Homeowners Choice, Inc.
Form 10-K
March 14, 2013
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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, 2012

OR

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

Commission File Number

001-34126

Homeowners Choice, 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)

(888) 210-5235

(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**
7% Series A Cumulative Redeemable Preferred Stock, no par value	**NASDAQ Capital Market**
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 29, 2012, computed by reference to the price at which the common stock was last sold on June 29, 2012, was $137,935,846.

The number of shares outstanding of the registrant s common stock, no par value, on March 1, 2013 was 10,907,144.

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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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

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PART I

ITEM 1 *Business*

General

Homeowners Choice, Inc. (HCI) is a holding company owning subsidiaries primarily engaged in the property and casualty insurance business. Homeowners Choice, Inc. was incorporated in Florida in 2006. References to we, our, us, the Company, or HCI in this Form 10-K generally refer to Homeowners Choice, 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 (888) 210-5235.

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 homeowners insurance, condominium-owners insurance, and tenants insurance to individuals owning property in Florida. HCPCI s operations are supported by the following HCI subsidiaries:

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

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

Claddaugh Casualty Insurance Company, Ltd. participates in the reinsurance program to HCPCI.

In addition, while not material to our consolidated financial statements, HCI has various subsidiaries primarily engaged in the businesses of owning and leasing real property, operating marina facilities and one restaurant and developing software.

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Financial Highlights

We have one reportable segment for financial reporting purposes. We currently operate our business as a single segment based on the manner in which we review and evaluate our business and financial performance. The following table summarizes our financial performance during the years ended December 31, 2012, 2011 and 2010:

(Dollars in millions except per share amounts)

For the year ended December 31:	2012	2011	2010
Net premium earned	$ 157.7	88.1	62.4
Total revenue	$ 163.1	93.8	68.6
Losses and loss adjustment expenses	$ 66.3	48.2	37.7
Income before income taxes	$ 49.6	16.4	8.6
Net income	$ 30.2	10.0	5.4
Income available to common stockholders	$ 29.8	9.1	5.4
Earnings per share of common stock:			
Basic	$ 3.45	$ 1.49	$ 0.88
Diluted	$ 3.02	$ 1.34	$ 0.81
Dividends per common share	$ 0.88	$ 0.53	$ 0.30
Net cash provided by operating activities	$ 106.3	56.0	16.1
Cash dividends paid on common stock	$ 8.1	3.2	1.9
At December 31:			
Total investments	$ 60.9	58.8	43.5
Cash and cash equivalents	$ 230.2	100.4	54.8
Total assets	$ 338.3	214.8	140.9
Total stockholders equity	$ 121.3	63.8	46.6
Common shares outstanding (in millions)	10.9	6.2	6.2

Property and Casualty Insurance Business

HCPCI began operations in July of 2007 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. Policies were assumed in nine separate assumption transactions which took place from July 2007 through November 2012. In addition, we completed an assumption transaction with HomeWise Insurance Company (HomeWise) in November 2011 through which we acquired the Florida policies of HomeWise. Substantially all of our premium revenue since inception has come from the policies acquired in these assumption transactions and subsequent renewals. Through the Citizens and HomeWise assumptions, we have over time been able to increase our geographic diversification within the state of Florida.

Citizens requires 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 ask their agent to place their coverage with another

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insurance company. With respect to the assumptions through December 31, 2009, policyholders could also elect to return to Citizens, or opt out, prior to the policy renewal date. With respect to our December 2010 and November 2012 assumptions, the opt-out provision was limited to the thirty day period following the assumption date. We strive to retain these policies by offering competitive rates to our policyholders. We intend to selectively pursue additional assumption transactions with Citizens in the future.

We face various challenges to implementing our operating and growth strategies. Since we 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 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 ability to meet all requirements for regulatory compliance. 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.

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 material 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 eighth largest provider of homeowners property and casualty insurance in the state of Florida based on approximately $215 million of annualized gross premiums as of June 30, 2012, derived from 110,000 policies in force, according to data from the Florida Office of Insurance Regulation (FLOIR).

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 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>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.

<u>New product offerings</u> We may cross-sell additional insurance products to our existing policyholders in order to broaden our lines of business and product mix.

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

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 a change 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 Florida, and the regulations of any other states in which we may seek to conduct business in the future. The regulations cover all aspects of our business and are generally designed to protect the interests of insurance policyholders 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.

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Regulatory Uncertainty

Certain states including Florida have adopted laws or are considering proposed legislation which, among other things, limit 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 residential property insurance market in the state. 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.

State Licensure and Approval

Most states, including Florida, require licensure and regulatory approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company s business plan, solvency, reinsurance, character of its officers and directors, rates, forms and other financial and non-financial aspects of a company. The regulatory authorities may not allow entry into a new market by not granting a license or by withholding approval. 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. In accordance with the National Association of Insurance Commissioners, the FLOIR intends to comply with recent initiatives recommending that all insurance companies under the same insurance holding company registration statement be subjected to concurrent triennial examinations. Our subsidiary, HCPCI, is subject to FLOIR examinations.

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Liability for Losses and Loss Adjustment Expenses

Our liability for losses and loss adjustment expenses represents estimates of the total cost of (i) claims that have been incurred, but not yet paid, (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 judgmental 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 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, 2012, 2011 and 2010, see Note 8 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 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 2012 (dollars in thousands):

Schedule of Loss Development

	Years Ended December 31,					
	2007	2008	2009	2010	2011	2012
Originally estimated losses and LAE[1]	$ 1,688	14,763	19,178	22,146	27,424	41,168
Re-estimated losses and LAE[2] as of:						
1 year later	1,412	10,879	18,399	26,776	27,309	
2 years later	1,236	10,991	19,866	26,003		
3 years later	1,268	11,661	19,361			
4 years later	1,327	11,528				
5 years later	1,330					
Cumulative redundancy (deficiency)[3]	358	3,235	(183)	(3,857)	115	
Cumulative amount of liability paid as of:						
1 year later	760	7,725	10,481	16,833	15,652	
2 years later	1,108	9,229	15,336	20,708		
3 years later	1,108	10,339	17,065			
4 years later	1,327	10,947				
5 years later	1,330					
Gross premiums earned	$ 29,360	61,925	110,011	119,757	143,606	233,607

1 Represents management s original best estimated liability of (i) unpaid claims, (ii) IBNR, and (iii) loss adjustment expenses.
2 Represents the re-estimated liabilities in later years of 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 means the original estimate is higher than the current estimate whereas a deficiency means that the original estimate is lower than the current estimate.

