UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2024

OR

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

Commission File Number
001-36462

Heritage Insurance Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**45-5338504**
(State of Incorporation)	**(IRS Employer Identification No.)**

1401 N. Westshore Blvd
Tampa, FL 33607
(Address, including zip code, of principal executive offices)

(727) 362-7200
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	HRTG	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

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

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

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

The aggregate number of shares of the Registrant's Common Stock outstanding on November 1, 2024 was 30,684,198.

HERITAGE INSURANCE HOLDINGS, INC.
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FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q ("Form 10-Q") or in documents incorporated by reference that are not historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements, expectations or beliefs regarding: (i) our core strategy and ability to fully execute our business plan; (ii) our strategic initiatives, including our controlled growth strategy and focus on rate adequacy and selective underwriting, and their impact on shareholder value; (iii) projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; (iv) management's goals and objectives, including intentions to pursue certain business, including business in Florida, and the handling of certain claims; (v) our intention to leverage our existing sales and marketing teams; (vi) projections of financial items; (vii) the supply of catastrophe reinsurance and its costs; (viii) assumptions underlying statements regarding us and our business; (ix) claims and related expenses, and our reinsurers' obligations; (x) pending legal proceedings and their effect on our financial position; (xi) future impact of prior strategic policy count reductions; (xii) the impact of legislative changes on our business; and (xiii) other similar expressions concerning matters that are not historical facts. These forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included throughout this filing and particularly in Item 1A: "Risk Factors" set forth in our 2023 Annual Report on Form 10-K and Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in this quarterly report on Form 10-Q. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to revise or publicly release any revision to any such forward-looking statement, except as may otherwise be required by law.

These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management's beliefs and assumptions. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "would," "estimate," or "continue" or the negative variations thereof or comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- the possibility that actual losses may exceed reserves, which are based on estimates;
- the concentration of our business in coastal states, which could be impacted by hurricane losses or other significant weather-related events such as northeastern winter storms;
- our exposure to catastrophic weather events;
- our failure to adequately assess and price the risks we underwrite;
- the fluctuation in our results of operations, including as a result of factors outside of our control;
- increased costs of reinsurance, non-availability of reinsurance, non-collectability of reinsurance and our ability to obtain reinsurance on terms and at a cost acceptable to us;
- inherent uncertainty of our models and our reliance on such models as a tool to evaluate risk;
- increased competition, competitive pressures, industry developments and market conditions;
- continued and increased impact of abusive and unwarranted claims;
- our inability to effectively manage our growth and integrate acquired companies;
- our failure to execute our diversification strategy;
- our reliance on independent agents to write insurance policies for us on a voluntary basis and our ability to attract and retain agents;
- the failure of our claims department to effectively manage or remediate claims;
- the failure of policy renewals to meet our expectations;
- our inability to maintain our financial stability rating;
- our ability to access sufficient liquidity or obtain additional financing to fund our operations and expand our business;
- our inability to generate investment income;
- effects of emerging claim and coverage issues relating to legal, judicial, environmental and social conditions;
- the failure of our risk mitigation strategies or loss limitation methods;
- lack of effectiveness of exclusions and loss limitation methods in the insurance policies we assume or write;
- the regulation of our insurance operations;
- changes in regulations and our failure to meet increased regulatory requirements, including minimum capital and surplus requirements;
- climate change, health crisis, severe weather conditions and other catastrophe events;
- litigation or regulatory actions;
- regulation limiting rate increases or that require us to participate in loss sharing or assessments;
- the terms of our indebtedness, including restrictions that limit our flexibility in operating our business, and our inability to comply with the financial and other covenants of our debt facilities;
- our ability to maintain effective internal controls over financial reporting;

- certain characteristics of our common stock;
- failure of our information technology systems or those of our key service providers and unsuccessful development and implementation of new technologies;
- a lack of redundancy in our operations; and
- our failure to attract and retain qualified employees and independent agents or our loss of key personnel.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrences of anticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in the forward-looking statements. Consequently, you should not place undue reliance on forward-looking statements.

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

HERITAGE INSURANCE HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(Amounts in thousands, except per share and share amounts)

	September 30, 2024	*December 31, 2023*
ASSETS	*(unaudited)*	
Fixed maturities, available-for-sale, at fair value (amortized cost of $697,367 and $606,646)	$ 671,761	$ 560,682
Equity securities, at fair value, (cost $1,936 and $1,666)	1,936	1,666
Other investments, net	6,747	7,067
Total investments	680,444	569,415
Cash and cash equivalents	509,918	463,640
Restricted cash	10,980	9,699
Accrued investment income	5,230	4,068
Premiums receivable, net	86,570	89,490
Reinsurance recoverable on paid and unpaid claims, net of allowance for credit losses of $197	441,579	482,429
Prepaid reinsurance premiums	401,022	294,222
Income tax receivable	8,743	13,354
Deferred income tax assets, net	11,028	11,111
Deferred policy acquisition costs, net	109,441	102,884
Property and equipment, net	36,789	33,218
Right-of-use lease asset, finance	15,708	17,606
Right-of-use lease asset, operating	6,057	6,835
Intangibles, net	37,918	42,555
Other assets	12,961	12,674
Total Assets	$ 2,374,388	$ 2,153,200
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	$ 775,468	$ 845,955
Unearned premiums	724,426	675,921
Reinsurance payable	344,486	159,823
Long-term debt, net	118,551	119,732
Advance premiums	27,936	23,900
Accrued compensation	7,312	9,461
Lease liability, finance	18,669	20,386
Lease liability, operating	7,192	8,076
Accounts payable and other liabilities	71,004	69,666
Total Liabilities	$ 2,095,044	$ 1,932,920
Commitments and contingencies (Note 17)		
Stockholders' Equity:		
Common stock, $0.0001 par value, 50,000,000 shares authorized, 42,915,872 shares issued and 30,684,198 outstanding at September 30, 2024 and 42,450,612 shares issued and 30,218,938 outstanding at December 31, 2023	3	3
Additional paid-in capital	362,609	360,310
Accumulated other comprehensive loss, net of taxes	(19,731)	(35,250)
Treasury stock, at cost, 12,231,674 shares at each September 30, 2024 and December 31, 2023	(130,900)	(130,900)
Retained earnings	67,363	26,117
Total Stockholders' Equity	279,344	220,280
Total Liabilities and Stockholders' Equity	$ 2,374,388	$ 2,153,200

See accompanying notes to unaudited condensed consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.
Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss)
(Unaudited)
(Amounts in thousands, except per share and share amounts)

	For the Three Months Ended September 30,		*For the Nine Months Ended September 30,*	
	2024	***2023***	***2024***	***2023***
REVENUES:				
Gross premiums written	$ 312,986	$ 309,510	$ 1,094,200	$ 1,016,378
Change in gross unearned premiums	41,211	27,466	(48,542)	(32,366)
Gross premiums earned	354,197	336,976	1,045,658	984,012
Ceded premiums	(155,356)	(160,335)	(477,076)	(464,539)
Net premiums earned	198,841	176,641	568,582	519,473
Net investment income	9,801	6,867	28,121	19,048
Net realized gains (losses) and impairment	6	(379)	17	(49)
Other revenue	3,201	3,171	10,001	10,060
Total revenues	211,849	186,300	606,721	548,532
EXPENSES:				
Losses and loss adjustment expenses	130,020	131,397	337,983	335,495
Policy acquisition costs, net of ceding commission income[(1)]	48,508	42,427	142,661	124,202
General and administrative expenses, net of ceding commission income[(2)]	21,572	21,911	63,985	61,022
Intangible asset impairment	—	—	—	767
Total expenses	200,100	195,735	544,629	521,486
Operating income (loss)	11,749	(9,435)	62,092	27,046
Interest expense, net	2,755	2,591	8,365	8,211
Income (loss) before income taxes	8,994	(12,026)	53,727	18,835
Provision (benefit) for income taxes	842	(4,602)	12,481	4,472
Net income (loss)	$ 8,152	$ (7,424)	$ 41,246	$ 14,363
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in net unrealized gains (losses) on investments	19,711	(4,494)	20,353	4,664
Reclassification adjustment for net realized investment (gains) losses	(6)	379	(17)	390
Income tax (expense) benefit related to items of other comprehensive income	(4,666)	970	(4,816)	(1,188)
Total comprehensive income (loss)	$ 23,191	$ (10,569)	$ 56,766	$ 18,229
Weighted average shares outstanding				
Basic	30,684,198	26,698,806	30,570,204	25,941,422
Diluted	30,743,461	26,698,806	30,629,467	25,980,931
Earnings (loss) per share				
Basic	$ 0.27	$ (0.28)	$ 1.35	$ 0.55
Diluted	$ 0.27	$ (0.28)	$ 1.35	$ 0.55

(1) Policy acquisition costs includes $8.9 million and $27.6 million of ceding commission income for the three and nine months ended September 30, 2024 and $11.9 million and $37.3 million of ceding commission income for the three and nine months ended September 30, 2023, respectively.

(2) General and administration includes $3.2 million and $9.3 million of ceding commission income for the three and nine months ended September 30, 2024 and $4.0 million and $12.3 million of ceding commission income for the three and nine months ended September 30, 2023, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(Amounts in thousands, except share amounts)

	Common Shares	*Par Value*	*Additional Paid-In Capital*	*Retained Earnings*	*Treasury Shares*	*Accumulated Other Comprehensive Loss*	*Total Stockholders' Equity*
Balance at December 31, 2023	30,218,938	$ 3	$ 360,310	$ 26,117	$ (130,900)	$ (35,250)	$ 220,280
Net unrealized change in investments, net of tax	—	—	—	—	—	(216)	(216)
Issuance of restricted stock	417,558	—	—	—	—	—	—
Additional costs associated to public offering	—	—	(3)	—	—	—	(3)
Unallocated dividends on restricted stock forfeitures	—	—	54	—	—	—	54
Stock-based compensation on restricted stock	—	—	595	—	—	—	595
Net income	—	—	—	14,225	—	—	14,225
Balance at March 31, 2024	30,636,496	$ 3	$ 360,956	$ 40,342	$ (130,900)	$ (35,466)	$ 234,935
Net unrealized change in investments, net of tax	—	—	—	—	—	696	696
Issuance of restricted stock	47,702	—	—	—	—	—	—
Stock-based compensation on restricted stock	—	—	833	—	—	—	833
Net income	—	—	—	18,869	—	—	18,869
Balance at June 30, 2024	30,684,198	$ 3	$ 361,789	$ 59,211	$ (130,900)	$ (34,770)	$ 255,333
Net unrealized change in investments, net of tax	—	—	—	—	—	15,039	15,039
Stock-based compensation on restricted stock	—	—	820	—	—	—	820
Net income	—	—	—	8,152	—	—	8,152
Balance at September 30, 2024	30,684,198	$ 3	$ 362,609	$ 67,363	$ (130,900)	$ (19,731)	$ 279,344

	Common Shares	*Par Value*	*Additional Paid-In Capital*	*Retained Earnings (Deficit)*	*Treasury Shares*	*Accumulated Other Comprehensive Loss*	*Total Stockholders' Equity*
Balance at December 31, 2022	25,539,433	$ 3	$ 334,711	$ (19,190)	$ (130,900)	$ (53,585)	$ 131,039
Net unrealized change in investments, net of tax	—	—	—	—	—	9,290	9,290
Shares tendered for income taxes withholding	(4,200)	—	(8)	—	—	—	(8)
Restricted stock vested	25,000	—	—	—	—	—	—
Forfeiture on restricted stock	(1,482)	—	—	—	—	—	—
Stock-based compensation on restricted stock	—	—	395	—	—	—	395
Net income	—	—	—	14,008	—	—	14,008
Balance at March 31, 2023	25,558,751	$ 3	$ 335,098	$ (5,182)	$ (130,900)	$ (44,295)	$ 154,724
Net unrealized change in investments, net of tax	—	—	—	—	—	(2,279)	(2,279)
Issuance of restricted stock	63,744	—	—	—	—	—	—
Stock-based compensation on restricted stock	—	—	403	—	—	—	403
Net income	—	—	—	7,779	—	—	7,779
Balance at June 30, 2023	25,622,495	$ 3	$ 335,501	$ 2,597	$ (130,900)	$ (46,574)	$ 160,627
Net unrealized change in investments, net of tax	—	—	—	—	—	(3,145)	(3,145)
Issuance of restricted stock	1,223,111	—	—	—	—	—	—
Forfeiture on restricted stock	(49,020)	—	(13)	—	—	—	(13)
Stock-based compensation on restricted stock	—	—	1,341	—	—	—	1,341
Net loss	—	—	—	(7,424)	—	—	(7,424)
Balance at September 30, 2023	26,796,586	3	336,829	(4,827)	(130,900)	(49,719)	151,386

See accompanying notes to unaudited condensed consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Amounts in thousands)

	For the Nine Months Ended September 30,	
	2024	***2023***
OPERATING ACTIVITIES		
Net income	$ 41,246	$ 14,363
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation	2,248	2,126
Bond amortization and accretion	(2,500)	(2,484)
Amortization of original issuance discount on debt	642	362
Named intangible asset impairment	—	767
Depreciation and amortization	6,733	6,463
Allowance for (recovery) bad debt	(687)	52
Expected credit allowance on reinsurance	—	152
Net realized (gains) losses	(17)	49
Deferred income taxes, net	(4,734)	(439)
Changes in operating assets and liabilities:		
Accrued investment income	(1,162)	92
Premiums receivable, net	3,607	12,441
Prepaid reinsurance premiums	(106,800)	(96,707)
Reinsurance recoverable on paid and unpaid claims	40,850	77,472
Income taxes receivable	4,611	(2,754)
Deferred policy acquisition costs, net	(6,557)	(4,481)
Right of use leased asset	2,676	2,087
Other assets	(287)	(1,551)
Unpaid losses and loss adjustment expenses	(70,487)	(160,486)
Unearned premiums	48,505	32,231
Reinsurance payable	184,663	82,860
Accrued interest	(529)	(441)
Accrued compensation	(2,149)	2,017
Advance premiums	4,036	7,190
Operating lease liabilities	(2,601)	(1,905)
Other liabilities	1,866	1,182
Net cash provided by (used in) operating activities	143,173	(29,342)
INVESTING ACTIVITIES		
Fixed maturity securities sales, maturities and pay downs	99,881	241,983
Fixed maturity securities purchases	(188,105)	(250,783)
Equity securities reinvestment of dividends	(270)	(226)
Sale on other investment and return on capital	319	5,080
Cost of property and equipment acquired	(5,667)	(8,445)
Net cash used in investing activities	(93,842)	(12,391)
FINANCING ACTIVITIES		
Repayment of term note	(7,125)	(7,125)
Mortgage loan payments	(198)	(114)
Proceeds from loan agreement	5,500	—
Additional costs associated with public offering	(3)	—
Tax withholding on share-based compensation awards	—	(8)
Dividends forfeited (paid)	54	(11)
Net cash used in financing activities	(1,772)	(7,258)
Increase (decrease) in cash, cash equivalents, and restricted cash	47,559	(48,991)
Cash, cash equivalents and restricted cash, beginning of period	473,339	287,572
Cash, cash equivalents and restricted cash, end of period	$ 520,898	$ 238,581
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	$ 12,696	$ 7,664
Interest paid	$ 7,224	$ 6,803

Reconciliation of cash, cash equivalents, and restricted cash to condensed consolidated balance sheets.

