amortization of deferred acquisition costs, commissions payable to agents for production and renewal of policies, and premium taxes, marketing costs and policy fees. The increase in 2013 is primarily attributable to an increase in commissions and premium taxes related to the increase in policy renewals in 2013, the effect of which is offset by a one-time charge of $1,210 in 2012 resulting from a change in accounting standards with respect to deferred acquisition costs.

Salaries and Wages for the years ended December 31, 2013 and 2012 were $14,714 and $10,545, respectively. The $4,169 increase in 2013 was primarily attributable to increases in employee headcount and cash bonus expense. As of December 31, 2013, we had 177 employees located at our offices in Florida compared with 145 employees as of December 31, 2012. We also had 67 employees located in Noida, India at December 31, 2013 versus 62 at December 31, 2012.

Interest Expense totaled $3,607 for the year ended December 31, 2013 and relates to the two debt offerings we completed during 2013. See Note 9 Long-Term Debt to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Other Operating Expenses for the years ended December 31, 2013 and 2012 were $19,572 and $10,539, respectively. The $9,033 increase was primarily attributable to a $5,127 increase in stock-based compensation and employee benefit expenses. The remaining increase of $3,906 relates to charitable contributions of $1,066 and other administrative costs, which include a variety of professional service fees, corporate insurances, information system expense, and other general expenses of $2,840.

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Income Tax Expense for the years ended December 31, 2013 and 2012 was $40,891 and $19,423, respectively, for state, federal and foreign income taxes resulting in an effective tax rate of 38.4% for 2013 and 39.2% for 2012.

Ratios:

The loss ratio applicable to the year ended December 31, 2013 was 27.8% compared with 42.1% for the year ended December 31, 2012. Our loss ratio was positively impacted by a significant increase in our net premiums earned during 2013 combined with favorable development in claim trends for frequency and severity and favorable development of reserves for prior accident years (see *Gross Premiums Earned* and *Losses and Loss Adjustment Expenses* above).

The expense ratio applicable to the year ended December 31, 2013 was 29.7% compared with 29.9% for the year ended December 31, 2012.

The combined ratio is the measure of overall underwriting profitability before other income. Our combined ratio for the year ended December 31, 2013 was 57.5% compared with 72.0% for the year ended December 31, 2012. Our combined ratio was positively impacted by a significant increase in our net premiums earned during 2013 (see *Gross Premiums Earned* above) and, also, by continued favorable trends in 2013 related to our losses and loss adjustment expenses.

The combined ratio to gross premiums earned for the year ended December 31, 2013 was 39.9% compared with 48.6% for the year ended December 31, 2012.

Seasonality of Our Business

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

LIQUIDITY AND CAPITAL RESOURCES

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

Our main insurance subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc., requires liquidity and adequate capital to meet ongoing obligations to policyholders and claimants and to fund operating expenses. In addition, we attempt to maintain adequate levels of liquidity and surplus to manage any differences between the duration of our liabilities and invested assets. In the insurance industry, cash collected for premiums from policies written is invested,

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interest and dividends are earned thereon, and losses and loss adjustment expenses are paid out over a period of years. This period of time varies by the circumstances surrounding each claim. A substantial portion of our losses and loss adjustment expenses are fully settled and paid within 90 days of the claim receipt date. Additional cash outflow occurs through payments of underwriting costs such as commissions, taxes, payroll, and general overhead expenses.

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

In the future, we anticipate our primary use of funds will be to pay claims, reinsurance premiums, interest, and dividends and also to fund operations. In addition, we intend to increase the size of our portfolios of limited partnership investments and real estate investments in order to maximize returns during 2015.

