

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

Form 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

Commission File Number

001-34126

HCI Group, Inc.

(Exact name of Registrant as specified in its charter)

Florida
(State of Incorporation)

20-5961396
(IRS Employer

Identification No.)

5300 West Cypress Street, Suite 100

Tampa, FL 33607

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

(813) 849-9500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

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

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

Commitments and contingencies (Note 13)

Stockholders' equity:

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

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

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

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

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

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

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

Stock-based
compensation

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

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Note 1 Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

All significant intercompany balances and transactions have been eliminated.

Reclassifications

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

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HCI GROUP, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (unaudited)

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

Note 2 Recent Accounting Pronouncements

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

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

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

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

The Company holds investments in fixed-maturity securities and equity securities that are classified as available-for-sale. At March 31, 2015 and December 31, 2014, the cost or amortized cost, gross unrealized gains and losses, and estimated fair value of the Company's available-for-sale securities by security type were as follows:

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

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

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

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

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

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

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

Sales of Available-for-Sale Securities

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

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

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

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

Other-than-temporary Impairment

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

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

the length of time and the extent to which the market value of the security has been below its cost or amortized cost;

general market conditions and industry or sector specific factors;

nonpayment by the issuer of its contractually obligated interest and principal payments; and

The Company's intent and ability to hold the investment for a period of time sufficient to allow for the recovery of costs.

Securities with gross unrealized loss positions at March 31, 2015 and December 31, 2014, aggregated by investment category and length of time the individual securities have been in a continuous loss position, are as follows:

	Less Than Twelve Months		Twelve Months or Greater		Total	
	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value
As of March 31, 2015						
<i>Fixed-maturity securities</i>						
U.S. treasury and U.S. government agencies	\$ (6)	\$ 1,857	\$	\$	\$ (6)	\$ 1,857
Corporate bonds	(429)	7,997	(19)	981	(448)	8,978
Asset-backed securities	(1)	923			(1)	923
Mortgage-backed securities	(26)	5,160			(26)	5,160

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

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

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

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

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

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

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

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

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

Limited Partnership Investments

The Company has interests in limited partnerships that are not registered under the United States Securities Act of 1933, as amended, the securities laws of any state or the securities laws of any other jurisdictions. These partnerships are private equity funds managed by general partners who make decisions with regard to financial policies and operations. As such, the Company is not the primary beneficiary and does not consolidate these partnerships. The following table provides information related to the Company's investments in limited partnerships.

Investment Strategy	March 31, 2015			December 31, 2014		
	Carrying Value	Unfunded Balance	(%)	Carrying Value	Unfunded Balance	(%)(a)
Primarily in senior secured loans and, to a limited extent, in other debt and equity securities of private U.S. lower-middle-market companies. (b)(c)(e)	\$ 4,856	\$ 7,550	16.50(a)	\$ 2,550	\$ 9,860	16.50
Value creation through active distressed debt investing primarily in bank loans, public and private corporate bonds, asset-backed securities, and equity securities received in connection with debt restructuring. (b)(d)(e)	2,200	5,800	(g)			
Maximum long-term capital appreciation through long and short positions in equity and/or debt securities of publicly traded U.S. and non-U.S. issuers, derivative instruments and certain other financial instruments. (f)	14,739		68.66(a)			
Total	\$ 21,795	\$ 13,350		\$ 2,550	\$ 9,860	

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

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

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

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

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

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

Investment in Joint Venture

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

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

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

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

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

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

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

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

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

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ADC Arrangement

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

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

Net Investment Income

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

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

Note 4 Fair Value Measurements

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

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

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Assets Measured at Estimated Fair Value on a Recurring Basis

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

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

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

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

Assets and Liabilities Carried at Other Than Fair Value

The following tables present fair value information for assets and liabilities that are carried on the balance sheet at amounts other than fair value as of March 31, 2015 and December 31, 2014:

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

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HCI GROUP, INC. AND SUBSIDIARIES

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