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Other Operations

In April 2011, we acquired real property that included a marina operation in Tierra Verde, Florida, and in April 2012, we acquired property in Treasure Island, Florida that includes a marina operation and restaurant. In November 2011, we acquired a small software development company (Unthink Technologies Private Ltd.) located in India. In June 2010, we purchased real estate including an office building in Tampa, Florida that we use for our headquarters and in which we currently lease approximately 46,000 square feet to non-affiliates.

We do not believe that any of these non-insurance operations are material, either individually or in the aggregate, to our consolidated financial statements or consolidated results of operations.

Environmental Matters

Our subsidiaries, which 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. For a discussion of the liability assumed in connection with our acquisition of such marina facilities and the ongoing remedial action, see Note 13 Commitments and Contingencies to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Employees

As of February 20, 2013, we employed approximately 150 full-time individuals working primarily from our headquarters in Tampa, Florida and approximately 60 employees located in Noida, India. As of such date, our real estate operations have approximately 80 employees leased through professional employer organizations.

Available Information

We file annual, quarterly, and current reports with the Securities and Exchange Commission (SEC). These filings are accessible free of charge on our website, www.hcigroup.com (click SEC filings at the Investors 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 you can access 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.

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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.

We currently conduct our insurance business 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, destructive weather pattern, general economic trend, regulatory development or other condition 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,

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Richard Allen, and Scott Wallace, HCPCI s president. The loss of their leadership, industry knowledge and experience could negatively impact our operations. 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.

We do not have significant redundancy in our operations.

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 as we do not have significant 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. While we have implemented daily off-site backups, we have not fully tested our plan to recover data in the event of a disaster. Additionally, effective February 28, 2013, we have purchased an office building in Ocala, Florida to be used by us primarily in the event a catastrophic event impacts our home office and support operations.

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 business by writing additional 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.

Because we believe that our independent insurance agents will play a key role in our efforts to increase the number of voluntary policies written by HCPCI, we are also in the process of developing business platforms and distribution initiatives that will allow us to provide information to, and exchange information with, our agents in an effective and efficient manner. These systems are intended to provide us with current information regarding the insurance markets in which we operate, therefore permitting us to adjust our selective underwriting criteria as needed to rapidly respond to market changes. In the event that the development of these systems does not proceed as planned, the expansion of our business could be delayed. Internet disruptions or system failures once these systems are fully operational could also adversely affect our future business volume and results of operations.

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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.

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 other companies that write insurance only in Florida. 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 a new company. We do not have an A.M. Best rating and do not expect to obtain such a rating in the near future. 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. However, some mortgage companies may require homeowners to obtain property insurance from an insurance company with a certain minimum A.M. Best rating, and 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. In addition, 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.

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;

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programs in which federally or state-sponsored entities provide property insurance in catastrophe-prone areas or other alternative markets;

changes in Florida s regulatory climate; and

the passage 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 HCPCI.

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.

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

We rely on our claims department to accurately evaluate and pay the claims made under our policies. Many factors could affect the ability of our claims department 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 department to ensure consistent claims handling given the input by our external 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 department to maintain and update its 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 in Florida, 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 the hurricanes experienced in Florida, 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.

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 that are not favorable to us. In the case of equity financings, dilution to our shareholders could result, 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 adversely affected.

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 capital, premiums and loss reserves. The amount of income so generated is a function of our investment policy, available investment opportunities, and the amount of available cash invested. As we continue to grow and to deploy our capital, the proportion of income invested will decrease, and investment income will make up a smaller percentage of our net revenue. At December 31, 2012, approximately 16.3% of our available cash was invested in fixed-maturity and equity securities with the balance in cash and cash equivalents. 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.

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 by man-made events, such as terrorist attacks. 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.

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. 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 then monitor from time to time their financial condition, we rely principally on A.M. Best, our 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.

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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 has continued to increase in recent years, principally driven by larger court judgments. In addition, many legal actions and proceedings have been brought on behalf of classes of complainants, which can 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 designed to limit our exposure to known risks, including but not limited to exclusions relating to homes in close proximity to the coast line. 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 effect 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 minute 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.

Many of our competitors rely on independent agents. As a result, 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. 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 and our ability to properly analyze available 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 sales volume and competitiveness. In either event, our profitability could be materially and adversely affected.

Current operating resources are necessary to develop future new insurance products.

We may expand our product offerings by underwriting additional insurance products and programs, and marketing them through our independent agent network. 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 our marketplace.

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As an insurance holding company, we are currently subject to regulation by the State of Florida and in the future may become subject to regulation by certain other states or a federal regulator.

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 which 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. For example, Section 428.461, Florida Statutes, states that a person may not, individually or in conjunction with any affiliated person of such person, acquire directly or indirectly, conclude a tender offer or exchange offer for, enter into any agreement to exchange securities for, or otherwise finally acquire 5 percent or more of the outstanding voting securities of a domestic stock insurer or of a controlling company, unless we are in compliance with certain notice and approval requirements.