	September 30, 2024	*December 31, 2023*
	(In thousands)	
Cash and cash equivalents	$ 509,918	$ 463,640
Restricted cash	10,980	9,699
Total	$ 520,898	$ 473,339

Restricted cash primarily represents funds held to meet regulatory requirements in certain states in which the Company operates.

See accompanying notes to unaudited condensed consolidated financial statements.

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of Heritage Insurance Holdings, Inc. (together with its subsidiaries, the "Company"). These statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain financial information that is normally included in annual consolidated financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. In the opinion of the Company's management, all material intercompany transactions and balances have been eliminated and all adjustments consisting of normal recurring accruals which are necessary for a fair statement of the financial condition and results of operations for the interim periods have been reflected. The accompanying interim condensed consolidated financial statements and related footnotes should be read in conjunction with the Company's audited consolidated financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 filed on March 13, 2024 (the "2023 Form 10-K").

Significant accounting policies

The accounting policies of the Company are set forth in Note 1 to the consolidated financial statements contained in the Company's 2023 Form 10-K.

Accounting Pronouncements not yet adopted

The Company has documented the summary of its significant accounting policies in its Notes to the Audited Consolidated Financial Statements contained in the Company's 2023 Form 10-K. There have been no material changes to the Company's accounting policies since the filing of that report.

On March 6, 2024, the SEC adopted new rules designed to enhance public company disclosures related to the risks and impacts of climate-related matters. The rules amend the provisions of both Regulation S-K and Regulation S-X to require disclosure of climate-related risks, transition plans, targets and goals, risk management and governance as well as require disclosure of the financial effects of severe weather events and other natural conditions as well as the use of carbon offsets or renewable energy credits. Disclosure requirements will begin phasing in for fiscal years beginning on or after January 1, 2025, subject to legal challenges and the SEC's voluntary stay of the disclosure requirements. The Company will continue to assess the impact of these new rules on its financial statements while the stay is in place.

NOTE 2. INVESTMENTS

Securities Available-for-Sale

The amortized cost, gross unrealized gains and losses, and fair value of the Company's debt securities available-for-sale are as follows for the periods presented:

September 30, 2024	*Cost or Adjusted / Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
Debt Securities Available-for-sale		*(In thousands)*		
U.S. government and agency securities [1]	$ 87,973	$ 1,559	$ 574	$ 88,958
States, municipalities and political subdivisions	333,004	915	21,221	312,698
Corporate bonds	249,627	3,567	7,636	245,558
Mortgage-backed securities [1]	17,986	—	2,136	15,850
Asset-backed securities	2,772	—	90	2,682
Other	6,005	10	—	6,015
Total	$ 697,367	$ 6,051	$ 31,657	$ 671,761

(1) Includes securities at September 30, 2024 with a carrying amount of $24.4 million and $7.1 million that were pledged as collateral for the advance agreement entered into with a financial institution in 2018 and 2024. The

Company is permitted to withdraw or exchange any portion of the pledged collateral over the minimum requirement at any time.

December 31, 2023	*Cost or Adjusted / Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
		(In thousands)		
Debt Securities Available-for-sale				
U.S. government and agency securities [(1)]	$ 81,540	$ 417	$ 1,295	$ 80,662
States, municipalities and political subdivisions	319,896	104	31,018	288,982
Corporate bonds	178,213	475	11,858	166,830
Mortgage-backed securities	22,695	—	2,769	19,926
Asset-backed securities	247	—	20	227
Other	4,055	—	—	4,055
Total	$ 606,646	$ 996	$ 46,960	$ 560,682

(1) Includes securities at December 31, 2023 with a carrying amount of $24.3 million that were pledged as collateral for the advance agreement entered into with a financial institution in 2018. The Company is permitted to withdraw or exchange any portion of the pledged collateral over the minimum requirement at any time.

Net Realized Gains (Losses) and Impairment

The following tables present net realized gains (losses) on the Company's debt securities available-for-sale for the three and nine months ended September 30, 2024 and 2023, respectively:

	2024		*2023*	
Three Months Ended September 30,	*Gains (Losses)*	*Fair Value at Sale*	*Gains (Losses)*	*Fair Value at Sale*
		(In thousands)		
Debt Securities Available-for-Sale				
Total realized gains	$ —	$ —	$ 2	$ 1,498
Total realized losses	(3)	153	(381)	40,705
Net realized losses	$ (3)	$ 153	$ (379)	$ 42,203

	2024		*2023*	
Nine Months Ended September 30,	*Gains (Losses)*	*Fair Value at Sale*	*Gains (Losses)*	*Fair Value at Sale*
		(In thousands)		
Debt Securities Available-for-Sale				
Total realized gains	$ 7	$ 2,744	$ 1	$ 1,900
Total realized losses	(5)	343	(391)	41,137
Net realized gains (losses)	$ 2	$ 3,087	$ (390)	$ 43,037

The following table presents the reconciliation of net realized (losses) gains and impairment of the Company's investments reported for the three and nine months ended September 30, 2024 and 2023, respectively:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2024	*2023*	*2024*	*2023*
		(In thousands)		
Gross realized gains on sales of available-for-sale securities	$ —	$ 2	$ 7	$ 1
Recovery (impairment) on other investments	4	—	4	(1,559)
Realized losses on sales of available-for-sale securities	(3)	(381)	(5)	(391)
Gross realized gains on sale of other investments	5	—	11	1,900
Net realized gains (losses) and impairments	$ 6	$ (379)	$ 17	$ (49)

The table below summarizes the Company's debt securities at September 30, 2024 by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of those obligations.

	At September 30, 2024			
	Cost or Amortized Cost	*Percent of Total*	*Fair Value*	*Percent of Total*
Maturity dates:	*(In thousands)*		*(In thousands)*	
Due in one year or less	$ 83,803	12.0 %	$ 82,878	12.3 %
Due after one year through five years	386,655	55.4 %	375,797	56.0 %
Due after five years through ten years	190,756	27.4 %	179,300	26.7 %
Due after ten years	36,153	5.2 %	33,786	5.0 %
Total	$ 697,367	100.0 %	$ 671,761	100.0 %

Net Investment Income

The following table summarizes the Company's net investment income by major investment category for the three and nine months ended September 30, 2024 and 2023, respectively:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2024	*2023*	*2024*	*2023*
		(In thousands)		
Debt securities	$ 4,935	$ 4,685	$ 15,992	$ 12,723
Equity securities	778	79	1,435	170
Cash and cash equivalents	4,677	1,746	12,490	6,195
Other investments	182	687	506	1,525
Net investment income	10,572	7,197	30,423	20,613
Less: Investment expenses	771	330	2,302	1,565
Net investment income, less investment expenses	$ 9,801	$ 6,867	$ 28,121	$ 19,048

The following tables present, for all debt securities available-for-sale in an unrealized loss position (including securities pledged) and for which no credit loss allowance has been established to date, the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position at September 30, 2024 and December 31, 2023, respectively (in thousands):

September 30, 2024	Less Than Twelve Months			Twelve Months or More		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
Debt Securities Available-for-sale						
U.S. government and agency securities	1	$ —	$ 996	20	$ 574	$ 20,063
States, municipalities and political subdivisions	10	101	12,522	357	21,120	266,014
Corporate bonds	1	—	747	170	7,636	115,504
Mortgage-backed securities	4	—	1	120	2,136	15,849
Asset-backed securities	—	—	—	34	90	2,682
Other	—	—	—	—	—	—
Total fixed maturity securities	16	$ 101	$ 14,266	701	$ 31,556	$ 420,112

December 31, 2023	Less Than Twelve Months			Twelve Months or More		
	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
Debt Securities Available-for-sale						
U.S. government and agency securities	3	$ 14	$ 2,962	32	$ 1,281	$ 42,305
States, municipalities and political subdivisions	5	$ 21	$ 3,875	382	$ 30,997	$ 274,876
Corporate bonds	10	$ 24	$ 6,398	188	$ 11,834	$ 128,771
Mortgage-backed securities	10	$ —	$ 7	138	$ 2,769	$ 19,810
Asset-backed securities	—	$ —	$ —	24	$ 20	$ 373
Other	—	$ —	$ —	—	$ —	$ —
Total fixed maturity securities	28	$ 59	$ 13,242	764	$ 46,901	$ 466,135

The Company's unrealized losses on debt securities have not been recognized because the securities are of a high credit quality with investment grade ratings. After reviewing the Company's portfolio, if (i) the Company does not have the intent to sell, or (ii) it is more likely than not it will not be required to sell the security before its anticipated recovery, then the Company's intent is to hold the investment securities to recovery, or maturity if necessary to recover the decline in valuation as prices accrete to par. However, the Company's intent may change prior to maturity due to certain types of events, which include, but are not limited to, changes in the financial markets, the Company's analysis of an issuer's credit metrics and prospects, changes in tax laws or the regulatory environment, or as a result of significant unforeseen changes in liquidity needs. As such, the Company may, from time to time, sell invested assets subsequent to the balance sheet date that it did not intend to sell at the balance sheet date. Conversely, the Company may not sell invested assets that the Company asserted it intended to sell at the balance sheet date. Such changes in intent are due to unforeseen events occurring subsequent to the balance sheet date.

No credit loss allowance was recorded as of September 30, 2024 or for the year ended December 31, 2023.

Other Investments

Non-Consolidating Variable Interest Entities ("VIEs")

The Company makes passive investments in limited partnerships ("LPs"), which are accounted for using the equity method, with income reported in earnings through net realized and unrealized gains and losses. The Company also holds a passive investment in a Real Estate Investment Trust ("REIT"), which is accounted for using the measurement alternative method, and reported at cost less impairment (if any), plus or minus changes from observable price changes.

The following table summarizes the carrying value and maximum loss exposure of the Company's non-consolidated VIEs at September 30, 2024 and December 31, 2023, respectively (in thousands):

	As of September 30, 2024		*As of December 31, 2023*	
	Carrying Value	***Maximum Loss Exposure***	***Carrying Value***	***Maximum Loss Exposure***
Investments in non-consolidated VIEs - Equity method	$ 1,679	$ 1,679	$ 1,819	$ 1,819
Investments in non-consolidated VIEs - Measurement alternative	5,068	5,068	5,248	5,248
Total non-consolidated VIEs	$ 6,747	$ 6,747	$ 7,067	$ 7,067

No agreements exist requiring the Company to provide additional funding to any of the non-consolidated VIEs in excess of the Company's initial investment.

NOTE 3. FAIR VALUE OF FINANCIAL MEASUREMENTS

Fair value is determined based on the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The Company is required to use an established hierarchy for fair value measurements based upon the inputs to the valuation and degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- ***Level 1*** – Unadjusted quoted prices are available in active markets for identical assets/liabilities as of the reporting date.
- ***Level 2*** – Valuations based on observable inputs, such as quoted prices for similar assets or liabilities at the measurement date; quoted prices in the markets that are not active; or other inputs that are observable, either directly or indirectly.
- ***Level 3*** – Pricing inputs are unobservable and significant to the overall fair value measurement, and the determination of fair value requires significant management judgment or estimation.

The highest priority is assigned to Level 1 inputs and the lowest priority to Level 3 inputs. At September 30, 2024 and December 31, 2023, there were no transfers in or out of Level 1, 2, and 3.

The following table presents information about the Company's assets measured at fair value on a recurring basis. The Company assesses the levels for the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Company's accounting policy regarding the recognitions of transfers between levels of the fair value hierarchy.

The tables below present the balances of the Company's invested assets measured at fair value on a recurring basis:

September 30, 2024	*Total*	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Financial assets		*(In thousands)*		
Cash and cash equivalents	$ 509,918	$ 509,918	$ —	$ —
Restricted cash	$ 10,980	$ 10,980	$ —	$ —
Debt Securities Available-for-sale				
U.S. government and agency securities	$ 88,958	$ —	$ 88,958	$ —
States, municipalities and political subdivisions	312,698	—	312,698	—
Corporate bonds	245,558	—	245,558	—
Mortgage-backed securities	15,850	—	15,850	—
Asset-backed securities	2,682	—	2,682	—
Other	6,015	—	6,015	—
Total debt securities	$ 671,761	$ —	$ 671,761	$ —
Equity Securities				
Common stock	$ 1,936	$ 1,936	$ —	$ —
Total debt securities and equity securities	$ 673,697	$ 1,936	$ 671,761	$ —

December 31, 2023	*Total*	*Quoted Prices in Active Markets for Identical Assets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Financial assets		*(In thousands)*		
Cash and cash equivalents	$ 463,640	$ 463,640	$ —	$ —
Restricted cash	$ 9,699	$ 9,699	$ —	$ —
Debt Securities Available-for-sale				
U.S. government and agency securities	$ 80,662	$ —	$ 80,662	$ —
States, municipalities and political subdivisions	288,982	—	288,982	—
Corporate bonds	166,830	—	166,830	—
Mortgage-backed securities	19,926	—	19,926	—
Asset-backed securities	227	—	227	—
Other	4,055	—	4,055	—
Total debt securities	$ 560,682	$ —	$ 560,682	$ —
Equity Securities				
Common stock	$ 1,666	$ 1,666	$ —	$ —
Total debt securities and equity securities	$ 562,348	$ 1,666	$ 560,682	$ —

Financial Instruments excluded from the fair value hierarchy

The carrying value of premium receivables, accounts payable, accrued expense, revolving loans and borrowings under the Company's senior secured credit facility approximate their fair value. The rate at which revolving loans and borrowings under the Company's senior secured credit facility bear interest resets periodically at market interest rates.