Senior Notes

Our long-term debt at December 31, 2014 consisted of 8% Senior Notes due 2020 and 3.875% Senior Convertible Notes due 2019, which were issued during 2013 for gross proceeds of $40,250 and $103,000, respectively. We make quarterly interest payments of $805 on the senior notes due 2020 with quarterly payments due on January 30, April 30, July 30 and October 30. We make semiannual interest payments of approximately $1,996 on the convertible notes with payments due in arrears on March 15 and September 15 of each year. See Note 9 Long-term debt to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Share Repurchase Plan

On March 18, 2014, our Board of Directors approved a one-year plan to repurchase up to $40,000 of common shares under which we may purchase shares of common stock in open market purchases, block transactions and privately negotiated transactions in accordance with applicable federal securities laws. See Note 14 Stockholders Equity to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Limited Partnership Investment

We entered into a subscription agreement to invest up to a maximum of $12,500 for a 16.5% interest in a limited partnership. The partnership which was approved to operate as a small investment company in October 2014 aims to provide direct lending to private U.S. lower-middle-market companies. At December 31, 2014, there is an unfunded capital balance of $9,860. See *Limited Partnership Investment* under Note 4 Investment to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

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ADC Arrangement

In June 2014, we entered into an ADC Arrangement under which we agreed to provide financing up to a maximum of $9,785 for the acquisition, development and construction of a retail shopping center and appurtenant facilities. At December 31, 2014, $6,981 of the commitment is available and unused. See Note 4 Investments under *ADC Arrangement* to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Cash Flows

Our cash flows from operating, investing and financing activities for the years ended December 31, 2014, 2013 and 2012 are summarized below.

Cash Flows for the Year ended December 31, 2014

Net cash provided by operating activities for the year ended December 31, 2014 totaled $88,729, which consisted primarily of cash received from net written premiums less cash disbursed for operating expenses, losses and loss adjustment expenses and interest payments. Net cash used in investing activities of $18,652 was primarily due to the purchases of available-for-sale securities of $127,622, the funding of the ADC Arrangement of $2,803 and the $4,500 cash contribution to a joint venture, offset by redemptions and repayments of fixed-maturity securities of $4,603, and the proceeds from sales of available-for-sale securities of $115,175. Net cash used in financing activities totaled $48,730, which was primarily due to $38,354 used in our share repurchase plan and $11,670 of net cash dividend payments.

Cash Flows for the Year ended December 31, 2013

Net cash provided by operating activities for the year ended December 31, 2013 was $55,472, which consisted primarily of cash received from net written premiums less cash disbursed for operating expenses, reinsurance premiums and losses and loss adjustment expenses. Net cash used in investing activities of $90,040 was primarily due to the purchases of available-for-sale securities of $94,215, the purchase of $3,433 in property and equipment and the purchase of $565 in other investments offset by redemptions and repayments of fixed-maturity securities of $3,607, and the proceeds from sales of available-for-sale securities of $4,558. Net cash provided by financing activities totaled $97,752, which was primarily due to $143,250 from the issuance of long-term debt offset by $4,770 of related underwriting and issuance costs, $10,902 of cash dividend payments, and $30,886 of payments to repurchase common stock.

Cash Flows for the Year ended December 31, 2012

Net cash provided by operating activities for the year ended December 31, 2012 was $106,266, which consisted primarily of cash received from net written premiums less cash disbursed for operating expenses and losses and loss adjustment expenses. Net cash used in investing activities amounted to $1,211 and was primarily due to $8,157 used to complete our business acquisitions in 2012, $16,538 used for the purchases of fixed-maturity and equity securities, and $2,796 used for the

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purchases of property, equipment and other investments offset by $10,726 from the proceeds from sales of fixed-maturity and equity securities, $3,127 of proceeds from calls, repayments, and maturities of fixed-maturity securities and $12,427 from time deposit redemptions. Net cash provided by financing activities totaled $24,799, which was primarily due to $20,082 from the issuance of common stock, $12,152 related to the exercise of stock options and warrants and $1,161 excess tax benefit from stock options exercised offset by $8,561 in cash dividends paid.

Investments

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

At December 31, 2014, we had $142,634 of available-for-sale investments, which are carried at fair value. Changes in the general interest rate environment affect the returns available on new fixed-maturity investments. While a rising interest rate environment enhances the returns available on new investments, it reduces the market value of existing fixed-maturity investments and thus the availability of gains on disposition. A decline in interest rates reduces the returns available on new fixed-maturity investments but increases the market value of existing fixed-maturity investments, creating the opportunity for realized investment gains on disposition.