We currently operate only in the state of Florida. In the future, we may become authorized to transact business in other states and therefore will 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. Since Florida is HCPCI s state of domicile, Florida laws will generally take precedence. 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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HCPCI is 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. HCPCI is subject to the supervision and regulation of the state in which it is domiciled (Florida) and the state(s) in which it does business (currently only Florida). 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

requiring 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

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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 differences between our interpretations of regulatory requirements and those of the regulators.

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.

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 marina operations are subject to regulation under various federal, state, and local laws concerning the environment.

In April 2011, we acquired real estate that included a marina operation in Tierra Verde, Florida, and in April 2012, we acquired real estate in Treasure Island, Florida that also includes a marina operation. 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 cleanup 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. With respect to an existing environmental remediation plan we assumed in April 2011 when we acquired the real estate in Tierra Verde, Florida, there can be no assurance that the remediation plan will be successful or that the cost will not exceed the $150,000 accrued at acquisition, of which $53,000 had been paid at December 31, 2012.

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Our restaurant operations expose us to additional risks which could negatively impact our operating results and financial condition.

In April 2012, we acquired real estate in Treasure Island, Florida that includes a restaurant. Our restaurant operations could expose us to business risks that are different than the insurance business. 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.

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

Not applicable.

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ITEM 2 ***Properties***

On November 7, 2012, we entered into an agreement to lease 15,000 square feet of office space in Noida, India. The lease has an initial term of nine years commencing January 15, 2013 with monthly rental payments of approximately $10,200 plus applicable service tax for the first year. Thereafter the monthly rental payment will increase by five percent every year. We are entitled to terminate the lease after the 36-month period following the commencement date by providing 3 months written notice to the landlord.

On April 2, 2012, we purchased real estate in Treasure Island, Florida. Assets included with the acquisition consist 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.

On April 20, 2011, we purchased real estate in Tierra Verde, Florida. The real estate consists of 7.1 acres of land, 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 25,082 square feet. This marina facility is being operated by us. Approximately 62% of the available retail space is leased to non-affiliates.

On June 1, 2010, we purchased real estate in 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 principal executive and principal operational office. Since June 2011, the majority of our U.S. employees have been headquartered in the Tampa facility. In addition, we lease an aggregate of approximately 46,000 square feet to non-affiliates.

Rental expense under all facility leases was $527,000, $239,000 and $191,000 during the years ended December 31, 2012, 2011 and 2010, respectively, which includes expense in each year related to our former corporate headquarters.

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 and lawsuits asserted against us, we do not believe that any currently pending legal proceedings to which we are a party will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 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

On October 25, 2012, our common stock began trading on the New York Stock Exchange under the symbol HCI. Prior to the aforementioned date, our common stock was traded on the NASDAQ Global Select Market under the symbol HCII. The following table represents the high and low sales prices for our common stock as reported by the NASDAQ Global Select Market and the New York Stock Exchange for the periods indicated:

	Common Stock Price	
	High	Low
Calendar Quarter 2012		
First Quarter	$ 14.14	7.88
Second Quarter	$ 17.60	11.85
Third Quarter	$ 23.98	16.51
Fourth Quarter	$ 26.60	18.29
Calendar Quarter 2011		
First Quarter	$ 8.70	7.81
Second Quarter	$ 8.24	6.27
Third Quarter	$ 7.00	6.05
Fourth Quarter	$ 8.24	6.07

Holders

As of March 1, 2013, the market price for our common stock was $20.57 and there were 142 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, which are discussed in Note 15 - Regulatory Requirements and Restrictions to our consolidated financial statements under Item 8 of this Annual Report on Form 10K, 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
1/26/2011	3/18/2011	2/18/2011	$ 0.100
4/26/2011	6/17/2011	5/20/2011	$ 0.100
7/26/2011	9/16/2011	8/19/2011	$ 0.100
11/21/2011	12/16/2011	12/1/2011	$ 0.125
11/21/2011	12/16/2011	12/1/2011	$ 0.100
1/16/2012	3/16/2012	2/17/2012	$ 0.150
3/28/2012	6/15/2012	5/17/2012	$ 0.200
7/25/2012	9/21/2012	8/17/2012	$ 0.200
10/19/2012	12/21/2012	11/16/2012	$ 0.225
10/19/2012	12/21/2012	11/16/2012	$ 0.100

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

We currently expect that we will continue to pay cash dividends on our common stock at a rate comparable to our historical dividend payments, 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.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plans as of December 31, 2012. 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	280,000	$ 2.91	4,953,680

Performance Graph

The line graph presented below compares the cumulative total dollar stockholder return on our common stock for the period beginning September 15, 2008* and ending on December 31, 2012 with those of the Russell 2000 Index for a broad equity market index and the NASDAQ Insurance Index for a peer group. The graph shows the change in value of an initial $100 investment over the aforementioned period, assuming all dividends are reinvested.

* September 15, 2008 represents the date that our common stock and warrants issued in our initial public offering commenced trading separately on the exchange.

Recent Sales of Unregistered Securities

On November 2, 2011, we agreed to issue to Glencoe Acquisition, Inc., 1,000,000 warrants for the purchase of up to 500,000 of our common shares in connection with the HomeWise assumption transaction. These warrants were exercised on December 3, 2012. The warrants, and the shares issuable pursuant thereto, were issued pursuant to the exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

None.