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets which are recognized at fair value during the period in which an acquisition is completed, from updated estimates and assumptions

during the measurement period, or when they are considered to be impaired. For the nine months ended September 30, 2024, there were no assets or liabilities that were measured at fair value on a non-recurring basis.

Certain of the Company's investments are measured in accordance with GAAP for the type of investment, using methodologies other than fair value.

NOTE 4. OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize other comprehensive income (loss) and disclose the tax impact of each component of other comprehensive income for the three and nine months ended September 30, 2024 and 2023, respectively:

	For the Three Months Ended September 30,					
	2024			*2023*		
	Pre-tax	*Tax*	*After-tax*	*Pre-tax*	*Tax*	*After-tax*
	(In thousands)					
Other comprehensive income (loss)						
Change in unrealized gains (losses) on investments, net	$ 19,711	$ (4,667)	$ 15,044	$ (4,494)	$ 1,059	$ (3,435)
Reclassification adjustment of realized (gains) losses included in net income	(6)	1	(5)	379	(89)	290
Effect on other comprehensive income (loss)	$ 19,705	$ (4,666)	$ 15,039	$ (4,115)	$ 970	$ (3,145)

	For the Nine Months Ended September 30,					
	2024			*2023*		
	Pre-tax	*Tax*	*After-tax*	*Pre-tax*	*Tax*	*After-tax*
	(In thousands)					
Other comprehensive income						
Change in unrealized gains (losses) on investments, net	$ 20,353	$ (4,820)	$ 15,533	$ 4,664	$ (1,097)	$ 3,567
Reclassification adjustment of realized losses included in net income	(17)	4	(13)	390	(92)	298
Effect on other comprehensive income	$ 20,336	$ (4,816)	$ 15,520	$ 5,054	$ (1,188)	$ 3,866

NOTE 5. LEASES

The Company has entered into operating and financing leases primarily for real estate and vehicles. The Company will determine whether an arrangement is a lease at inception of the agreement. The operating leases have terms of one to ten years, and often include one or more options to renew. These renewal terms can extend the lease term from two to ten years and are included in the lease term when it is reasonably certain that the Company will exercise the option. The Company considers these options in determining the lease term used in establishing the Company's right-of-use assets and lease obligations. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Because the rate implicit in each operating lease is not readily determinable, the Company uses its incremental borrowing rate to determine present value of the lease payments. The Company used the implicit rates within the finance leases.

Components of the Company's lease costs were as follows (in thousands):

	For The Nine Months Ended September 30,	
	2024	*2023*
Operating lease cost, included in General & Administrative expenses on the Consolidated Statements of Operations	$ 1,210	$ 1,183
Finance lease cost:		
Amortization of assets, included in General & Administrative expenses on the Consolidated Statements of Operations	1,898	1,921
Interest on lease liabilities, included in Interest expense on the Consolidated Statements of Operations	603	671
Total finance lease cost	$ 2,501	$ 2,592
Variable lease cost, included in General & Administrative expenses on the Consolidated Statements of Operations	$ 1,104	$ 1,175
Short-term lease cost, included in General & Administrative expenses on the Consolidated Statements of Operations	$ 55	$ 113

Supplemental balance sheet information related to the Company's operating and financing leases were as follows (in thousands):

Operating Leases	*September 30, 2024*	*December 31, 2023*
Right of use assets	$ 6,057	$ 6,835
Lease liability	$ 7,192	$ 8,076
Finance Leases		
Right of use assets	$ 15,708	$ 17,606
Lease liability	$ 18,669	$ 20,386

Weighted-average remaining lease term and discount rate for the Company's operating and financing leases for the periods presented below were as follows:

Weighted-average remaining lease term	*September 30, 2024*	*December 31, 2023*
Operating lease	4.86 yrs.	5.57 yrs.
Finance lease	6.43 yrs.	7.16 yrs.
Weighted-average discount rate		
Operating lease	5.44 %	5.17 %
Finance lease	4.14 %	4.15 %

Maturities of lease liabilities by fiscal year for the Company's operating and financing leases were as follows (in thousands):

	Financing Lease	*Operating Lease*
2024 remaining	$ 788	$ 441
2025	3,173	1,654
2026	3,216	1,636
2027	3,190	1,599
2028	3,270	1,633
2029 and thereafter	7,651	1,213
Total lease payments	21,288	8,176
Less: imputed interest	(2,619)	(984)
Present value of lease liabilities	$ 18,669	$ 7,192

Supplemental cash flow information related to the Company's operating and financing leases were as follows (in thousands):

Operating Leases	*September 30, 2024*	*September 30, 2023*
Lease liability payments	$ 1,709	$ 1,707
Finance Leases		
Lease liability payments	$ 601	$ 651
Total lease liability payments	$ 2,310	$ 2,358

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at September 30, 2024 and December 31, 2023:

	September 30, 2024	*December 31, 2023*
	(In thousands)	
Land	$ 2,582	$ 2,582
Building	9,599	9,599
Software in progress	—	14,450
Computer hardware and software	30,810	10,717
Office furniture and equipment	1,484	1,484
Tenant and leasehold improvements	10,900	10,876
Vehicle fleet	515	515
Total, at cost	55,890	50,223
Less: accumulated depreciation and amortization	(19,101)	(17,005)
Property and equipment, net	$ 36,789	$ 33,218

The Company placed in service in aggregate $17.0 million for internal-use software development for a new policy, billing and claims system in September 2024 and $2.0 million as of September 30, 2023. The Company anticipates additional development costs will be incurred through spring of 2025, which will be capitalized as incurred. The Company will amortize the capitalized internally developed software costs over the estimated useful life of 7 years, on a straight-line basis.

Depreciation and amortization expense for property and equipment was approximately $696,000 and $653,000 for the three months ended September 30, 2024 and 2023, respectively. Depreciation and amortization expense for property and equipment were approximately $2.1 million and $1.8 million for the nine months ended September 30, 2024 and 2023, respectively. The Company owns real estate consisting of 13 acres of land, two buildings with a gross area of 88,378 square feet and a parking garage. The carrying value of the property is approximately $9.6 million with accumulated depreciation of approximately $2.7 million at September 30, 2024.

NOTE 7. INTANGIBLE ASSETS

At September 30, 2024 and December 31, 2023, intangible assets, net were $37.9 million and $42.6 million, respectively. The Company has determined the useful life of its intangible assets to range between 2.5-15 years. Intangible assets include $1.3 million relating to insurance licenses which is classified as an indefinite lived intangible. Impairment testing is required when events occur that indicate an asset may not be recoverable, such as a triggering event. Management reviews other intangible assets for impairment annually during the fourth quarter, or more frequently should events or changes in circumstances indicate that the Company's other intangible assets might be impaired.

The Company’s intangible assets consist of brand, agent relationships, renewal rights, customer relations, trade names and insurance licenses. During the three months ended June 30, 2023, certain brand and customer relations within the Company's restoration provider with a net value of $766,600 were impaired due to the discontinuation of providing restoration services to the Company’s policyholders. The impairment loss of $766,600 was included in intangible asset impairment in the Company's consolidated statements of operations for the nine months ended September 30, 2023.

There was no impairment of the intangible assets with definite lives for the three and nine months ended September 30, 2024.

Amortization expense of the Company’s intangible assets for the three and nine months ended September 30, 2024 was $1.5 million and $4.6 million, respectively and for the three and nine months ended September 30, 2023 was $1.6 million and $4.8 million, respectively.

Estimated annual pretax amortization of intangible assets for each of the next five years and thereafter is as follows (in thousands):

Year	*Amount*
2024 - remaining	$ 1,545
2025	6,183
2026	6,034
2027	5,836
2028	3,914
Thereafter	13,091
Total	$ 36,603

NOTE 8. EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share ("EPS") for the periods indicated (amounts in thousands, except share and per share amounts).

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2024	*2023*	*2024*	*2023*
Basic and Diluted				
Net income (loss) available to common shareholders — basic and diluted	$ 8,152	$ (7,424)	$ 41,246	$ 14,363
Common Shares				
Basic				
Weighted average shares outstanding	30,684,198	26,698,806	30,570,204	25,941,422
Diluted				
Weighted average shares outstanding	30,684,198	26,698,806	30,570,204	25,941,422
5.875% Convertible Notes	59,263	—	59,263	39,509
Total	30,743,461	26,698,806	30,629,467	25,980,931
Net income (loss) per common share				
Basic	$ 0.27	$ (0.28)	$ 1.35	$ 0.55
Diluted	$ 0.27	$ (0.28)	$ 1.35	$ 0.55

NOTE 9. DEFERRED REINSURANCE CEDING COMMISSION

The Company defers reinsurance ceding commission income, which is amortized over the effective period of the related insurance policies. For the three months ended September 30, 2024 and 2023, the Company allocated ceding commission income of $8.9 million and $11.9 million, respectively, to policy acquisition costs and $3.2 million and $4.0 million, respectively, to general and administrative expense. For the nine months ended September 30, 2024 and 2023, the Company allocated ceding commission income of $27.6 million and $37.3 million, respectively, to policy acquisition costs and $9.3 million and $12.3 million, respectively, to general and administrative expense.

The table below depicts the activity regarding deferred reinsurance ceding commission, included in accounts payable and other liabilities during the three and nine months ended September 30, 2024 and 2023.

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2024	*2023*	*2024*	*2023*
	(In thousands)			
Beginning balance of deferred ceding commission income	$ 33,602	$ 37,990	$ 33,627	$ 42,758
Ceding commission deferred	14,857	13,957	39,697	42,866
Less: ceding commission earned	(12,023)	(15,914)	(36,888)	(49,591)
Ending balance of deferred ceding commission income	$ 36,436	$ 36,033	$ 36,436	$ 36,033

NOTE 10. DEFERRED POLICY ACQUISITION COSTS

The Company defers certain costs in connection with written policies, called deferred policy acquisition costs ("DPAC"), which are amortized over the effective period of the related insurance policies.

The Company anticipates that its DPAC will be fully recoverable in the near term. The table below depicts the activity regarding DPAC for the three and nine months ended September 30, 2024 and 2023.

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2024	*2023*	*2024*	*2023*
			(In thousands)	
Beginning Balance	$ 114,818	$ 106,736	$ 102,884	$ 99,617
Policy acquisition costs deferred	57,371	42,427	170,256	149,536
Amortization	(62,748)	(45,064)	(163,699)	(145,054)
Ending Balance	$ 109,441	$ 104,099	$ 109,441	$ 104,099

NOTE 11. INCOME TAXES

For the three months ended September 30, 2024 and 2023, the Company recorded an income tax provision of $0.8 million and a tax benefit of $(4.6) million, respectively, which corresponds to effective tax rates of 9.4% and 38.3%, respectively. For the nine months ended September 30, 2024 and 2023, the Company recorded income tax provisions of $12.5 million and $4.5 million, respectively, which corresponds to effective tax rates of 23.2% and 23.7%, respectively. The effective tax rate for the current year quarter was favorably impacted by updated estimates used in the quarterly tax provision as well as the benefit of interest income from a previous year's income tax refund, which lowered income tax expense for the quarter. The Company recognizes interest and penalties related to uncertain tax benefits on the income tax expense line in the accompanying consolidated Statements of Operations. The effective tax rate for the prior year quarter was impacted by an decrease of $7.2 million in the deferred tax valuation allowance related to certain tax elections made by Osprey Re, the Company's captive reinsurer domiciled in Bermuda. The decrease in the valuation allowance in the prior year quarter caused the income tax benefit for the prior year quarter to be higher than the statutory rate. There was no benefit nor detriment associated with a valuation allowance in the current year quarter. The impact of permanent tax differences on projected results of operations for the calendar year impacts the effective tax rate, which can also fluctuate throughout the year as estimates used in the quarterly tax provision are updated with additional information.

The table below summarizes the significant components of the Company's net deferred tax assets:

	September 30, 2024	*December 31, 2023*
Deferred tax assets:	*(In thousands)*	
Unearned premiums	$ 22,653	$ 18,507
Unearned commission	8,629	7,964
Net operating loss	1	436
Tax-related discount on loss reserve	5,159	5,162
Stock-based compensation	804	331
Accrued expenses	1,279	1,677
Leases	936	940
Unrealized losses	6,839	11,655
Property and equipment	700	—
Other	278	473
Total deferred tax assets	47,278	47,145
Deferred tax liabilities:		
Deferred acquisition costs	$ 25,919	$ 24,366
Prepaid expenses	189	189
Property and equipment	—	359
Note discount	33	152
Basis in purchased investments	7	8
Basis in purchased intangibles	8,323	9,327
Other	1,779	1,633
Total deferred tax liabilities	36,250	36,034
Net deferred tax asset:	$ 11,028	$ 11,111

The statute of limitations related to the Company's federal and state income tax returns remains open from the Company's filings for 2020 through 2023. There are currently no tax years under examination.

At September 30, 2024 and December 31, 2023, the Company had no significant uncertain tax positions or unrecognized tax benefits that, if recognized, would impact the effective income tax rate.

NOTE 12. REINSURANCE

Overview

In order to limit the Company's potential exposure to individual risks and catastrophic events, the Company purchases significant reinsurance from third party reinsurers. Purchasing reinsurance is an important part of the Company's risk strategy, and premiums ceded to reinsurers is one of the Company's largest costs. The Company has strong relationships with reinsurers, which it attributes to its management's industry experience, disciplined underwriting, and claims management capabilities. For each of the twelve months beginning June 1, 2024 and 2023, the Company purchased reinsurance from the following sources: (i) the Florida Hurricane Catastrophe Fund, a state-mandated catastrophe fund ("FHCF") which provides reinsurance for Florida admitted policies only, (ii) private reinsurers, all of which were rated "A-" or higher by A.M. Best Company, Inc. ("A.M. Best") or Standard & Poor's Financial Services LLC ("S&P") or were fully collateralized, and (iii) the Company's wholly-owned reinsurance subsidiary, Osprey Re Ltd. ("Osprey"). The Company also sponsored catastrophe bonds in 2024 and 2023 through Citrus Re Ltd., a Bermuda special purpose insurer, which provided an alternative to traditional reinsurance through the issuance of catastrophe bonds. For the 2023 hurricane season only, the Company also obtained reinsurance from the Florida State Board of Administration's Reinsurance to assist Policyholders ("RAP") program which provided reinsurance for Florida admitted policies only. The RAP component of the Company's reinsurance program was provided at no cost to the Company and is a non-recurring reinsurance program. In addition to purchasing excess of loss catastrophe reinsurance, the Company also purchased quota share, property per risk and facultative reinsurance. The Company's quota share program limits its exposure on catastrophe and non-catastrophe losses and provides ceding commission income. The Company's per risk programs limit its net exposure in the event of severe non-catastrophe losses impacting a single location or risk. The Company also utilizes facultative reinsurance to supplement its per risk reinsurance program where the Company capacity needs dictate.