With the exception of large national and regional banks, it is our current practice not to maintain cash deposits of more than an aggregate of $5,500 in any one bank at any time. From time to time, we may have in excess of $5,500 of cash available 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 December 31, 2014, we are contractually committed to provide financing for the acquisition, development and construction of one real estate property and to provide a capital contribution for a limited partnership interest (which are referred to herein as the ADC Arrangement and the Limited Partnership Investment, respectively). Such commitments are not recognized in the financial statements but are required to be disclosed in the notes to the financial statements. See Note 17 Commitments and Contingencies to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K and *Contractual Obligations and Commitments* below for additional information. As of December 31, 2013, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of SEC Regulation S-K.

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CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes our material contractual obligations and commitments as of December 31, 2014:

	Payment Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease (1)	$ 958	118	253	279	308
Service agreement (1)	172	21	46	50	55
Reinsurance contracts (2)	89,440	66,451	22,989		
Acquisition, development and construction loan commitment (3)	6,981	6,981			
Unfunded capital commitment (4)	9,860	9,860			
Long-term debt obligations (5)	178,116	7,211	14,423	115,427	41,055
Total	$ 285,527	90,642	37,711	115,756	41,418

(1) Represents the lease and maintenance service agreement for office space in Noida, India. Liabilities were converted from India Rupee to U.S. dollars using the December 31, 2014 exchange rate.
(2) Represents the minimum payment of reinsurance premiums under multi-year reinsurance contracts.
(3) Represents the unused portion of our commitment related to the ADC Arrangement. See Note 17 Commitments and Contingencies under Financing Commitment to our consolidated financial statements under Item 8 of this Annual Report.
(4) Represents the unfunded balance of capital commitment under the subscription agreement related to one limited partnership.
(5) Amounts represent principal and interest payments over the life of the senior notes due January 30, 2020 and the convertible notes due March 15, 2019.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments to develop amounts reflected and disclosed in our financial statements. Material estimates that are particularly susceptible to significant change in the near term are related to our losses and loss adjustment expenses, which include amounts estimated for claims incurred but not yet reported. We base our estimates on various assumptions and actuarial data we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates.

We believe our accounting policies specific to losses and loss adjustment expenses, reinsurance with retrospective provisions, deferred income taxes, and stock-based compensation expense involve our most significant judgments and estimates material to our consolidated financial statements.

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

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

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

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

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

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

- Reported loss development;
- Paid loss development;
- Reported Bornhuetter-Ferguson method;
- Paid Bornhuetter-Ferguson method;
- Loss ratio method; and
- Frequency-Severity method.

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

Description of Ultimate Loss Estimation Methods. The reported loss development method relies on the assumption that, at any given state of maturity, ultimate losses can be predicted by multiplying cumulative reported losses (paid losses plus case reserves) by a cumulative development factor. The validity of the results of this method depends on the stability of claim reporting and settlement rates, as well as the consistency of case reserve levels. Case reserves do not have to be adequately stated for this method to be effective; they only need to have a fairly consistent level of adequacy at all stages of maturity. Because of our limited loss experience, we select loss development factors based on industry data found in current A.M. Best s Aggregates and Averages Property/Casualty United States & Canada. We assume that our loss development patterns will be reasonably consistent with industry averages, and use the selected factors to assist in the projection of the ultimate losses.

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

The validity of the results from using a loss development approach can be affected by many conditions, such as internal claim department processing changes, a shift between single and multiple claim payments, legal changes, or variations in our mix of business from year to year. Also, since the percentage of losses paid for immature years is often low, development factors are volatile. A small variation in the number of claims paid can have a leveraging effect that can lead to significant changes in estimated ultimate losses. Therefore, ultimate values for immature loss years are often based on alternative estimation techniques.

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

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

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

Finally, we employ the frequency/severity method. We segregate our claims according to when they were incurred and conduct a detailed review in order to estimate average future development of open claims and average projected loss on IBNR claims. We combine this estimate with our open claims in order to derive an estimate of expected unreported losses. Paid losses are added to this estimate in order to derive an estimate of ultimate losses. This method is based on the assumption that future unreported claims and the average severity of open claims and unreported claims can be reasonably estimated from the experience available.