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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, 2012, 2011, and 2010 and the consolidated balance sheet data at December 31, 2012 and 2011 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, 2009 and 2008, and the consolidated balance sheet data at December 31, 2010, 2009, and 2008, are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. Certain reclassifications of prior year amounts have been made to conform to the current year presentation. 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,				
	2012	**2011**	**2010**	**2009**	**2008**
	(Dollars in thousands, except per share amounts)				
Operating Revenue					
Gross premiums earned	$ 233,607	143,606	119,757	110,011	61,925
Premiums ceded	(75,939)	(55,525)	(57,322)	(44,674)	(14,659)
Net premiums earned	157,668	88,081	62,435	65,337	47,266
Net investment income	980	2,061	1,962	1,793	1,622
Policy fee income	2,538	1,438	1,464	1,226	530
Realized investment gains	276	290	2,003		
Gain on bargain purchase	179	936			
Other income	1,424	1,003	751	22	115
Total operating revenue	163,065	93,809	68,615	68,378	49,533
Operating Expenses					
Losses and loss adjustment expenses	66,310	48,243	37,667	35,230	21,528
Policy acquisition and other underwriting expenses	25,930	18,129	14,878	9,611	3,086
Goodwill impairment loss	161				
Other operating expenses	21,084	11,032	7,484	5,788	4,124
Total operating expenses	113,485	77,404	60,029	50,629	28,738
Income before income taxes	49,580	16,405	8,586	17,749	20,795
Income taxes	19,423	6,441	3,164	6,839	8,140
Net income	$ 30,157	9,964	5,422	10,910	12,655
Preferred stock dividends	(322)	(815)			
Income available to common stockholders	$ 29,835	9,149	5,422	10,910	12,655
Per Share Data:					
Basic earnings per common share	$ 3.45	$ 1.49	$ 0.88	$ 1.62	$ 2.15
Diluted earnings per common share	$ 3.02	$ 1.34	$ 0.81	$ 1.52	$ 2.08
Dividends per common share	$ 0.88	$ 0.53	$ 0.30	$	$
Ratios to Net Premium Earned:					
Loss Ratio	42.06%	54.77%	60.33%	53.92%	45.55%

Expense Ratio	29.92%	33.11%	35.82%	23.57%	15.25%
Combined Ratio	71.98%	87.88%	96.15%	77.49%	60.80%
Ratios to Gross Premiums Earned:					
Loss Ratio	28.39%	33.59%	31.45%	32.02%	34.76%
Expense Ratio	20.19%	20.31%	18.67%	14.00%	11.65%
Combined Ratio	48.58%	53.90%	50.12%	46.02%	46.41%
Consolidated Balance Sheet Data:					
Total investments	$ 60,916	58,759	43,481	48,343	27,582
Total cash and cash equivalents	$ 230,214	100,355	54,849	43,453	81,060
Total assets	$ 338,288	214,818	140,948	137,892	131,989
Total stockholders equity	$ 121,253	63,830	46,629	45,378	37,393

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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.

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 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. Our growth since inception has resulted primarily from a series of policy assumptions from Citizens and one from HomeWise. This growth track has been beneficial to us in terms of reduced policy acquisition and reinsurance costs. Even though expanding our policyholder base through opportunistic assumptions continues to be important to our growth plan, we plan to seek opportunities to expand and to provide new product offerings.

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Recent Developments

On February 28, 2013, we purchased real estate in Ocala, Florida for a total purchase price of $2.0 million. The real estate consists of 1.6 acres of land and a vacant office building with gross area of approximately 16,000 square feet. The facility will be used by us primarily in the event a catastrophic event impacts our home office and support operations.

On January 17, 2013, we completed the sale of unsecured senior notes in a public offering for an aggregate principal amount of $35 million. In addition, effective January 25, 2013, we received an aggregate principal amount of $5.3 million pursuant to the underwriters exercise of the over-allotment option. The combined net proceeds after underwriting and issuance costs approximate $38.7 million. The offering was made pursuant to our effective registration statement on Form S-3, as amended (Registration Statement No. 333-185228) and our Prospectus Supplement dated January 10, 2013. The notes, due in 2020, bear interest at a fixed annual rate of 8% which is payable quarterly. The notes may be redeemed, in whole or in part, at any time on and after January 30, 2016 and will rank on parity with all of our future unsecured senior debt.

On January 22, 2013, our Board of Directors declared a quarterly dividend of $0.225 per common share. The dividends will be paid March 15, 2013 to stockholders of record on February 15, 2013.

HCPCI received a Notice of 2012 Assessment from the Florida Insurance Guaranty Association, Inc. (FIGA) that was issued on November 21, 2012. All admitted carriers in Florida that transact the statutorily covered lines of business are required to become members of FIGA, which was formed to provide a mechanism for the payment of covered claims in the event of the insolvency of an insurer. The assessment, which was approved by the FLOIR, is equal to 0.9% of each insurer s net direct written premiums for the 2011 calendar year from specified categories of property and liability lines of business. The amount of the assessment was approximately $1.1 million, of which $657,000 was charged to our operations in the fourth quarter of 2012 and the balance of $482,000 was recorded as an asset recoverable from policyholders. HCPCI has filed with the FLOIR to enable HCPCI to recover the full amount of this assessment from its policyholders.

Effective November 6, 2012, we assumed approximately 60,000 policies upon completion of our ninth assumption transaction with Citizens representing approximately $150 million in additional annualized premiums.

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RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

Our results of operations for the year ended December 31, 2012 reflect income available to common stockholders of $29.8 million, or $3.02 earnings per diluted common share, compared with income available to common stockholders of $9.1 million, or $1.34 earnings per diluted common share, for the year ended December 31, 2011. Our results for the years ended December 31, 2012 and 2011 include bargain purchase gains on acquisitions of $179,000 ($110,000 net of tax) and $936,000 ($575,000 net of tax), respectively, or $0.01 and $0.08 diluted earnings per common share, respectively.

Revenue

Gross Premiums Earned for the year ended December 31, 2012 were $233.6 million and reflect the revenue from policies acquired from HomeWise in November 2011 and policies originally assumed from Citizens and subsequent renewals, including approximately 60,000 policies assumed in November 2012. Gross premiums earned for the year ended December 31, 2011 were $143.6 million and principally reflect the revenue from policies assumed from Citizens and subsequent renewals.