Purchasing a sufficient amount of reinsurance to cover catastrophic losses from single or multiple events or significant non-catastrophe losses is an important part of the Company's risk strategy. Reinsurance involves transferring, or "ceding", a portion of the risk exposure on policies the Company writes to another insurer, known as a reinsurer. To the extent that

the Company's reinsurers are unable to meet the obligations they assume under the Company's reinsurance agreements, the Company remains liable for the entire insured loss.

The Company's insurance regulators require all insurance companies, like us, to have a certain amount of capital and reinsurance coverage in order to cover losses and loss adjustment expenses upon the occurrence of a catastrophic event. The Company's reinsurance program provides reinsurance in excess of its state regulator requirements, which are generally based on the probable maximum loss that it would incur from an individual catastrophic event estimated to occur once in every 100 years based on its portfolio of insured risks. The nature, severity and location of the event giving rise to such a probable maximum loss differs for each insurer depending on the insurer's portfolio of insured risks, including, among other things, the geographic concentration of insured value within such portfolio. As a result, a particular catastrophic event could be a one-in-100-year loss event for one insurance company while having a greater or lesser probability of occurrence for another insurance company. The Company also purchases reinsurance coverage to protect against the potential for multiple catastrophic events occurring in the same year. The Company shares portions of its reinsurance program coverage among its insurance company affiliates.

2024 - 2025 Reinsurance Program

Catastrophe Excess of Loss Reinsurance

Effective June 1, 2024, the Company entered into catastrophe excess of loss reinsurance agreements covering Heritage Property & Casualty Insurance Company ("Heritage P&C"), Zephyr Insurance Company ("Zephyr") and Narragansett Bay Insurance Company ("NBIC"). The catastrophe reinsurance programs are allocated among traditional reinsurers, the Florida Hurricane Catastrophe Fund ("FHCF"), Citrus Re and Osprey Re. The FHCF covers Florida admitted market risks only and the Company elected to participate at 90% for the 2024 hurricane season. Osprey Re will provide reinsurance for a portion of the Heritage P&C, NBIC and Zephyr programs. The Company's third-party reinsurers are either rated "A-" or higher by A.M. Best or S&P or are fully collateralized, to reduce credit risk. Osprey Re and Citrus Re are fully collateralized programs.

The reinsurance program, which is segmented into layers of coverage, protects the Company for excess property catastrophe losses and loss adjustment expenses. The 2024-2025 reinsurance program provides first event coverage up to $1.3 billion for Heritage P&C, first event coverage up to $1.1 billion for NBIC, and first event coverage up to $750.0 million for Zephyr. The Company's first event retention in a 1 in 100-year event would include retention for the respective insurance company as well as any retention by Osprey. The first event maximum retention up to a 1 in 100-year event for each insurance company subsidiary is as follows: Heritage P&C – $40.0 million, of which $34.0 million would be ceded to Osprey; NBIC – $31.8 million of which the entire amount would be ceded to Osprey in a shared contract with Zephyr; and Zephyr — $40 million, of which $32 million would be ceded to Osprey in a shared contract with NBIC as well as $8.0 million ceded to Osprey in a separate reinsurance contract.

The Company is responsible for all losses and loss adjustment expenses in excess of the Company's reinsurance program. For second or subsequent catastrophic events, the Company's total available coverage depends on the magnitude of the first event, as the Company may have coverage remaining from layers that were not previously fully exhausted. An aggregate of $3.3 billion of limit is available in 2024, which includes reinstatement through the purchase of reinstatement premium protection. The amount of coverage, however, will be subject to the severity and frequency of such events.

Additionally, the Company placed occurrence contracts for business underwritten by NBIC which covers all catastrophe losses excluding named storms, on December 31, 2023, expiring December 31, 2024. One contract which is 60% placed has a $15.0 million limit in excess of a retention of $25.0 million. Another contract provides the remaining 40% with a $20.0 million limit in excess of a retention of $20.0 million. Each contract has one reinstatement available.

Net Quota Share Reinsurance

The Company's Net Quota Share coverage is proportional reinsurance, which applies to business underwritten by NBIC, for which certain of the Company's other reinsurance (property catastrophe excess of loss and the second layer of the general excess of loss) inures to the quota share program. An occurrence limit of $20.0 million for catastrophe losses is in effect on the quota share program, subject to certain aggregate loss limits that vary by reinsurer. The amount and rate of ceding commissions slide, within a prescribed minimum and maximum, depending on loss performance. The Net Quota Share program was renewed on December 31, 2023 ceding 41.0% of the net premiums.

Per Risk Coverage

For losses arising from business underwritten by Heritage P&C and losses arising from commercial residential business underwritten by NBIC, excluding losses from named storms, the Company purchased property per risk coverage for losses and loss adjustment expenses in excess of $1.5 million per claim. The limit recoverable for an individual loss is $8.5 million and total limit for all losses is $25.5 million. There are two reinstatements available with additional premium

due based on the amount of the layer exhausted. This coverage for the contract period from June 15, 2024 through June 14, 2025 is 100% placed. For losses arising from commercial residential business underwritten by NBIC, the Company also purchased property per risk coverage for losses and loss adjustments expenses in excess of $1 million per claim. The limit recovered for an individual loss is $500,000 and total limit for all losses is $1.5 million.

In addition, the Company purchased facultative reinsurance for losses in excess of $10.0 million for any properties it insured where the total insured value exceeded $10.0 million. The maximum limit for this coverage is $80.0 million. This coverage applies to losses arising from business underwritten by Heritage P&C and losses arising from commercial residential business underwritten by NBIC, excluding losses from named storms. The Company also purchased facultative reinsurance for losses underwritten by NBIC in excess of $3.5 million.

General Excess of Loss

The Company's general excess of loss reinsurance protects business underwritten by NBIC and Zephyr multi-peril policies from single risk losses. For the contract period of July 1, 2023 through June 30, 2024, the coverage is $2.5 million excess $1.0 million for property losses and $1.0 million excess $1.0 million for casualty losses, and is 67.5% placed. For the contract period of July 1, 2024 through June 30, 2025, the coverage is $2.5 million excess $1.0 million for property losses and $1.0 million excess $1.0 million for casualty losses, and is 50.0% placed.

*For a detailed discussion of the Company's **2023-2024 Reinsurance Program** refer to Part I, "Business", Part II, Item 8, "Financial Statements and Supplementary Data" and "**Note 12. Reinsurance**" in the Company's 2023 Form 10-K.*

Effect of Reinsurance

The Company's reinsurance arrangements had the following effect on certain items in the condensed consolidated statement of income for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2024	*2023*	*2024*	*2023*
	(In thousands)		*(In thousands)*	
Premium written:				
Direct	$ 312,986	$ 309,510	$ 1,094,200	$ 1,016,378
Ceded	(51,198)	(54,850)	(583,876)	(561,283)
Net	$ 261,788	$ 254,660	$ 510,324	$ 455,095
Premiums earned:				
Direct	$ 354,197	$ 336,976	$ 1,045,658	$ 984,012
Ceded	(155,356)	(160,335)	(477,076)	(464,539)
Net	$ 198,841	$ 176,641	$ 568,582	$ 519,473
Loss and Loss Adjustment Expenses				
Direct	$ 129,112	$ 450,524	$ 631,436	$ 757,560
Ceded	908	(319,127)	(293,453)	(422,065)
Net	$ 130,020	$ 131,397	$ 337,983	$ 335,495

NOTE 13. RESERVE FOR UNPAID LOSSES

The Company determines the reserve for unpaid losses on an individual-case basis for all incidents reported. The liability also includes amounts which are commonly referred to as incurred but not reported, or "IBNR", claims as of the balance sheet date. The Company estimates its IBNR reserves by projecting its ultimate losses using industry accepted actuarial methods and then deducting actual loss payments and case reserves from the projected ultimate losses.

During the quarter, ultimate losses for Hurricane Ian were revised downward, which resulted in a reduction to direct incurred losses and loss adjustment expenses as well as a reduction to ceded losses and loss adjustment expenses, resulting in no change to loss reserves on a net basis.

The table below summarizes the activity related to the Company's reserve for unpaid losses:

	Three Months Ended September 30,		*Nine Months Ended September 30,*	
	2024	*2023*	*2024*	*2023*
		(In thousands)		
Balance, beginning of period	$ 822,271	$ 817,859	$ 845,955	$ 1,131,807
Less: reinsurance recoverable on unpaid losses	468,137	442,289	421,798	759,681
Net balance, beginning of period	354,134	375,570	424,157	372,126
Incurred related to:				
Current year	123,737	130,604	316,350	338,890
Prior years	6,283	793	21,633	(3,395)
Total incurred	130,020	131,397	337,983	335,495
Paid related to:				
Current year	57,464	76,524	138,847	160,468
Prior years	41,508	(18,512)	238,111	98,198
Total paid	98,972	58,012	376,958	258,666
Net balance, end of period	385,182	448,955	385,182	448,955
Plus: reinsurance recoverable on unpaid losses	390,286	522,366	390,286	522,366
Balance, end of period	$ 775,468	$ 971,321	$ 775,468	$ 971,321

The Company believes that the reserve for unpaid losses reasonably represents the amount necessary to pay all claims and related expenses which may arise from incidents that have occurred as of the balance sheet date.

As of September 30, 2024, the Company reported $385.2 million in unpaid losses and loss adjustment expenses, net of reinsurance which included $269.4 million attributable to IBNR net of reinsurance recoverable, or 69.9% of net reserves for unpaid losses and loss adjustment expenses. For the three months ended September 30, 2024, the Company experienced $6.3 million of net unfavorable prior year loss development compared to $0.8 million of net unfavorable prior year loss development for the three months ended September 30, 2023. For the nine months ended September 30, 2024, the Company experienced $21.6 million of net unfavorable prior year loss development compared to $3.4 million of net favorable prior year loss development for the nine months ended September 30, 2023. The unfavorable development is largely associated with adverse development on Hurricane Irma claims, for which the losses are fully retained.

Reinsurance recoverable on unpaid losses includes expected reinsurance recoveries associated with reinsurance contracts the Company has in place. The amount may include recoveries from catastrophe excess of loss reinsurance, net quota share reinsurance, per risk reinsurance, and facultative reinsurance contracts.

NOTE 14. LONG-TERM DEBT

Convertible Senior Notes

In August 2017 and September 2017, the Company issued in aggregate $136.8 million of 5.875% Convertible Senior Notes ("Convertible Notes") maturing on August 1, 2037, unless earlier repurchased, redeemed or converted. Interest is payable semi-annually in arrears, on February 1, and August 1 of each year. In January 2022, the Company reacquired and retired $11.7 million of its outstanding Convertible Senior Notes. Payment was made in cash and the Convertible Notes were retired at the time of repurchase. In addition, the Company expensed $242,700 which was the proportionate amount of the unamortized issuance and debt discount costs associated with this repurchase.

As of December 31, 2023 and at September 30, 2024, the Company had approximately $885,000 of the Convertible Notes outstanding, net of $21.1 million of Convertible Notes held by an insurance company subsidiary. For the nine-months ended September 30, 2024 and 2023, the Company made interest payments, net of affiliated Convertible Notes, of approximately $50,230 and $52,000, on the outstanding Convertible Notes, respectively.

Senior Secured Credit Facility

The Company is party to a credit agreement dated as of December 14, 2018 (as amended from time to time, the "Credit Agreement") with a syndicate of lenders.

The Credit Agreement, as amended, provides for (1) a five-year senior secured term loan facility in an aggregate principal amount of $100 million (the "Term Loan Facility") and (2) a five-year senior secured revolving credit facility in an aggregate principal amount of $50 million (inclusive of a sublimit for the issuance of letters of credit equal to the unused

amount of the revolving credit facility and a sublimit for swingline loans equal to the lesser of $25 million and the unused amount of the revolving credit facility) (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Credit Facilities").

Term Loan Facility. The principal amount of the Term Loan Facility amortizes in quarterly installments, which began with the close of the fiscal quarter ending March 31, 2019, in an amount equal to $1.9 million per quarter, payable quarterly, decreasing to $875,000 per quarter commencing with the quarter ending December 31, 2021, and increasing to $2.4 million per quarter commencing with the quarter ending December 31, 2022, with the remaining balance payable at maturity. The Term Loan Facility matures on July 28, 2026. As of December 31, 2023 and September 30, 2024, there was $79.6 million and $72.5 million, respectively in aggregate principal outstanding under the Term Loan Facility and after giving effect to the additional term loan advance that was used to refinance amounts outstanding under the Revolving Credit Facility and to pay fees, costs and expenses related thereto, there was $10 million in aggregate principal outstanding under the Revolving Credit Facility.

For the nine months ended September 30, 2024, the Company made principal and interest payments of approximately $7.1 million and $4.9 million, respectively, on the Term Loan Facility and for the comparable period of 2023, the Company made principal and interest payments of $7.1 million and $5.2 million, respectively, on the Term Loan Facility.

Revolving Credit Facility. The Revolving Credit Facility allows for borrowings of up to $50 million inclusive of a sublimit for the issuance of letters of credit equal to the unused amount of the Revolving Credit Facility and a sublimit for swingline loans equal to the lesser of $25 million and the unused amount of the Revolving Credit Facility. At September 30, 2024 and December 31, 2023, the Company had $10.0 million in borrowings under the Revolving Credit Facility. At September 30, 2024 and 2023, there were no outstanding letters of credit issued under the Revolving Credit Facility. For the nine months ended September 30, 2023, the Company made interest payments in aggregate of approximately $543,400 on the Revolving Credit Facility and $538,470 relating to letters of credit and unused availability commitment fees. For the nine months ended September 30, 2024, the Company made interest payments in aggregate of approximately $626,832 on the Revolving Credit Facility and $100,480 relating to unused availability commitment fees.

At the Company's option, borrowings under the Credit Facilities bear interest at rates equal to either (1) a rate determined by reference to SOFR, plus an applicable margin and a credit adjustment spread equal to 0.10% or (2) a base rate determined by reference to the highest of (a) the "prime rate" of Regions Bank, (b) the federal funds rate plus 0.50%, and (c) the adjusted term SOFR in effect on such day for an interest period of one month plus 1.00%, plus an applicable margin.