While the property and casualty industry has incurred substantial aggregate losses from claims related to asbestos-related illnesses, environmental remediation, sinkholes, product and mold, and other uncertain or environmental exposures, we have not experienced significant losses from these types of claims. However, we have experienced losses from exposures (sinkholes and catastrophes) that follow materially different loss patterns than the balance of our experience. To address this situation, we separate these exposures from the remainder of the business and derive reserves specific to each of these exposures. Total reserves are determined by adding the reserves related to each segment of business.

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

Our reported results, financial position and liquidity would be affected by likely changes in key assumptions that determine our net loss reserves. Management does not believe that any reasonably likely changes in the frequency of claims would affect our loss reserves. However, management believes that a reasonably likely increase or decrease in the severity of claims could impact our net loss reserves. The table below summarizes the effect on net loss reserves and equity in the event of reasonably likely changes in the severity of claims considered in establishing loss and loss adjustment expense reserves. The range of reasonably likely changes in the severity of our claims

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was established based on a review of changes in loss year development and applied to loss reserves as a whole. The selected range of changes does not indicate what could be the potential best or worst case or likely scenarios:

Year Ended December 31, 2014		
Change in Reserves	Reserves	Percentage change in equity, net of tax
-10.0%	44,017	1.65%
-7.5%	45,240	1.23%
-5.0%	46,463	0.82%
-2.5%	47,685	0.41%
Base	**48,908**	
2.5%	50,131	-0.41%
5.0%	51,353	-0.82%
7.5%	52,576	-1.23%
10.0%	53,799	-1.65%

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

For the years ended December 31, 2014 and 2013, we accrued benefits of $20,794 and $8,815, respectively, and deferred recognition of $2,749 and $3,706, respectively, in ceded premiums for total reductions in ceded premiums of $23,543 and $12,521, respectively. As of December 31, 2014, we have accrued a benefit of $28,123 and deferred recognition of $6,456 in ceded premiums, amounts that would be charged to earnings in the event we experience a catastrophic loss that exceeds the coverage limits provided under such agreements and in the period that the increased coverage is applicable, respectively. At December 31, 2013, we had $8,815 of accrued benefits and $3,706 of ceded premiums deferred related to these agreements. In June 2014, we received $1,485 under the terms of one retrospective reinsurance contract, which terminated May 31, 2014.

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

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

ITEM 7A *Quantitative and Qualitative Disclosures About Market Risk*

Our investment portfolios at December 31, 2014 included fixed-maturity and equity securities, the purposes of which are not for trading or speculation. Our main objective is to maximize after-tax investment income and maintain sufficient liquidity to meet policyholder obligations while minimizing market risk, which is the potential economic loss from adverse fluctuations in securities prices. We consider many factors including credit ratings, investment concentrations, regulatory requirements, anticipated fluctuation of interest rates, durations and market conditions in developing investment strategies. Our investment securities are managed primarily by investment companies and are overseen by the investment committee appointed by our board of directors.

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

We classify our fixed-maturity and equity securities as available-for-sale and report any unrealized gains or losses, net of deferred income taxes, as a component of other comprehensive income within our stockholders equity. As such, any material temporary changes in their fair value can adversely impact the carrying value of our stockholders equity.

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Interest Rate Risk

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

The following table illustrates the impact of hypothetical changes in interest rates to the fair value of our fixed-maturity securities at December 31, 2014 (in thousands):

Hypothetical Change in Interest Rates	Estimated Fair Value	Change in Estimated Fair Value	Percentage Increase (Decrease) in Estimated Fair Value
300 basis point increase	$ 85,196	$ (11,888)	(12.25)%
200 basis point increase	89,159	(7,925)	(8.16)%
100 basis point increase	93,121	(3,963)	(4.08)%
100 basis point decrease	101,035	3,951	4.07%
200 basis point decrease	104,697	7,613	7.84%
300 basis point decrease	107,242	10,158	10.46%

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

The following table presents the composition of our fixed-maturity securities, by rating, at December 31, 2014 (in thousands):

Comparable Rating	Amortized Cost	% of Total Amortized Cost	Estimated Fair Value	% of Total Estimated Fair Value
AAA	$ 2,287	2	$ 2,293	2
AA+, AA, AA-	16,984	18	17,106	18
A+, A, A-	32,072	33	32,784	34
BBB+, BBB, BBB-	31,996	33	32,386	33
BB+, BB, BB-	6,254	7	5,974	6
Not rated	6,570	7	6,541	7
Total	$ 96,163	100	$ 97,084	100

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Equity Price Risk

Our equity investment portfolio at December 31, 2014 included common stocks, perpetual preferred stocks, mutual funds and exchange traded funds (ETF). We may incur potential losses due to adverse changes in equity security prices. We manage the risk primarily through industry and issuer diversification and asset allocation techniques.