Premiums Ceded for the years ended December 31, 2012 and 2011 were $75.9 million and $55.5 million, respectively. Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed the thresholds defined by our catastrophe excess of loss reinsurance treaties. Our reinsurance rates are based primarily on policy exposures reflected in gross premiums earned. Premiums ceded were 32.5% and 38.7% of gross premiums earned during the years ended December 31, 2012 and 2011, respectively. The percentage decrease in 2012 is primarily due to lower costs during the first five months of 2012 related to policies assumed from HomeWise, which were subject to minimal reinsurance premiums. In addition, we have two months of earned premium in 2012 related to the November 2012 Citizens assumption with no associated increase in reinsurance premium.

Net Premiums Earned for the years ended December 31, 2012 and 2011 were $157.7 million and $88.1 million, respectively, and reflect the gross premiums earned less reinsurance costs as described above.

Net Premiums Written during the years ended December 31, 2012 and 2011 totaled $203.2 million and $131.7 million, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less reinsurance costs.

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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, 2012 and 2011 (in thousands):

	Years Ended December 31,	
	2012	2011
Net Premiums Written	$ 203,240	131,724
Increase in Unearned Premiums	(45,572)	(43,643)
Net Premiums Earned	$ 157,668	88,081

Net Investment Income for the years ended December 31, 2012 and 2011 was $1.0 million and $2.1 million, respectively. The decline in 2012 is primarily due to operating losses incurred with respect to certain operations of our real estate investments.

Policy Fee Income for the years ended December 31, 2012 and 2011 was $2.5 million and $1.4 million, respectively, and reflects the policy fee income we earn with respect to our issuance of renewal policies.

Gain on Bargain Purchase was $179,000 ($110,000 net of tax), or $0.01 diluted earnings per common share, and $936,000 ($575,000 net of tax), or $0.08 diluted earnings per common share, for the years ended December 31, 2012 and 2011, respectively. The bargain purchase gains relate to our business acquisitions completed in April 2012 and in April 2011.

Other Income for the years ended December 31, 2012 and 2011 was $1.4 million and $1.0 million, respectively. The increase in other income in 2012 is primarily due to policy payment plan fees.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to $66.3 million and $48.2 million, respectively, during the years ended December 31, 2012 and 2011. Our losses for the year ended December 31, 2012 include approximately $1.4 million and $2.1 million related to case reported claims from Tropical Storm Debby and Tropical Storm Isaac, respectively, which occurred in June and August 2012.

Our liability for losses and loss adjustment expense (Reserves), which is more fully described below under Critical Accounting Policies and Estimates, are specific to homeowners insurance, which is HCPCI s only line of business. These Reserves include both case reserves on reported claims and our reserves for IBNR losses. At each period-end date, the balance of our Reserves is based on our best estimate of the ultimate cost of each claim for those known cases and the IBNR loss reserves are estimated based primarily on our historical experience. Our Reserves increased from $27.4 million at December 31, 2011 to $41.2 million at December 31, 2012. The $13.8 million increase in our Reserves is comprised of $29.5 million in new reserves specific to the year ended December 31, 2012 offset by reductions of $11.1 million and $4.7 million in our Reserves for 2011 and 2010 and prior loss years, respectively. The $29.5 million in Reserves established for 2012 claims is primarily due to the increase in our policy exposure. The decrease of $15.8 million specific to our 2011 and 2010 and prior loss-year reserves is due to favorable development arising from lower than expected loss development during 2012 relative to expectations used to establish our Reserve estimates at the end of 2011. Factors that are attributable to this favorable development may include a lower severity of claims than the severity of claims considered in establishing our Reserves and actual case development may be more favorable than originally anticipated.

Policy Acquisition and Other Underwriting Expenses for the years ended December 31, 2012 and 2011 were $25.9 million and $18.1 million, respectively, and primarily reflect the amortization of deferred acquisition costs, commissions payable to agents for production and renewal of policies, and premium taxes and policy fees. The $7.8 million increase in 2012 is primarily attributable to an increase in our commissions and premium taxes for policy renewals combined with the one-time, $1.2 million adjustment specific to our adoption in January 2012 of the accounting standard update related to deferred acquisition costs (see Note 2 Recent Accounting Pronouncements to the consolidated financial statements).

Other Operating Expenses for the years ended December 31, 2012 and 2011 were $21.1 million and $11.0 million, respectively. The $10.1 million increase is primarily attributable to a $7.4 million increase in compensation and related expenses of which $2.4 million relates to an increase in stock-based compensation and cash bonus expense. The remaining increase of $2.7 million relates to our other administrative costs, which include a variety of professional service fees, license fees, corporate insurances, lease expense, information system expense, and other general expenses. Our 2012 compensation and related expenses include a full year of payroll expense related to our India operations (acquired in November 2011) and to the employees hired in late 2011 to service policies acquired from HomeWise. As of December 31, 2012, we had 145 employees located at our headquarters in Tampa, Florida compared to 119 employees as of December 31, 2011. We also had 62 employees located in Noida, India at December 31, 2012 versus 68 at December 31, 2011.

Income Taxes for the years ended December 31, 2012 and 2011 were $19.2 million and $6.4 million, respectively, for state, federal and foreign income taxes resulting in an effective tax rate of 39.2% for 2012 and 39.3% for 2011.

Ratios:

The loss ratio applicable to the year ended December 31, 2012 (loss and loss adjustment expenses related to net premiums earned) was 42.1% compared to 54.8% for the year ended December 31, 2011. Our loss ratio was positively impacted by a significant increase in our gross premiums earned during 2012 (see *Gross Premiums Earned above*).

The expense ratio applicable to the year ended December 31, 2012 (policy acquisition and other underwriting expenses related to net premiums earned plus compensation, employee benefits, and other operating expenses) was 29.9% compared to 33.1% for the year ended December 31, 2011. The decrease in our expense ratio is attributable to the significant increase in our gross premiums earned as we experienced an increase in other operating expenses during 2012 (see *Other Operating Expenses* above).