At September 30, 2024, the effective interest rate for the Term Loan Facility and Revolving Credit Facility was 8.192% and 8.102%, respectively. The Company monitors the rates prior to the reset date which allows it to establish if the payment is monthly or quarterly payment based on the most beneficial rate used to calculate the interest payment.

Mortgage Loan

In October 2017, the Company and its subsidiary, Skye Lane Properties LLC, jointly obtained a commercial real estate mortgage loan in the amount of $12.7 million, bearing interest of 4.95% per annum and maturing on October 30, 2027. Pursuant to the terms of the mortgage loan, on October 30, 2022, the interest rate adjusted to an interest rate equal to the annualized interest rate of the United States 5-year Treasury Notes as reported by the Federal Reserve on a weekly average basis plus 3.10%, which resulted in an increase of the rate from 4.95% to 7.42% per annum. The Company makes monthly principal and interest payments against the loan. For the nine months ended September 30, 2024 and 2023, the Company made principal and interest payments $913,561 of $701,455 on the mortgage loan, respectively.

FHLB Loan Agreements

In December 2018, a subsidiary of the Company received a 3.094% fixed interest rate cash loan of $19.2 million from the Federal Home Loan Bank ("FHLB") Atlanta. On September 29, 2023, the Company restructured the December 2018 agreement to extend the maturity date to March 28, 2025, with a 5.109% fixed interest rate payable quarterly commencing on December 28, 2023. The subsidiary continues to be a member in the FHLB. Membership in the FHLB required an investment in FHLB's common stock which was purchased in December 2018 and valued at $1.4 million. Additionally, the transaction required the acquired FHLB common stock and certain other investments to be pledged as collateral. As of September 30, 2024, the fair value of the collateralized securities was $24.4 million and the equity investment in FHLB common stock was $1.5 million. For the nine months ended September 30, 2024, and 2023, the Company made quarterly interest payments as per the terms of the loan agreement of approximately $801,850 and $478,840, respectively.

As of September 30, 2024 and at December 31, 2023, the Company also holds other common stock from FHLB Boston for a value of $177,197, classified as equity securities and reported at fair value on the condensed consolidated financial statements.

In December 2018, an insurance subsidiary became a member of the FHLB-DM. Membership in the FHLB-DM required an investment in FHLB-DM's common stock which was purchased in December 2018 and valued at $133,200. In January 2024, the insurance subsidiary of the Company received a 4.23% fixed interest rate cash loan of $5.5 million from the Federal Home Loan Bank ("FHLB-DM") Des Moines. Additionally, the transaction required the acquired FHLB-DM common stock and certain other investments to be pledged as collateral. As of September 30, 2024, the fair value of the collateralized securities was $7.1 million and the equity investment in FHLB common stock was $295,500.

For the three and nine months ended September 30, 2024, the Company made monthly interest payments as per the terms of the loan agreement of approximately $53,026, and $170,129, respectively.

The following table summarizes the Company's long-term debt and credit facilities as of September 30, 2024 and December 31, 2023:

	September 30, 2024	*December 31, 2023*
	(In thousands)	
Convertible debt	$ 885	$ 885
Mortgage loan	10,821	11,019
Term loan facility	72,500	79,625
Revolving credit facility	10,000	10,000
FHLB loan agreements	24,700	19,200
Total principal amount	$ 118,906	$ 120,729
Deferred finance costs	$ 355	$ 997
Total long-term debt	$ 118,551	$ 119,732

As of the date of this report, the Company was in compliance with the applicable terms of all its covenants and other requirements under the Credit Agreement, Convertible Notes, cash borrowings and other loans. The Company's ability to secure future debt financing depends, in part, on its ability to remain in such compliance. The covenants in the Credit Agreement may limit the Company's flexibility in connection with future financing transactions and in the allocation of capital in the future, including the Company's ability to pay dividends and make stock repurchases, and contribute capital to its insurance subsidiaries that are not parties to the Credit Agreement.

The schedule of principal payments on long-term debt as of September 30, 2024 is as follows:

Year	*Amount*
	(In thousands)
2024 remaining	$ 2,532
2025	29,074
2026	71,018
2027	9,897
2028	—
Thereafter	6,385
Total	$ 118,906

NOTE 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following:

Description	*September 30, 2024*	*December 31, 2023*
	(In thousands)	
Deferred ceding commission	$ 36,436	$ 33,627
Accounts payable and other payables	13,400	16,185
Taxes, licenses and fees	4,445	—
Accrued interest and issuance costs	206	325
Other liabilities	213	329
Premium tax	543	1,486
Commission payables	15,761	17,714
Total other liabilities	$ 71,004	$ 69,666

NOTE 16. STATUTORY ACCOUNTING AND REGULATIONS

State laws and regulations, as well as national regulatory agency requirements, govern the operations of all insurers such as the Company's insurance subsidiaries. The various laws and regulations require that insurers maintain minimum amounts of statutory surplus and risk-based capital, restrict insurers' ability to pay dividends, restrict the allowable investment types and investment mixes, and subject the Company's insurers to assessments.

The Company's insurance subsidiaries Heritage Property & Casualty Insurance Company ("Heritage P&C)", Narragansett Bay Insurance Company ("NBIC"), Zephyr Insurance Company ("Zephyr"), and Pawtucket Insurance Company ("PIC") must maintain capital and surplus ratios or balances as determined by the regulatory authority of the states in which they are domiciled. Heritage P&C is required to maintain capital and surplus equal to the greater of $15.0 million or 10% of its respective liabilities. Zephyr is required to maintain a deposit of $750,000 in a federally insured financial institution. NBIC is required to maintain capital and surplus of $3.0 million. The combined statutory surplus for Heritage P&C, Zephyr, and NBIC was $258.7 million at September 30, 2024 and $259.6 million at December 31, 2023. State law also requires the Company's insurance subsidiaries to adhere to prescribed premium-to-capital surplus ratios, and risk-based capital requirements with which the Company's insurance subsidiaries are in compliance. At September 30, 2024, the Company's insurance subsidiaries met the financial and regulatory requirements of each of the states in which they conduct business.

NOTE 17. COMMITMENTS AND CONTINGENCIES

The Company is involved in claims-related legal actions arising in the ordinary course of business. The Company accrues amounts resulting from claims-related legal actions in unpaid losses and loss adjustment expenses during the period that it determines an unfavorable outcome becomes probable and it can estimate the amounts. Management makes revisions to its estimates based on its analysis of subsequent information that the Company receives regarding various factors, including: (i) per claim information; (ii) company and industry historical loss experience; (iii) judicial decisions and legal developments in the awarding of damages; and (iv) trends in general economic conditions, including the effects of inflation.

NOTE 18. RELATED PARTY TRANSACTIONS

From time to time the Company has been party to various related party transactions involving certain of its officers, directors and significant stockholders, including as set forth below. The Company has entered into each of these arrangements without obligation to continue its effect in the future and the associated expense was immaterial to its results of operations or financial position as of September 30, 2024 and 2023.

- In July 2019, the Board of Directors appointed Mark Berset to the Board of Directors of the Company. Mr. Berset is also the Chief Executive Officer of Comegys Insurance Agency, Inc. ("Comegys"), an independent insurance agency that writes policies for the Company. The Company pays commission to Comegys based upon standard industry rates consistent with those provided to the Company's other insurance agencies. There are no arrangements or understandings between Mr. Berset and any other persons with respect to his appointment as a director. For the three months ended September 30, 2024 and 2023, the Company paid agency commission to Comegys of $35,921 and $35,537, respectively. For the nine months ended September 30, 2024 and 2023, the Company paid agency commission to Comegys of $116,009 and $105,438, respectively.

NOTE 19. EMPLOYEE BENEFIT PLANS

The Company provides a 401(k) plan for all qualifying employees. The Company provides a matching contribution of 100% on the first 3% of employees' contribution and 50% on the next 2% of the employees' contribution to the plan. The

maximum match is 4%. For the three months ended September 30, 2024 and 2023, the contributions made to the plan on behalf of the participating employees were approximately $378,300 and $294,425, respectively. For the nine months ended September 30, 2024 and 2023, the contributions made to the plan on behalf of the participating employees were approximately $1.2 million and $1.0 million, respectively.

The Company offers employees a flex healthcare plan which allows employees the choice of three medical plans with a range of coverage levels and costs. For the three months ended September 30, 2024 and 2023, the Company incurred medical premium costs including healthcare premiums of $1.2 million and $924,000, respectively. For the nine months ended September 30, 2024 and 2023, the Company incurred medical premium costs including healthcare premiums of $3.9 million and $3.9 million, respectively.

NOTE 20. EQUITY

The total amount of authorized capital stock consists of 50,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of September 30, 2024, the Company had 30,684,198 shares of common stock outstanding, 12,231,674 treasury shares of common stock and 1,549,775 unvested restricted common stock, reflecting additional paid-in capital of $362.6 million as of such date.

As more fully disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2023, as of December 31, 2023, there were 30,218,938 shares of common stock outstanding, 12,231,674 treasury shares of common stock and 1,161,811 unvested shares of restricted common stock, representing $360.3 million of additional paid-in capital.

Common Stock

Holders of common stock are entitled to one vote for each share held on all matters subject to a vote of stockholders, subject to the rights of holders of any outstanding preferred stock. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election, subject to the rights of holders of any outstanding preferred stock. Holders of common stock will be entitled to receive ratably any dividends that the board of directors may declare out of funds legally available therefor, subject to any preferential dividend rights of outstanding preferred stock. Upon the Company's liquidation, dissolution or winding up, the holders of common stock will be entitled to receive ratably the Company's net assets available after the payment of all debts and other liabilities and subject to the prior rights of holders of any outstanding preferred stock. Holders of common stock have no preemptive, subscription, redemption or conversion rights. There is no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of the Company's capital stock (excluding restricted stock) are fully paid and non-assessable.

Stock Repurchase Program

On December 15, 2022, the Board of Directors established a new share repurchase program plan to commence on December 31, 2022, for the purpose of repurchasing up to an aggregate of $10.0 million of common stock, through the open market or in such other manner as will comply with the terms of applicable federal and state securities laws and regulations, including without limitation, Rule 10b-18 under the Securities Act at any time or from time to time on or prior to December 31, 2023 (the "Prior Share Repurchase Plan"). There were no shares repurchased for the year ended December 31, 2023.

On March 11, 2024, the Board of Directors established a new share repurchase program plan which commenced upon the expiration of the Prior Share Repurchase Plan on December 31, 2023, for the purpose of repurchasing up to an aggregate of $10.0 million of common stock, through the open market or in such other manner as will comply with the terms of applicable federal and state securities laws and regulations, including without limitation, Rule 10b-18 under the Securities Act at any time or from time to time on or prior to December 31, 2024 (the "New Share Repurchase Plan"). There were no shares repurchased for the nine months ended September 30, 2024. At September 30, 2024, the Company has the capacity under the New Share Repurchase Plan to repurchase $10.0 million of its common stock until December 31, 2024.

Dividends

The declaration and payment of any future dividends will be subject to the discretion of the Board of Directors and will depend on a variety of factors including the Company's financial condition and results of operations.

The Board of Directors elected not to declare any dividends during the nine months ended September 30, 2024 or for the nine months ended September 30, 2023.

NOTE 21. STOCK-BASED COMPENSATION

Restricted Stock

The Company has adopted the Heritage Insurance Holdings, Inc. 2023 Omnibus Incentive Plan (the "2023 Plan"), which became effective on June 7, 2023. The 2023 Plan authorized 2,125,000 shares of common stock for issuance under the Plan for future grants. Upon effectiveness of the 2023 Plan, no new awards may be granted under the prior Omnibus Incentive Plan, which will continue to govern the terms of awards previously made under such plan.

At September 30, 2024, there were in aggregate 854,857 shares available for grant under the 2023 Plan. The Company recognizes compensation expense under ASC 718 for its stock-based payments based on the fair value of the awards.

In June 2024, the Company awarded to non-employee directors in aggregate 39,312 shares of restricted stock with a fair value at the time of grant of $8.14 per share. The awards shall vest on the next annual meeting of the Company's stockholders that occurs after the award date, provided the member remains on the Board until such date.

In March 2024, the Company awarded 8,390 shares of time-based restricted stock, with a fair value at the time of grant of $7.15 per share under the 2023 Plan to certain employees. The time-based restricted stock shall fully vest on December 15, 2024.

On February 26, 2024, the Company awarded 163,640 shares of time-based restricted stock and 253,918 shares of performance-based restricted stock, with a fair value at the time of grant of $7.02 per share under the 2023 Plan to certain employees. The time-based restricted stock shall vest annually in three equal installments commencing on December 15, 2024. The performance based restricted stock has a three-year performance period beginning on January 1, 2024 and ending on December 31, 2026 and will vest following the end of the performance period but no later than March 30, 2027. The number of shares that will be earned at the end of the performance period is subject to increase or decrease based on the results of the performance condition, as these shares were issued at the target amount.

On July 11, 2023, the Company awarded 351,716 shares of time-based restricted stock and 857,843 shares of performance-based restricted stock, with a fair value at the time of grant of $4.08 per share under the 2023 Plan to certain employees. The time-based restricted stock shall vest annually in three equal installments commencing on December 15, 2023. The performance based restricted stock has a three-year performance period beginning on January 1, 2023 and ending on December 31, 2025 and will vest following the end of the performance period but no later than March 30, 2026. The number of shares that will be earned at the end of the performance period is subject to decrease based on the results of the performance condition, as these shares were issued at the maximum amount.

In June 2023, the Company awarded to non-employee directors in aggregate 63,744 shares of restricted stock with a fair value at the time of grant of $5.02 per share. The awards shall vest on the next annual meeting of the Company's stockholders that occurs after the award date, provided the member remains on the Board until such date. In August 2023, the awards were amended to reflect the correct grant date fair market value that resulted in an adjustment to the number of shares of restricted stock awarded from 63,744 to 77,296 shares of restricted stock. The Company's annual shareholders meeting was held on June 5, 2024, at which time 77,296 shares of restricted stock were effectively vested.

The Plan authorizes the Company to grant stock options at exercise prices equal to the fair market value of the Company's stock on the dates the options are granted.