The following table illustrates the composition of our equity securities at December 31, 2014 (in thousands):

	Estimated Fair Value	% of Total Estimated Fair Value
Stocks by sector:		
Financial	$ 29,361	64
Energy	3,003	7
Consumer	4,047	9
Other (1)	294	1
	36,705	81
Mutual funds and ETF by type:		
Debt	7,550	17
Equity	1,295	2
	8,845	19
Total	$ 45,550	100

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

Foreign Currency Exchange Risk

At December 31, 2014, we did not have any material exposure to foreign currency related risk.

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ITEM 8 ***Financial Statements and Supplementary Data***

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of

HCI Group, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of HCI Group, Inc. and Subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for each of the years in the two-year period ended December 31, 2014. The Company s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HCI Group, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2015, expressed an unqualified opinion.

/s/ Dixon Hughes Goodman LLP

Clearwater, Florida
March 10, 2015

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Report of Independent Registered Public Accounting Firm on Internal Control

To the Board of Directors and Stockholders of

HCI Group, Inc. and Subsidiaries

We have audited HCI Group, Inc. and Subsidiaries (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, HCI Group, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows of HCI Group, Inc. and Subsidiaries, and our report dated March 10, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ Dixon Hughes Goodman LLP

Clearwater, Florida
March 10, 2015

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

HCI Group, Inc.

Tampa, Florida:

We have audited the consolidated statements of income, comprehensive income, stockholders equity, and cash flows of HCI Group, Inc. and Subsidiaries (the Company) for the year ended December 31, 2012. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of the Company s operations, comprehensive income and cash flows for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 10, 2015

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar amounts in thousands)

	December 31, 2014	December 31, 2013
Assets		
Fixed-maturity securities, available for sale, at fair value (amortized cost: $96,163 and $110,738, respectively)	$ 97,084	$ 112,151
Equity securities, available for sale, at fair value (cost: $45,387 and $17,248, respectively)	45,550	17,649
Limited partnership investment, at equity	2,550	
Investment in joint venture, at equity	4,477	
Real estate investments	19,138	16,228
Total investments	168,799	146,028
Cash and cash equivalents	314,716	293,398
Accrued interest and dividends receivable	1,059	1,133
Income taxes receivable	2,624	
Premiums receivable	15,824	14,674
Prepaid reinsurance premiums	34,096	28,066
Deferred policy acquisition costs	15,014	14,071
Property and equipment, net	12,292	13,132
Deferred income taxes, net	2,499	
Other assets	35,287	15,814
Total assets	$ 602,210	$ 526,316
Liabilities and Stockholders Equity		
Losses and loss adjustment expenses	$ 48,908	$ 43,686
Unearned premiums	214,071	171,907
Advance premiums	4,380	4,504
Assumed reinsurance balances payable	218	4,660
Accrued expenses	4,826	4,032
Dividends payable		19
Income taxes payable		543
Deferred income taxes, net		2,740
Long-term debt	129,539	126,932
Other liabilities	17,683	6,772
Total liabilities	419,625	365,795
Commitments and contingencies (Note 17)		
Stockholders equity:		

7% Series A cumulative convertible preferred stock (liquidation preference $10.00 per share), no par value, 1,500,000 shares authorized, 0 and 110,684 shares issued and outstanding in 2014 and 2013, respectively		
Series B junior participating preferred stock (no par value, 400,000 shares authorized, no shares issued or outstanding)		
Preferred stock (no par value, 18,100,000 shares authorized, no shares issued or outstanding)		
Common stock (no par value, 40,000,000 shares authorized, 10,189,128 and 10,939,268 shares issued and outstanding in 2014 and 2013, respectively)		
Additional paid-in capital	20,465	48,966
Retained income	161,454	110,441
Accumulated other comprehensive income, net of taxes	666	1,114
Total stockholders equity	182,585	160,521
Total liabilities and stockholders equity	$ 602,210	$ 526,316