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The combined loss and expense ratio (total of all expenses related to net premiums earned) is the key measure of underwriting performance traditionally used in the property and casualty industry. A combined ratio under 100% generally reflects profitable underwriting results. A combined ratio over 100% generally reflects unprofitable underwriting results. Our combined ratio for the year ended December 31, 2012 was 72.0% compared to 87.9% for the year ended December 31, 2011.

Due to the impact our reinsurance costs have on net premiums earned from period to period, our management believes the combined loss and expense ratio measured to gross premiums earned is more relevant in assessing overall performance. The combined loss and expense ratio to gross premiums earned for the year ended December 31, 2012 was 48.6% compared to 53.9% for the year ended December 31, 2011.

Comparison of the Year Ended December 31, 2011 to the Year Ended December 31, 2010

Our results of operations for the year ended December 31, 2011 reflect income available to common stockholders of $9.1 million, or $1.34 earnings per diluted common share, compared to income available to common stockholders of $5.4 million, or $0.81 earnings per diluted common share, for the year ended December 31, 2010. Our results for the year ended December 31, 2011 include a bargain purchase gain of $936,000 ($575,000 net of tax), or $0.08 diluted earnings per common share. The bargain purchase gain relates to our business acquisition completed in April 2011.

Revenue

Gross Premiums Earned for the year ended December 31, 2011 were $143.6 million and principally reflect the revenue from policies acquired from Citizens and HomeWise and subsequent renewals. The policies acquired from HomeWise in November 2011 contributed approximately $18.3 million to our 2011 gross premiums earned. Gross premiums earned for the year ended December 31, 2010 were $119.8 million and principally reflect the revenue from policies we acquired from Citizens and subsequent renewals.

Premiums Ceded for the years ended December 31, 2011 and 2010 were $55.5 million and $57.3 million, respectively. Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed the thresholds defined by our catastrophe excess of loss reinsurance treaties. Our reinsurance rates are based primarily on policy exposures reflected in gross premiums earned. Premiums ceded were 38.7% and 47.9% of gross premiums earned during the years ended December 31, 2011 and 2010, respectively. The percentage decrease in 2011 is primarily due to lower costs related to policies assumed from HomeWise.

Net Premiums Earned for the years ended December 31, 2011 and 2010 were $88.1 million and $62.4 million, respectively, and reflect the gross premiums earned less reinsurance costs as described above. Net premiums earned increased by $25.7 million in 2011 compared to 2010 a result of the $23.8 million increase in gross premiums earned combined with a slight decrease of $1.9 million in premiums ceded.

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Net Premiums Written during the years ended December 31, 2011 and 2010 totaled $131.7 million and $59.0 million, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less reinsurance costs. The significant increase in 2011 compared to 2010 is directly attributed to the HomeWise assumption completed in November 2011.

The following is a reconciliation of our total Net Premiums Written to Net Premiums Earned for the years ended December 31, 2011 and 2010 (in thousands):

	Years Ended December 31,	
	2011	**2010**
Net Premiums Written	$ 131,724	58,960
(Increase) Decrease in Unearned Premiums	(43,643)	3,475
Net Premiums Earned	$ 88,081	62,435

Policy Fee Income for the years ended December 31, 2011 and 2010 was $1.4 million and $1.5 million, respectively, and reflects the policy fee income we earn with respect to our issuance of renewal policies.

Realized Investment Gains for the years ended December 31, 2011 and 2010 of $0.3 million and $2.0 million, respectively, reflects the net gain realized from sales of securities during the period.

Gain on Bargain Purchase was $936,000 ($575,000 net of tax), or $0.08 diluted earnings per common share, for the year ended December 31, 2011. The bargain purchase gain relates to our business acquisition completed in April 2011. We had no business acquisitions in 2010.

Other Income for the years ended December 31, 2011 and 2010 was $1.0 million and $0.8 million, respectively. Our other income in 2011 and 2010 is primarily rental income from our Tampa office building.

Expenses

Our *Losses and Loss Adjustment Expenses* amounted to $48.2 million and $37.7 million, respectively, during the years ended December 31, 2011 and 2010.

Our Reserves, which are more fully described below under Critical Accounting Policies and Estimates, are specific to homeowners insurance, which is HCPCI s only line of business. These Reserves include both case reserves on reported claims and our reserves for IBNR. At each period-end date, the balance of our Reserves is based on our best estimate of the ultimate cost of each claim for those known cases and the IBNR loss reserves are estimated based primarily on our historical experience. Our Reserves increased from $22.1 million at December 31, 2010 to $27.4 million at December 31, 2011. The $5.3 million increase in our Reserves during 2011 is comprised of $17.5 million in new reserves specific to the year ended December 31, 2011 offset by reductions of $8.8 million and $3.4 million in our Reserves for 2010 and 2009 and prior years, respectively. The $17.5 million in Reserves established for 2011 claims is due to the increase in our policy exposure, which resulted in an increase in the amount of reported losses in 2011. The decrease of $12.2 million specific to our 2010 and prior loss-year reserves is due to favorable development arising from lower than expected loss development during 2011 relative to expectations used to establish our Reserve estimates at the end of 2010. Factors that are attributable to this favorable development may include a lower severity of claims than the severity of claims considered in establishing our Reserves and actual case development may be more favorable than originally anticipated.

Policy Acquisition and Other Underwriting Expenses for the years ended December 31, 2011 and 2010 of $18.1 million and $14.9 million, respectively, primarily reflect the amortization of deferred acquisition costs, commissions payable to agents for production and renewal of policies, and premium taxes and policy fees. The $3.2 million increase in 2011 is primarily attributable to an increase in our commissions, premium taxes, and other underwriting expenses directly attributable to policy renewals, commissions specific to policies assumed in 2011, and increases in our payroll and other underwriting expenses required to manage our policies in force.