Restricted stock activity for the nine months ended September 30, 2024 is as follows:

	Number of shares	*Weighted-Average Grant-Date Fair Value per Share*
Non-vested, at December 31, 2023	1,161,811	$ 4.25
Granted - Performance-based restricted stock	253,918	7.02
Granted - Time-based restricted stock	211,342	7.23
Vested	(77,296)	4.14
Canceled and surrendered	—	—
Non-vested, at September 30, 2024	1,549,775	$ 6.07

Awards are being amortized to expense over the one to three-year vesting periods. For the three months ended September 30, 2024 and 2023 the Company recognized $820,000 and $1.3 million of stock compensation expense, respectively. The Company recognized $2.2 million and $2.1 million of stock compensation expense for the nine months ended September 30, 2024 and 2023, respectively. For the three months ended September 30, 2024 and 2023, no shares of restricted stock were vested and released. For the nine month periods ending September 30, 2024, 77,296 shares of restricted stock previously granted to non-employee directors were vested and released. For the nine months ended

September 30, 2023, 107,754 shares of restricted stock previously granted to employees and non-employee directors were vested and released. Of the shares released to employees, 4,200 shares were withheld by the Company to cover withholding taxes of $7,560, and there were also 50,502 shares forfeited upon employment terminations.

At September 30, 2024, there was approximately $1.6 million unrecognized expense related to time-based non-vested restricted stock and an additional $2.8 million for performance-based restricted stock, net of expected forfeitures which is expected to be recognized over the remaining restriction periods as described in the table below. At September 30, 2023, there was approximately $5.5 million of unrecognized expense.

Additional information regarding the Company's outstanding non-vested time-based restricted stock and performance-based restricted stock at September 30, 2024 is as follows:

Grant date	Restricted shares unvested	Share Value at Grant Date Per Share	Remaining Restriction Period (Years)
March 16, 2022	37,947	6.72	0.6
July 11, 2023	1,046,568	4.08	1.3
February 26, 2024	417,558	7.02	2.5
March 11, 2024	8,390	7.15	0.6
June 6, 2024	39,312	8.14	1
Total	1,549,775		

NOTE 22. SUBSEQUENT EVENTS

The Company performed an evaluation of subsequent events through the date the condensed consolidated financial statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the condensed consolidated financial statements as of September 30, 2024, other than events described below.

Hurricane Milton made landfall in the State of Florida on October 9, 2024 and affected multiple states in the southeastern United States. The Company expects gross losses from hurricane Milton to possibly reach the third layer of its reinsurance tower, which starts at $450 million and reaches up to $914 million. Estimated retained losses for Hurricane Milton are approximately $57 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with our condensed consolidated financial statements and related notes and other information included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2023 ("2023 Form 10-K"). Unless the context requires otherwise, as used in this Form 10-Q, the terms "we", "us", "our", "the Company", "our Company", and similar references refer to Heritage Insurance Holdings, Inc., a Delaware corporation, and its subsidiaries.

Overview

We are a super-regional property and casualty insurance holding company that primarily provides personal and commercial residential insurance products across our multi-state footprint. We provide personal residential insurance in Alabama, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Rhode Island, South Carolina, and Virginia and commercial residential insurance in Florida, New Jersey, and New York. We provide personal residential insurance in Florida and South Carolina on both an admitted and non-admitted basis and in California on a non-admitted basis. As a vertically integrated insurer, we control or manage substantially all aspects of risk management, underwriting, claims processing and adjusting, actuarial rate making and reserving, customer service, and distribution. Our financial strength ratings are important to us in establishing our competitive position and can impact our ability to write policies.

Recent Developments

Economic and Market Factors

We continue to monitor the effects of general changes in economic and market conditions on our business. As a result of general inflationary pressures or after catastrophic weather events generating significant property losses, we have experienced, and may continue to experience, increased cost of materials and labor needed for repairs and to otherwise remediate claims throughout the states in which we conduct business. We mitigate the impact of inflation by implementation of rate increases and the use of inflation guard, which ensures appropriate replacement cost values for our business to reflect the inflationary impact on costs to repair properties. Use of inflation guard impacts both premium and TIV, causing both to rise. Rising reinsurance costs may be mitigated through exposure management as well as recouping the cost of reinsurance in future rate filings.

Supplemental Information

The Supplemental Information table below demonstrates progress on our initiatives by providing policy count, premiums-in-force, and TIV for Florida and all other states as of September 30, 2024 and comparing those metrics to September 30, 2023. One of our strategies had been to reduce personal lines exposure in Florida, given historical abusive claims practices which drove up loss costs. Consequently, our policy count for Florida personal lines policies has intentionally declined over the last several years. The actions of the Florida legislature aimed at curtailing assignment of benefits and litigated claims abuse is having a positive impact on loss cost trends. As such, we anticipate writing more organic business in Florida. Coupled with more adequate rates, we expect to pursue a strategy of controlled growth as described below.

Policies-in-force:	**Q3 2024**	**Q3 2023**	**% Change**	
Florida	135,867	158,914	(14.5)	%
Other States	265,224	308,683	(14.1)	%
Total	401,091	467,597	(14.2)	%
Premiums-in-force:				
Florida	722,201,723	681,067,580	6.0	%
Other States	704,779,216	665,351,760	5.9	%
Total	1,426,980,939	1,346,419,340	6.0	%
Total Insured Value:				
Florida	103,248,922,251	104,654,005,306	(1.3)	%
Other States	270,322,492,468	290,916,611,744	(7.1)	%
Total	373,571,414,719	395,570,617,050	(5.6)	%

Florida policies-in-force declined from the prior year quarter by 14.5% while premiums-in-force increased by 6.0%, and TIV was down by 1.3% when compared to the prior year quarter. The increase in Florida premiums-in-force was driven by organic growth of our commercial residential business which generates a higher average premium and rate increases and use of inflation guard throughout the book of business, partly offset by a premium reduction associated with fewer Florida personal lines policies. The Florida TIV declined with the reduction in personal lines policies partly offset by the strategic growth of our commercial residential portfolio, as well as use of inflation guard across the book of business. Compared to the quarter ended September 30, 2023, the policy count for markets outside of Florida decreased 14.1% due to underwriting actions and intentional targeted exposure management, resulting in a TIV decrease of 7.1% while premiums-in-force increased by 5.9% due to rating actions.

Strategic Profitability Initiatives

The following provides an update to our strategic initiatives aimed at achieving consistent long-term quarterly earnings and driving shareholder value.

Generate underwriting profit through rate adequacy and more selective underwriting.

- Significant and consistent rating actions across the book of business have had a favorable impact, resulting in higher average premium per policy.
- Gross premiums earned increased 5.1% over the prior year quarter, driven primarily by rate actions as well as modest organic growth in commercial residential business, while net income grew by 209.8%.
- Premiums-in-force of $1.4 billion are up 6.0% from the prior year quarter, driven primarily by rate increases throughout the book of business and modest growth of the commercial residential business.
- Continued focus on enhancing underwriting criteria including assessment of agent and agency performance has benefited the attritional loss ratio.

Allocate capital to products and geographies that maximize long-term returns.

- We selectively increased the commercial residential premium in force by 23.6% compared to the third quarter of 2023, while the total insured value (“TIV”) only increased by 9.5%. The commercial residential business, which tends to have a significantly lower attritional loss ratio, generates materially higher premiums.
- As part of our targeted exposure management strategy, we continue to grow our policy count in products and geographies which are profitable and reduce our policy count in unprofitable and over concentrated areas. As a result of the positive impacts of Florida insurance reform aimed at curtailing claims abuse, we expect to increase the amount of new admitted business written in Florida.
- In-Force premium grew $24.8 million or 116.4% year over year for our Excess & Surplus (“E&S”) business, where we can more nimbly adjust rates, coverage, and business volume. Our E&S business is written in California, Florida, and South Carolina. We will continue to evaluate other states and products for E&S and as we proceed with our controlled growth strategy.
- Our disciplined underwriting approach resulted in a policy count reduction of just over 66,000 or 14.2% throughout our footprint from third quarter 2023, while premium in force increased by $80.6 million or 6.0%.
- Given improved rate adequacy across our footprint, we began organically writing more new admitted policies in Florida and the Northeast compared to the second quarter of 2024 as well as the prior year period as we pursue a controlled growth strategy designed to accelerate revenue growth.
- Expect to leverage our existing sales and marketing teams that are in place in both Florida and the Northeast.

Maintain a balanced and diversified portfolio.

- Selective diversification of the portfolio by product and state, which can change based on market conditions, serves to reduce performance volatility.
- No state represents over 27.6% of the Company’s TIV.

Trends

Inflation, Underwriting and Pricing

We continue to address rising reinsurance and loss costs in the property insurance sector throughout much of the United States by taking rate actions, maintaining strong underwriting criteria, and continuous monitoring of exposure on a granular level. Our rates reflect the use of inflation guard factors to ensure that rising costs to repair properties are reflected in our rates. These factors resulted in an increase in the average premium per policy of 23.6% for the quarter ended September 30, 2024 as compared to the prior year quarter. The higher average premium is driven by rate changes, inclusion of inflation in premiums as described above, and by the mix of business written. We experienced intentional growth of our commercial residential business during 2023 and during the first two quarters of 2024, with the policy count growing slightly during the third quarter and expected to level out going forward. This line of business generates a significantly higher average premium per policy because the average exposure per policy is higher. New rates, which are subject to approval by our regulators, become effective when a policy is written or renewed, and the premium is earned pro rata over the policy period of one year. As a result of this timing, it can take up to twenty-four months for the complete impact of a rate change to be fully earned in our financial statements. For that reason, we account for inflation in our rate indications and filings with our regulators.

We invest in data analytics, using software and experienced personnel, to continuously evaluate our underwriting criteria and manage exposure to catastrophe and other losses. Our retention has remained steady in the range of 90% despite the rate increases we have implemented, in large part due to a hard property insurance market in many of the regions in which we operate. While we believe our rates are generally competitive with private market insurers operating in our space, we are focused on meticulous underwriting, managing exposure and achieving rate adequacy throughout our book of business.

We continue to experience rising inflation in the form of increased labor and material costs, which drive up claim costs throughout all states in which we conduct business and the cost of reinsurance continues to rise. Our Florida personal lines market had experienced claim costs driven up by litigated claims, which substantially increased loss costs and drove up rates for the insurance buying public. In addition, during 2022 and 2023, catastrophe excess of loss reinsurance markets tightened with higher pricing and less supply. Our response to this phenomenon was to raise rates and reduce exposure. We continue to experience positive results from legislative changes that have been made in Florida over the last several years, which we believe is making progress toward reducing losses from abusive claim reporting practices and stabilizing the Florida property insurance market. Given improved rate adequacy throughout our book of business and more stabilized reinsurance pricing and availability, we expect to pursue a strategy of controlled growth anchored by continued risk management and stringent underwriting. In force premium for our E&S business, where we can more nimbly adjust rates and coverage as well as adjust product offerings to meet market conditions, continues to grow.

Our industry experienced significantly higher reinsurance costs and more constrained availability for catastrophe excess of loss reinsurance in recent years. For the 2024 hurricane season, the supply of catastrophe excess of loss reinsurance for the Company was ample and pricing and terms have begun to moderate. We are managing exposure by writing new business only in geographies for which rates are adequate, non-renewing unprofitable business in compliance with regulatory requirements, and maintaining our strict underwriting requirements. We have improved the geographic distribution of our business, which is becoming more rate adequate.

Overview of Financial Results

In the following section, we discuss our financial condition and results of operations for the three months ended September 30, 2024 compared to the three months ended September 30, 2023.

The discussion of our financial condition and results of operations that follows provides information that will assist the reader in understanding our consolidated financial statements, the changes in certain key items in those financial statements from quarter to quarter, including certain key performance indicators such as net combined ratio, ceded premium ratio, net expense ratio and net loss ratio, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements. This discussion should be read in conjunction with our consolidated financial statements and the related notes included under Item 1 of this Quarterly Report on Form 10-Q.

- Third quarter 2024 net income was $8.2 million or $0.27 per diluted share, compared to a net loss of ($7.4) million or ($0.28) per diluted share in the prior year quarter, primarily driven by an increase in net premiums earned, higher net investment income, lower net losses and loss adjustment expenses, and lower general and administrative expenses which was partly offset by higher policy acquisition costs. As described below, higher policy acquisition costs were mostly attributable to costs that vary with gross premiums written and a reduction in ceding commission income. The improvement in net income is

attributable to the positive impact of rate actions, underwriting actions, and targeted exposure management taken over the last several years, which favorably impacted results during the third quarter of 2024.

- Gross premiums written of $313.0 million were up 1.1% from $309.5 million in the prior year quarter, reflecting a higher average premium per policy throughout the book of business from rating actions and use of inflation guard, which ensures appropriate property values, partly offset by specific intentional targeted exposure management, which is expected to level out going forward.
- Gross premiums earned of $354.2 million were up 5.1% from $337.0 million in the prior year quarter, reflecting higher gross premiums written over the last twelve months as described above.
- Net premiums earned of $198.8 million were up 12.6% from $176.6 million in the prior year quarter, reflecting higher gross premium earned outpacing the increase in ceded premiums for the current year quarter.
- Losses and loss adjustment expenses ("LAE") incurred was $130.0 million, down 1.0% from $131.4 million in the prior year quarter. The decrease primarily stems from a reduction in non-weather losses which was partly offset by higher weather losses and adverse loss development. Net weather losses for the current accident quarter were $63.0 million, an increase of $11.4 million from $51.6 million in the prior year quarter. Catastrophe losses in the current quarter were $48.7 million compared to $40.1 million in the prior year quarter. Other weather losses totaled $14.3 million, showing an increase from the prior year quarter amount of $11.5 million. Additionally, losses were impacted by net unfavorable loss development of $6.3 million during the third quarter of 2024, compared to net unfavorable loss development of $0.8 million in the third quarter of 2023.
- Ceded premium ratio was 43.9%, down 3.7 points from 47.6% in the prior year quarter driven by growth in gross premiums earned as well as less ceded premium driven by the reduction associated with the net quota share program which was partly offset by higher premium for other reinsurance programs.
- Net loss and LAE ratio was 65.4%, down 9.0 points from 74.4% in the prior year quarter, driven by growth in net premiums earned coupled with a small decline in net losses and LAE incurred as described above.
- Net expense ratio was 35.2%, down 1.2 points from 36.4% in the prior year quarter, with a decrease in the net general and administrative ("G&A") ratio partly offset by a small increase in the net policy acquisition costs ("PAC") ratio. The higher PAC ratio was primarily due to higher policy acquisition costs driven by the increase in gross premiums written and a reduction in ceding commission income, which was partly offset by higher net premiums earned.
- Net combined ratio was 100.6% improved 10.2 points from 110.8% in the prior year quarter, driven by a lower net loss ratio and a lower net expense ratio as described above.
- The effective tax rate of 9.4% compared to 38.3% in the prior year quarter. The effective tax rate for the current year quarter was favorably impacted by updated estimates used in the quarterly tax provision as well as the benefit of interest income on a previous year's income tax refund, which lowered income tax expense for the quarter. The effective tax rate for the prior year quarter was impacted by a decrease of $7.2 million in the deferred tax valuation allowance related to certain tax elections made by Osprey Re, the Company’s captive reinsurer domiciled in Bermuda. The decrease in the valuation allowance in the prior year quarter caused the income tax benefit for the prior year quarter to be higher than the statutory rate. There was no benefit nor detriment associated with a valuation allowance in the current year quarter. The impact of permanent tax differences on projected results of operations for the calendar year impacts the effective tax rate, which can also fluctuate throughout the year as estimates used in the quarterly tax provision are updated with additional information.