See accompanying Notes to Consolidated Financial Statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(Dollar amounts in thousands, except per share amounts)

	Years Ended December 31, 2014	2013	2012
Revenue			
Gross premiums earned	$ 365,488	$ 337,113	$ 233,607
Premiums ceded	(113,423)	(102,865)	(75,939)
Net premiums earned	252,065	234,248	157,668
Net investment income	4,781	1,469	980
Policy fee income	2,820	3,098	2,538
Net realized investment gains	4,735	80	276
Gain on bargain purchase			179
Other	1,707	2,193	1,424
Total revenue	266,108	241,088	163,065
Expenses			
Losses and loss adjustment expenses	79,468	65,123	66,310
Policy acquisition and other underwriting expenses	37,952	31,619	25,930
Salaries and wages	16,483	14,714	10,545
Interest expense	10,453	3,607	
Goodwill impairment loss			161
Other operating expenses	20,790	19,572	10,539
Total expenses	165,146	134,635	113,485
Income before income taxes	100,962	106,453	49,580
Income tax expense	38,298	40,891	19,423
Net income	$ 62,664	$ 65,562	$ 30,157
Preferred stock dividends	4	(104)	(322)
Income available to common stockholders	$ 62,668	$ 65,458	$ 29,835
Basic earnings per common share	$ 5.90	$ 5.82	$ 3.45

Diluted earnings per common share	$	5.36	$	5.63	$	3.02
Dividends per common share	$	1.10	$	0.95	$	0.88

See accompanying Notes to Consolidated Financial Statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(Dollar amounts in thousands)

	Years Ended December 31,		
	2014	**2013**	**2012**
Net income	$ 62,664	$ 65,562	$ 30,157
Other comprehensive (loss) income:			
Change in unrealized (loss) gain on investments:			
Net unrealized gain (loss) arising during the period	3,870	(767)	2,571
Other-than-temporary impairment loss charged to investment income	107		
Call and repayment losses charged to investment income	28	24	3
Reclassification adjustment for net realized gain	(4,735)	(80)	(276)
Net change in unrealized (loss) gain	(730)	(823)	2,298
Deferred income taxes on above change	282	317	(886)
Total other comprehensive (loss) income, net of income taxes	(448)	(506)	1,412
Comprehensive income	$ 62,216	$ 65,056	$ 31,569

See accompanying Notes to Consolidated Financial Statements.

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

For the Year Ended December 31, 2014

(Dollar amounts in thousands)

	Series A Preferred Stock Shares	Series A Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive Income, Net of Tax	Total Stockholders Equity
Balance at December 31, 2013	110,684	$	10,939,268	$	$ 48,966	$ 110,441	$ 1,114	$ 160,521
Net income						62,664		62,664
Total other comprehensive loss, net of income taxes							(448)	(448)
Conversion of preferred stock to common stock	(107,298)		107,298					
Issuance of restricted stock			108,720					
Exercise of common stock options			50,000		125			125
Forfeiture of restricted stock			(10,840)					
Repurchase and retirement of common stock			(14,617)		(643)			(643)
Repurchase and retirement of common stock under share repurchase plan			(990,701)		(38,354)			(38,354)
Redemption of Series A preferred stock	(3,386)				(34)			(34)
Deferred taxes on debt discount					215			215
Common stock dividends						(11,655)		(11,655)
Derecognition of preferred stock dividends payable						4		4
Tax benefits on stock-based compensation					2,080			2,080
					8,110			8,110

Stock-based compensation												
Balance at December 31, 2014	$	10,189,128	$		$	20,465	$	161,454	$	666	$	182,585

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HCI GROUP, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity (Continued)

For the Year Ended December 31, 2013

(Dollar amounts in thousands)

	Series A Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Income	Accumulated Other Comprehensive, Net of Tax	Total Stockholders Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2012	241,182	$	10,877,537	$	$ 63,875	$ 55,758	$ 1,620	$ 121,253
Net income						65,562		65,562
Total other comprehensive loss, net of income taxes								