Other Operating Expenses for the years ended December 31, 2011 and 2010 were $11.0 million and $7.5 million, respectively. Such expenses include administrative compensation and related benefits, corporate insurance, professional fees, office lease and related expenses, information system expense, and other general and administrative costs. The $3.5 million increase is primarily attributable to increases in compensation and related expenses, and other general administrative costs of $2.1 million and $1.4 million, respectively. As of December 31, 2011, we had 187 employees of which 68 were located in Noida, India and 119 were located primarily at our headquarters in Tampa, Florida. As of December 31, 2010 we had 76 employees.

Income Taxes for the years ended December 31, 2011 and 2010 were $6.4 million and $3.2 million, respectively, for state and federal income taxes resulting in an effective tax rate of 39.3% for 2011 and 36.9% for 2010.

Ratios:

The loss ratio applicable to the year ended December 31, 2011 (loss and loss adjustment expenses related to net premiums earned) was 54.8% compared to 60.3% for the year ended December 31, 2010. Our loss ratio was positively impacted by a significant increase in our gross premiums earned during 2011 (see *Gross Premiums Earned* above).

The expense ratio applicable to the year ended December 31, 2011 (policy acquisition and other underwriting expenses related to net premiums earned plus compensation, employee benefits, and other operating expenses) was 33.1% compared to 35.8% for the year ended December 31, 2010. The decrease in our expense ratio is attributable to the significant increase in our gross premiums earned as we experienced an increase in our policy acquisition and other underwriting expenses during 2011 (see *Policy Acquisition and Other Underwriting Expenses* above).

The combined loss and expense ratio (total of all expenses related to net premiums earned) is the key measure of underwriting performance traditionally used in the property and casualty industry. A combined ratio under 100% generally reflects profitable underwriting results. A combined ratio over 100% generally reflects unprofitable underwriting results. Our combined ratio for the year ended December 31, 2011 was 87.9% compared to 96.2% for the year ended December 31, 2010.

Due to the impact our reinsurance costs have on net premiums earned from period to period, our management believes the combined loss and expense ratio measured to gross premiums earned is more relevant in assessing overall performance. The combined loss and expense ratio to gross premiums earned for the year ended December 31, 2011 was 53.9% compared to 50.1% for the year ended December 31, 2010.

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

Since inception, our liquidity requirements have been met through issuance of our common and preferred stock, our recent debt offering and funds from operations. We expect our future liquidity requirements will be met by funds from operations, primarily the cash received by HCPCI from premiums written and investment income. In addition, we may consider raising capital through future debt and equity offerings.

HCPCI requires liquidity and adequate capital to meet ongoing obligations to policyholders and claimants and to fund operating expenses. In addition, we attempt to maintain adequate levels of liquidity and surplus to manage any differences between the duration of our liabilities and invested assets. In the insurance industry, cash collected for premiums from policies written is invested, interest and dividends are earned thereon, and loss and loss adjustment expenses are paid out over a period of years. This period of time varies by the circumstances surrounding each claim. A substantial portion of our losses and loss 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 HCPCI s claims and expenses, as well as 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 and reinsurance premiums, and fund operating expenses.

Common Stock

On April 19, 2012, we entered into an underwriting agreement (the Underwriting Agreement) pursuant to which we agreed to sell 1,600,000 shares of our common stock, no par value per share (the Common Stock), for $11.75 per share, less a 6.0% underwriting commission. Under the terms of the Underwriting Agreement, we granted the underwriter an option to purchase up to an additional 240,000 shares of Common Stock at the public offering price, less a 6.0% underwriting commission, within 45 days from the date of the Underwriting Agreement to cover over-allotments, if any. The offering was made pursuant to our effective registration statement on Form S-3, as amended (Registration Statement No. 333-180322), and the Prospectus Supplement dated April 19, 2012. On April 23, 2012, the underwriter elected to fully exercise its overallotment option. The closing of the sale of an aggregate of 1,840,000 shares of Common Stock occurred on April 25, 2012. The offering resulted in aggregate gross proceeds to us of approximately $21.6 million and net proceeds of approximately $20.1 million after underwriting commissions and offering expenses.

Preferred Stock

On March 25, 2011, we closed our preferred stock offering under which a total of 1,247,700 shares of our Series A cumulative convertible preferred stock (Series A Preferred) were sold for gross proceeds of approximately $12.5 million and net proceeds after offering costs of approximately $11.3 million. Dividends on the Series A Preferred are cumulative from the date of original issue and accrue on the last day of each month, at an annual rate of 7.0% of the $10.00 liquidation preference per share, equivalent to a fixed annual amount of $0.70 per share. Accrued but unpaid dividends accumulate and earn additional dividends at 7.0%, compounded monthly.

Shareholders of Series A Preferred may convert all or any portion of their shares, at their option, at any time, into shares of our common stock at an initial conversion rate of one share of common stock for each share of Series A Preferred, which is equivalent to an initial conversion price of $10.00 per share; provided, however, that we may terminate this conversion right on or after March 31, 2014, if for at least twenty trading days within any period of thirty consecutive trading days, the market price of our common stock exceeds the conversion price of the Series A Preferred by more than 20% and our common stock is then traded on the New York Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market, the NASDAQ Capital Market, or the NYSE Amex. Under certain circumstances, we will be required to adjust the conversion rate. The initial conversion price of $10.00 per share is subject to proportionate adjustment in the event of stock splits, reverse stock splits, stock dividends, or similar changes with respect to our common stock. During the year ended December 31, 2012, holders of 1,006,518 shares of Series A Preferred converted their Series A Preferred shares to 1,006,518 shares of common stock. There were 241,182 shares of Series A Preferred outstanding as of December 31, 2012. Shareholders of record of our Series A Preferred at the close of business on a date for determining shareholders entitled to dividends will be entitled to receive the dividends payable on their Series A Preferred shares on the corresponding dividend payment date notwithstanding the conversion of such Series A Preferred shares before the dividend payment date. The Series A Preferred terms include a provision requiring such shareholders to pay an amount equal to the amount of the dividend payable. However, we have permanently waived that requirement.