Results of Operations

Comparison of the Three Months Ended September 30, 2024 and 2023

	For the three months ended September 30,			
	2024	*2023*	*$ Change*	*% Change*
(Unaudited)		***(In thousands)***		
REVENUE:				
Gross premiums written	$ 312,986	$ 309,510	$ 3,476	1.1 %
Change in gross unearned premiums	41,211	27,466	13,745	50.0 %
Gross premiums earned	354,197	336,976	17,221	5.1 %
Ceded premiums	(155,356)	(160,335)	4,979	(3.1)%
Net premiums earned	198,841	176,641	22,200	12.6 %
Net investment income	9,801	6,867	2,934	42.7 %
Net realized gains (losses) and impairment	6	(379)	385	101.6 %
Other revenue	3,201	3,171	30	0.9 %
Total revenue	$ 211,849	$ 186,300	$ 25,549	13.7 %

Total revenue

Total revenue was $211.8 million for the third quarter of 2024, up 13.7% from $186.3 million in the prior year quarter. The increase primarily stems from higher net premiums earned and net investment income as described below.

Gross premiums written

Gross premiums written were $313.0 million for the third quarter of 2024, up 1.1% from $309.5 million in the prior year quarter, reflecting a higher average premium per policy throughout the book of business from rating actions and use of inflation guard, which ensures appropriate property values, partly offset by intentional targeted exposure management. Exposure management resulted in fewer personal residential policies in force in the admitted market; however, our E&S program expanded. Gross premiums written for our commercial residential business was relatively flat quarter over quarter.

Premiums-in-force were $1.4 billion at September 30, 2024, representing a 6.0% increase from the prior year quarter, primarily due to continued proactive underwriting actions and rate increases across the entire portfolio, despite an intentional policy count reduction of approximately 66,000 policies. Premiums-in-force were also favorably impacted by strategic growth of the Company's commercial residential product and use of inflation guard across all products and states. Concurrently, TIV was down by 5.6% from the prior year quarter.

Gross premiums earned

Gross premiums earned were $354.2 million for the third quarter of 2024 up 5.1% from $337.0 million in the prior year quarter, reflecting higher gross premiums written over the last twelve months driven by a higher average premium per policy, use of inflation guard, and higher earned premium from the commercial residential business.

Ceded premiums

Ceded premiums were $155.4 million for the third quarter of 2024, down 3.1% from $160.4 million in the prior year quarter. The decrease is attributable to the lower cost of our net quota share reinsurance program associated with cession and associated premium volume changes, partly offset by an increase in the cost of our catastrophe excess of loss reinsurance program, which commences June 1 each year The first and second quarters of 2024 included $18.0 million of reinstatement premium related to Hurricane Ian. There were no reinstatement premiums associated with Hurricane Ian during the third quarter of 2024. To the extent losses for Hurricane Ian adversely develop, additional reinstatement premiums may be incurred depending upon the amount of additional reinsurance limit utilized.

Net premiums earned

Net premiums earned were $198.8 million for the third quarter of 2024, up 12.6% from $176.6 million in the prior year quarter. The increase primarily stems from growth in gross premiums earned coupled with the decrease in ceded premiums, as described above.

Net investment income

Net investment income, inclusive of realized investment gains (losses) and unrealized losses on equity securities, was $9.8 million for the third quarter of 2024, up from $6.5 million in the prior year quarter. The increase is primarily due to higher yields on cash and invested assets associated with higher interest rates.

Other revenue

Other revenue was $3.2 million for the third quarter of 2024, relatively flat compared to the prior year quarter.

	For the three months ended September 30,			
(Unaudited)	*2024*	*2023*	*$ Change*	*% Change*
OPERATING EXPENSES:		***(In thousands)***		
Losses and loss adjustment expenses	$ 130,020	$ 131,397	$ (1,377)	(1.0) %
Policy acquisition costs	48,508	42,427	6,081	14.3 %
General and administrative expenses	21,572	21,911	(339)	(1.5) %
Intangible asset impairment	—	—	—	— %
Total operating expenses	$ 200,100	$ 195,735	$ 4,365	2.2 %

Losses and loss adjustment expenses

Losses and loss adjustment expenses were $130.0 million for the third quarter of 2024, down 1.0% from $131.4 million in the prior year quarter. The reduction was driven primarily by a reduction of non-weather losses which was partly offset by higher weather losses and adverse development. Net weather losses for the current accident quarter were $63.0 million, an increase of $11.4 million from $51.6 million in the prior year quarter. Catastrophe losses in the current quarter were $48.7 million up from $40.1 million in the prior year quarter. Other weather losses totaled $14.3 million, up from the prior year quarter amount of $11.5 million. Additionally, we experienced $6.3 million of net unfavorable prior year development compared to $0.8 million of net favorable prior year development in the prior year quarter. The net unfavorable loss development stemmed primarily from losses associated with Hurricane Irma for which the losses were fully retained.

Policy acquisition costs

Policy acquisition costs were $48.5 million for the third quarter of 2024, up 14.3% from $42.4 million in the prior year quarter. The increase is primarily attributable to growth in gross premiums written and lower ceding commission earned on the net quota share reinsurance contract, the income of which offsets, or reduces, other policy acquisition costs. The reduction in ceding commission income is due to less written premium associated with the net quota share reinsurance program.

General and administrative expenses

General and administrative expenses were $21.6 million for the third quarter of 2024, down 1.5% from $21.9 million in the prior year quarter. The decrease was driven primarily by a reduction in human capital costs and consulting expenses, partly offset by less ceding commission income from the net quota share reinsurance program as described above, for which a portion is allocated to general and administrative expenses. Consulting expenses in the prior year quarter were higher from systems related costs for the claims system that was placed in service in the second quarter of 2023 and therefore consulting costs for that project were no longer capitalized.

	For the Three Months Ended September 30,			
	2024	2023	$ Change	% Change
(Unaudited)		***(In thousands, except per share amounts)***		
Operating income (loss)	$ 11,749	$ (9,435)	$ 21,184	224.5 %
Interest expense, net	2,755	2,591	164	6.3 %
Income (loss) before income taxes	8,994	(12,026)	21,020	174.8 %
Provision (benefit) for income taxes	842	(4,602)	5,444	118.3 %
Net income (loss)	$ 8,152	$ (7,424)	$ 15,576	209.8 %
Basic earnings (loss) per share	$ 0.27	$ (0.28)	$ 0.55	196.4 %
Diluted earnings (loss) per share	$ 0.27	$ (0.28)	$ 0.55	196.4 %

Net income

Net income for the third quarter of 2024 was $8.2 million or $0.27 per diluted share, an improvement from a net loss of ($7.4) million or ($0.28) per diluted share in the prior year quarter. The improvement in net income is attributable to the positive impact of rate actions, underwriting actions, and targeted exposure management taken over the last several years, which favorably impacted net premiums earned and net losses and loss adjustment expenses for the third quarter of 2024. These and other actions resulted in growth of 12.6% in net premiums earned, a 42.7% increase in investment income, and a 1.0% decrease in net losses and LAE, as described above. An increase of 14.3% in policy acquisition costs was partly offset by a 1.5% decrease in general and administrative costs. The current year quarter also benefited from a lower effective tax rate, as described below.

Provision (benefit) for income taxes

The provision for income taxes was $0.8 million for the third quarter of 2024 compared to a tax benefit of $4.6 million in the prior year quarter. The effective tax rate for third quarter 2024 was 9.4% compared to 38.3% in the prior year quarter. The effective tax rate for the current year quarter was favorably impacted by updated estimates used in the quarterly tax provision as well as the benefit of interest income on a previous year's income tax refund, which lowered income tax expense for the quarter. The Company recognizes interest and penalties related to uncertain tax benefits on the income tax expense line in the accompanying condensed consolidated statements of operations. The effective tax rate in third quarter 2023 was impacted by a decrease of $7.2 million in the deferred tax valuation allowance related to Osprey Re related to certain tax elections made by Osprey Re, the Company's captive reinsurer domiciled in Bermuda. The decrease in the valuation allowance in the prior year quarter caused the income tax benefit for the prior year quarter to be higher than the statutory rate. There was no benefit nor detriment associated with a valuation allowance in the current year quarter. The impact of permanent tax differences on projected results of operations for the calendar year impacts the effective tax rate, which can also fluctuate throughout the year as estimates used in the quarterly tax provision are updated with additional information.

Ratios

	Three Months Ended September 30,	
(Unaudited)	2024	2023
Ceded premium ratio	43.9 %	47.6 %
Net loss and LAE ratio	65.4 %	74.4 %
Net expense ratio	35.2 %	36.4 %
Net combined ratio	100.6 %	110.8 %

Net combined ratio

The net combined ratio was 100.6% for the third quarter of 2024, a 10.2 point improvement from 110.8% in the prior year quarter. The decrease primarily stems from a lower net loss and LAE ratio and a lower net expense ratio as described below.

Ceded premium ratio

The ceded premium ratio was 43.9% for the third quarter of 2024, a 3.7 point improvement from 47.6% in the prior year quarter, primarily driven by higher gross premiums earned coupled with a decrease in ceded premiums as described above.

Net loss and LAE ratio

The net loss and LAE ratio was 65.4% for the third quarter of 2024, a 9.0 point improvement from the prior year quarter of 74.4%, primarily driven by higher net premiums earned, and lower net losses and LAE as described above.

Net expense ratio

The net expense ratio was 35.2% for the third quarter of 2024, a 1.2 point improvement from the prior year quarter amount of 36.4%. The decrease was primarily driven by the increase in net premiums earned, which offset higher policy acquisition costs. The drivers for higher policy acquisitions costs are described above.

Comparison of the Nine Months Ended September 30, 2024 and 2023

	Nine Months Ended September 30,			
	2024	*2023*	*$ Change*	*% Change*
(Unaudited)		***(In thousands)***		
REVENUE:				
Gross premiums written	$ 1,094,200	$ 1,016,378	$ 77,822	7.7 %
Change in gross unearned premiums	(48,542)	(32,366)	(16,176)	50.0 %
Gross premiums earned	1,045,658	984,012	61,646	6.3 %
Ceded premiums	(477,076)	(464,539)	(12,537)	2.7 %
Net premiums earned	568,582	519,473	49,109	9.5 %
Net investment income	28,121	19,048	9,073	47.6 %
Net realized gains (loss)	17	(49)	66	134.7 %
Other revenue	10,001	10,060	(59)	(0.6)%
Total revenue	$ 606,721	$ 548,532	$ 58,189	10.6 %

Total revenue

Total revenue was $606.7 million for the nine months ended September 30, 2024, up 10.6% compared to $548.5 million in the prior year period. The increase primarily stems from higher net premiums earned and net investment income as described below.

Gross premiums written

Gross premiums written were $1.1 billion for the nine months ended September 30, 2024, up 7.7% from $1.0 billion in the prior year period, reflecting a strategic and substantial increase in Florida commercial residential lines business and a higher average premium per policy throughout all lines of business, partly offset by intentional targeted exposure management described above.

Premiums-in-force were $1.4 billion at September 30, 2024, representing a 6.0% increase from the prior year quarter, primarily due to continued proactive underwriting actions and rate increases across the entire portfolio, despite an intentional policy count reduction of approximately 66,000 policies. Premiums-in-force were also favorably impacted by strategic growth of the Company's commercial residential product and use of inflation guard across all products and states. Concurrently, TIV was down by 5.6% from the prior year quarter.

Gross premiums earned

Gross premiums earned were $1.0 billion for the nine months ended September 30, 2024, up 6.3% from $984.0 million in the prior year period. The increase reflects higher gross premiums written over the preceding twelve months driven by a higher average premium per policy, reflecting rate increases and the use of inflation guard, and organic growth of the commercial residential business.

Ceded premiums

Ceded premiums were $477.1 million for the nine months ended September 30, 2024, up 2.7% from $464.5 million in the prior year period. The higher cost of our catastrophe excess of loss reinsurance program, which commences June 1 each year, was offset by a lower cost for our net quota share reinsurance associated with cession and associated premium volume changes. However, the nine months ended September 30, 2024 includes a $18.7 million reinstatement premium related to Hurricane Ian which did not occur in the prior year period. To the extent the ultimate losses for Hurricane Ian grow, additional reinstatement premiums may be incurred depending upon the amount of additional reinsurance limit utilized.

Net premiums earned

Net premiums earned were $568.6 million for the nine months ended September 30, 2024, up 9.5% from $519.5 million in the prior year period. The increase primarily stems from growth in gross premiums earned, which outpaced the increase in ceded premiums earned, as described above.

Net investment income

Net investment income, inclusive of net realized and unrealized gains (losses) and impairments on equity securities, was $28.1 million for the nine months ended September 30, 2024, up from $19.0 million in the prior year period. The increase is primarily due to higher yields on cash and invested assets associated with higher interest rates.

	Nine Months Ended September 30,			
(Unaudited)	*2024*	*2023*	*$ Change*	*% Change*
OPERATING EXPENSES:		***(In thousands)***		
Losses and loss adjustment expenses	$ 337,983	$ 335,495	$ 2,488	0.7 %
Policy acquisition costs	142,661	124,202	18,459	14.9 %
General and administrative expenses	63,985	61,022	2,963	4.9 %
Intangible asset impairment	—	767	(767)	(100.0)%
Total operating expenses	$ 544,629	$ 521,486	$ 23,143	4.4 %

Total operating expenses

Total operating expenses were $544.6 million for the nine months ended September 30, 2024, up 4.4% from $521.5 million in the prior year period. As described below, we experienced higher losses and LAE, higher policy acquisition costs mostly driven by business volume, and higher general and administrative expenses driven primarily by lower ceding commission income.