The Series A Preferred is not redeemable prior to March 31, 2014. If we issue a conversion cancellation notice, the Series A Preferred will be redeemable on or after March 31, 2014 for cash, at our option, in whole or in part, at $10.00 per share, plus accrued and unpaid dividends to the redemption date. Otherwise, the Series A Preferred will be redeemable for cash, at our option, in whole or in part, at a redemption price equal to $10.40 per share for redemptions on or after March 31, 2014; $10.20 per share for redemptions on or after March 31, 2015; and $10.00 per share for redemptions on or after March 31, 2016, in each case, plus accrued and unpaid dividends to the redemption date.

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The Series A Preferred shares have no stated maturity and are not subject to any sinking fund or mandatory redemption requirements.

Holders of the Series A Preferred shares generally have no voting rights, except under limited circumstances, and holders are entitled to receive cumulative preferential dividends when and as declared by our Board of Directors.

Senior Notes Due 2020

In January 2013, we completed the sale of an aggregate of approximately $40.3 million of our 8.00% Senior Notes due 2020. The Senior Notes were issued under an Indenture, dated January 17, 2013, between us and The Bank of New York Mellon Trust Company, N.A., as Trustee. The Senior Notes bear interest at a rate of 8.00% per year, payable quarterly on January 30, April 30, July 30 and October 30 of each year, beginning on April 30, 2013. Interest on the Senior Notes begins accruing from January 17, 2013, and the Senior Notes will mature on January 30, 2020. We may redeem the Senior Notes, in whole or in part, at any time on and after January 30, 2016, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. Additionally, we may at any time repurchase Senior Notes at any price in the open market and may hold, resell or surrender such Senior Notes to the Trustee for cancellation. The Senior Notes are our senior unsecured obligations, and rank on a parity with all of our other existing and future senior unsecured obligations. The Indenture relating to the Senior Notes, as supplemented, contains customary events of default. If an event of default occurs and is continuing with respect to any series of the Senior Notes, then the Trustee or the holders of at least 25% of the principal amount of the outstanding Senior Notes may declare the Senior Notes to be due and payable immediately. In addition, in the case of an event of default arising from certain events of bankruptcy, insolvency or reorganization, all outstanding Senior Notes will become due and payable immediately. During the year ended December 31, 2012, we accrued $128,000 of the costs related to this offering of which $35,000 had been paid as of December 31, 2012.

Cash Flows

Our cash flows from operating, investing and financing activities for the years ended December 31, 2012, 2011 and 2010 are summarized below.

Cash Flows for the Year ended December 31, 2012

Net cash provided by operating activities for the year ended December 31, 2012 was approximately $106.3 million, 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 of $1.2 million was primarily due to our business acquisitions completed in 2012 of $8.2 million, the purchases of fixed-maturity and equity securities of $16.5 million, and the purchases of $2.8 million of property, equipment and other investments offset by the proceeds from sales of fixed-maturity and equity securities of $10.7 million, proceeds from calls, repayments, and maturities of fixed-maturity securities of $3.1 million and time deposit redemptions of $12.4 million.

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Net cash provided by financing activities totaled $24.8 million, which was primarily due to $20.1 million from the issuance of common stock, $12.2 million related to the exercise of stock options and warrants and $1.2 million excess tax benefit from stock options exercised offset by $8.6 million in cash dividends paid.

Cash Flows for the Year ended December 31, 2011

Net cash provided by operating activities for the year ended December 31, 2011 was approximately $56.0 million, 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 of $17.0 million was primarily due to our business acquisitions completed in 2011 of $5.3 million, the purchase of $3.3 million in property and equipment, and the purchases of fixed-maturity and equity securities of $37.8 million offset by the proceeds from sales of fixed-maturity and equity securities of $26.6 million, proceeds from calls, repayments, maturities of fixed-maturity securities of $1.3 million, and time deposit redemptions of $1.6 million. Net cash provided by financing activities totaled $6.4 million, which was primarily due to $11.3 million from the issuance of preferred stock and $0.8 million related to the exercise of stock options offset by $3.8 million in cash dividends paid and $1.9 million used to repurchase our common shares.

Cash Flows for the Year ended December 31, 2010

Net cash provided by operating activities for the year ended December 31, 2010 was approximately $16.1 million, which resulted primarily from the $19.5 million of premiums collected from Citizens offset by $10.6 million from reinsurance premiums prepaid in 2010 and $7.2 million in cash received from net written premiums less cash disbursed for operating expenses and losses and loss adjustment expenses. Net cash used in investing activities was approximately $0.2 million of which $7.3 million was contributed from investment sales net of investment purchases offset by $7.5 million used to purchase property and equipment. Net cash used in financing activities totaled $4.5 million, which was primarily due to $3.6 million used to repurchase our shares and $1.9 million used to pay dividends offset by approximately $1.0 million from proceeds and tax benefits related to stock option exercises.

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, time deposits (i.e. CDs with original maturities of more than twelve months), and available-for-sale investments.

At December 31, 2012, we had $44.8 million 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.

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With the exception of large national banks, it is our current practice not to maintain cash deposits of more than an aggregate of $5.5 million in any one bank at any time. From time to time, we may have in excess of $5.5 million of cash designated for investment and on deposit at a single national brokerage firm. In the future, we may alter our investment policy to include or increase investments in federal, state and municipal obligations, preferred and common equity securities, real estate and real estate mortgages. Investments by HCPCI are limited by insurance law and regulations.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2012 and 2011, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of SEC Regulation S-K.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of December 31, 2012:

	Payment Due by Period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease (1)	$ 1,372	139	265	292	676
Service agreement (1)	244	22	48	52	122
Total	$ 1,616	161	313	344	798