Losses and loss adjustment expenses

Losses and LAE incurred were $338.0 million for the nine months ended September 30, 2024, up 0.7% from $335.5 million in the prior year period. The increase primarily stems from higher weather losses and adverse development, which was partly offset by lower non weather losses. Net weather losses for the current accident year were $101.1 million, an increase of $2.9 million from $98.2 million in the prior year period. Catastrophe losses in the current period were $64.6 million, up $19.5 million from $45.1 million in the prior year period. Other weather losses totaled $36.5 million, down from the prior year period amount of $53.1 million. Additionally, we experienced $21.6 million of net unfavorable prior year development compared to $3.4 million of net favorable prior year development in the prior year period. The net unfavorable loss development stemmed primarily from losses associated with Hurricane Irma for which the losses were fully retained.

Policy acquisition costs

Policy acquisition costs were $142.7 million for the nine months ended September 30, 2024, up 14.9% from $124.2 million in the prior year period. The increase is primarily driven by higher costs associated with the growth in gross premiums written and lower ceding commission earned on the net quota share reinsurance contract, the income of which offsets, or reduces, other policy acquisition costs. The reduction in ceding commission income is due to less written premium associated with the net quota share reinsurance program.

General and administrative expenses

General and administrative expenses were $64.0 million for the nine months ended September 30, 2024, up 4.9% from $61.0 million in the prior year period. The increase was driven largely by a reduction in ceding commission income, as described above, for which a portion is allocated to general and administrative expenses.

Impairment of Named Intangibles

For the nine months ended September 30, 2024, there were no impairments recorded. For the nine months ended September 30, 2023, certain brand and customer relations with a net value of $0.8 million within the Company's restoration provider were impaired due to the discontinuation of providing restoration services to our policyholders.

	Nine Months Ended September 30,			
	2024	*2023*	*$ Change*	*% Change*
(Unaudited)	***(In thousands, except per share amounts)***			
Operating income	$ 62,092	$ 27,046	$ 35,046	129.6 %
Interest expense, net	8,365	8,211	154	1.9 %
Income before income taxes	53,727	18,835	34,892	185.3 %
Provision for income taxes	12,481	4,472	8,009	179.1 %
Net income	$ 41,246	$ 14,363	$ 26,883	187.2 %
Basic earnings per share	$ 1.35	$ 0.55	$ 0.80	145.5 %
Diluted earnings per share	$ 1.35	$ 0.55	$ 0.80	145.5 %

Net income

Net income for the nine months ended September 30, 2024 was $41.2 million or $1.35 per diluted share, compared to net income of $14.4 million or $0.55 per diluted share in the prior year period. The improvement in net income is attributable to the positive impact of rate actions, underwriting actions, and exposure management taken over the last several years, which favorably impacted results for the nine months ended September 30, 2024. These and other actions resulted in growth of 9.5% in net premiums earned and a 47.6% increase in net investment income, as described above. An increase of 0.7% in net losses and LAE, a 14.9% increase in policy acquisition costs as well as an 4.9% increase in general and administrative costs partly offset higher total revenue compared to the prior year period.

Provision for income taxes

The provision from income taxes was $12.5 million for the nine months ended September 30, 2024 compared to $4.5 million in the prior year period. The effective tax rate was 23.2% for the nine months ended September 30, 2024 compared to 23.7% for the prior year period. The impact of permanent tax differences on projected results of operations for the calendar year affects the effective tax rate, which can also fluctuate throughout the year as estimates used in the quarterly tax provision are updated with additional information.

Ratios

	Nine Months Ended September 30,	
(Unaudited)	*2024*	*2023*
Ceded premium ratio	45.6 %	47.2 %
Net loss and LAE ratio	59.4 %	64.6 %
Net expense ratio	36.3 %	35.7 %
Net combined ratio	95.7 %	100.3 %

Net combined ratio

The net combined ratio was 95.7% for the nine months ended September 30, 2024, a 4.6 point improvement from 100.3% in the prior year period. The decrease primarily stems from a lower net loss and LAE ratio partly offset by a higher net expense ratio as described below.

Ceded premium ratio

The ceded premium ratio was 45.6% for the nine months ended September 30, 2024, a 1.6 point improvement from 47.2% in the prior year period, reflecting the growth in gross premiums earned outpacing the growth in ceded premiums earned as described above.

Net loss and LAE ratio

The net loss and LAE ratio was 59.4% for the nine months ended September 30, 2024, a 5.2 point improvement from 64.6% in the prior year period, primarily driven by higher net premiums earned partly offset by higher losses and LAE compared to the prior year period as described above.

Net expense ratio

The net expense ratio was 36.3% for the nine months ended September 30, 2024, up 0.6 points from 35.7% in the prior year period, primarily driven by higher acquisition costs driven by the growth in gross premiums written.

Financial Condition – September 30, 2024 compared to December 31, 2023

Cash and Cash Equivalents

At September 30, 2024, cash and cash equivalents inclusive of restricted cash, increased by $47.6 million to $520.9 million from $473.3 million at December 31, 2023. The increase was primarily a result of net cash provided by operations, which was partly offset by use of cash to purchase fixed income securities to lock in higher interest rates.

Fixed Maturity Securities

At September 30, 2024, fixed income securities increased by $111.1 million to $671.8 million from $560.7 million at December 31, 2023. The increase was a result of investing into fixed income securities to lock in interest rates as well as from a reduction in unrealized losses as interest rates have declined during the third quarter 2024.

Reinsurance Recoverable on Paid and Unpaid Claims

At September 30, 2024, reinsurance recoverable on paid and unpaid claims decreased by $40.9 million to $441.6 million from $482.4 million at December 31, 2023. The decrease is primarily due reinsurance recoveries from Hurricane Ian losses received during 2024. There were no ceded catastrophe events during the nine months ended September 30, 2024 which resulted in material additional reinsurance recoveries.

Prepaid Reinsurance Premiums

At September 30, 2024, prepaid reinsurance premiums increased by $106.8 million to $401.0 million from $294.2 million at December 31, 2023. The increase is driven by the June 1, 2024 inception of our catastrophe excess of loss reinsurance program which represents prospective contracts. We record an asset, prepaid reinsurance premiums, and a liability, reinsurance payable, for the entire contract amount upon commencement of these reinsurance agreements, which drove up prepaid reinsurance premiums at September 30, 2024.

Deferred Policy Acquisition Costs, net

At September 30, 2024, deferred policy acquisition costs increased by $6.6 million to $109.5 million from $102.9 million at December 31, 2023. The increase is driven by higher acquisition costs, which are deferred and amortized over the effective period of the related insurance policies, related to higher gross written premium over the prior year period. As gross written premiums and related acquisition costs rise, the deferred component of these costs also rises.

Unpaid Losses and Loss Adjustment Expenses

At September 30, 2024, unpaid losses and loss adjustment expenses decreased by $70.5 million to $775.5 million from $846.0 million at December 31, 2023. The decrease is driven by claim payments, most significantly for Hurricanes Irma and Ian during the nine months ended September 30, 2024, which exceeded additional losses and loss adjustment expenses recorded during the nine months ended September 30, 2024. The Company experienced adverse development of losses associated with Hurricanes Ian and Irma during the nine months ended September 30, 2024. The increase in expected losses for Hurricane Ian is subject to recovery from our catastrophe excess of loss reinsurance program and therefore did not impact unpaid losses and loss adjustment expenses net of reinsurance.

Unearned Premiums

At September 30, 2024, unearned premiums increased by $48.5 million to $724.4 million from $675.9 million at December 31, 2023, driven by higher gross premiums written during the nine months ended September 30, 2024. Premiums written are recorded as revenue on a daily pro rata basis over the contract period of the related in force policies. For any portion of premiums not earned at the end of the reporting period, the Company records an unearned premium liability; accordingly, growth in gross written premium drove the increase in unearned premiums.

Reinsurance Payable

At September 30, 2024, reinsurance payable increased by $184.7 million to $344.5 million from $159.8 million at December 31, 2023. The increase is driven by the June 1, 2024 inception of our catastrophe excess of loss reinsurance program as described above.

Total Shareholders' Equity

At September 30, 2024, total shareholders' equity increased by $59.1 million to $279.3 million from $220.3 million at December 31, 2023. The increase is primarily due to net income for the nine months ended September 30, 2024, coupled with a reduction in accumulated other comprehensive losses resulting as lower interest rates during the period reduced the amount of unrealized losses.

Liquidity and Capital Resources

Our principal sources of liquidity include cash flows generated from operations, existing cash and cash equivalents, our marketable securities balances and borrowings available under our Credit Facilities. At September 30, 2024, we had $520.9 million of cash and cash equivalents and $680.4 million in investments, compared to $473.3 million and $569.4 million, respectively, as of December 31, 2023. The increase in cash and cash equivalents relates primarily to timing of receipts of premiums and reinsurance recoveries, partly offset by timing of reinsurance premium and claim payments.

We generally hold substantial cash balances to meet seasonal liquidity needs including amounts to pay quarterly reinsurance installments as well as meet the collateral requirements of Osprey Re, our captive reinsurance company, which is required to maintain a collateral trust account equal to the risk that it assumes from our insurance company affiliates.

We believe that our sources of liquidity are adequate to meet our cash requirements for at least the next twelve months.

We may increase capital expenditures consistent with our investment plans and anticipated business strategies. Cash and cash equivalents may not be sufficient to fund such expenditures. As such, in addition to the use of our existing Credit Facilities, we may need to utilize additional debt to secure funds for such purposes.

Cash Flows

	For the Nine Months Ended September 30,		
	2024	*2023*	*Change*
	(In thousands)		
Net cash provided by (used in):			
Operating activities	$ 143,173	$ (29,342)	$ 172,515
Investing activities	(93,842)	(12,391)	(81,451)
Financing activities	(1,772)	(7,258)	5,486
Net increase (decrease) in cash and cash equivalents	$ 47,559	$ (48,991)	$ 96,552

Operating Activities

Net cash provided by operating activities was $143.2 million for the nine months ended September 30, 2024 compared to net cash used in operating activities of $29.3 million for the comparable period in 2023. The increase in net cash from operating activities relates primarily to timing of cash flows associated with premium collection, claim and reinsurance payments as well as reinsurance reimbursements during the first nine months of 2024 compared to the first nine months of 2023. Premium collection for the first nine months of 2024 exceeded premium collection for the first nine months of 2023, driven largely by growth in gross premiums written. The timing of reinsurance payments on the catastrophe excess of loss program were more accelerated for the 2023 program than the 2024 program.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2024 was $93.8 million as compared to net cash used in investing activities of $12.4 million for the comparable period in 2023. The change in net cash used in investing activities relates primarily to the timing of investment maturities and use of proceeds and availability of cash to invest in longer duration fixed income securities during the first nine months of 2024 to lock in current interest rates.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2024 was $1.7, as compared to net cash used in financing activities of $7.3 million for the comparable period in 2023. The change in net cash provided by

financing activities relates primarily to the proceeds from a January 2024 loan in the amount of $5.5 million to an insurance company subsidiary from the FHLB-DM.

Credit Facilities

The Company is party to a Credit Agreement by and among the Company, as borrower, certain subsidiaries of the Company from time to time party thereto as guarantors, the lenders from time to time party thereto (the "Lenders"),and the administrative and collateral agents and other parties thereto (as amended from time to time, the "Credit Agreement").

The Credit Agreement, as amended, provides for (1) a five-year senior secured term loan facility in an aggregate principal amount of $100 million (the "Term Loan Facility") and (2) a five-year senior secured revolving credit facility in an aggregate principal amount of $50 million (inclusive of a sublimit for the issuance of letters of credit equal to the unused amount of the revolving credit facility and a sublimit for swingline loans equal to the lesser of $25 million and the unused amount of the revolving credit facility) (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Credit Facilities").

Term Loan Facility. The principal amount of the Term Loan Facility amortizes in quarterly installments, which began with the close of the fiscal quarter ending March 31, 2019, in an amount equal to $1.9 million per quarter, payable quarterly, decreasing to $875,000 per quarter commencing with the quarter ending December 31, 2021, and increasing to $2.4 million per quarter commencing with the quarter ending December 31, 2022, with the remaining balance payable at maturity. The Term Loan Facility matures on July 28, 2026. As of September 30, 2024 and December 31, 2023, there was $72.5 million and $79.6 million, respectively, in aggregate principal outstanding under the Term Loan Facility.

Revolving Credit Facility. The Revolving Credit Facility allows for borrowings of up to $50 million inclusive of a sublimit for the issuance of letters of credit equal to the unused amount of the Revolving Credit Facility and a sublimit for swingline loans equal to the lesser of $25 million and the unused amount of the Revolving Credit Facility. At September 30, 2024 and December 31, 2023, the outstanding balance under the Revolving Credit facility was $10.0 million. At September 30, 2024, the Company had no outstanding letters of credit issued from the Revolving Credit Facility.

At our option, borrowings under the Credit Facilities bear interest at rates equal to either (1) a rate determined by reference to SOFR, plus an applicable margin (described below) and a credit adjustment spread equal to 0.10% or (2) a base rate determined by reference to the highest of (a) the "prime rate" of Regions Bank, (b) the federal funds rate plus 0.50%, and (c) the adjusted term SOFR in effect on such day for an interest period of one month plus 1.00%, plus an applicable margin (described below).

The applicable margin for loans under the Credit Facilities varies from 2.75% per annum to 3.25% per annum (for SOFR loans) and 1.75% to 2.25% per annum (for base rate loans) based on our consolidated leverage ratio ranging from 1.25-to-1 to greater than 2.25-to-1. Interest payments with respect to the Credit Facilities are required either on a quarterly basis (for base rate loans) or at the end of each interest period (for SOFR loans) or, if the duration of the applicable interest period exceeds three months, then every three months. As of September 30, 2024, the borrowings under the Term Loan Facility and Revolving Credit Facility accruing interest at a rate of 8.192% and 8.102% per annum, respectively.

In addition to paying interest on outstanding borrowings under the Revolving Credit Facility, we are required to pay a quarterly commitment fee based on the unused portion of the Revolving Credit Facility, which is determined by our consolidated leverage ratio.

We may prepay the loans under the Credit Facilities, in whole or in part, at any time without premium or penalty, subject to certain conditions including minimum amounts and reimbursement of certain costs in the case of prepayments of SOFR loans. In addition, we are required to prepay the loan under the Term Loan Facility with the proceeds from certain financing transactions, involuntary dispositions or asset sales (subject, in the case of asset sales, to reinvestment rights).

All obligations under the Credit Facilities are or will be guaranteed by each existing and future direct and indirect wholly owned domestic subsidiary of the Company, other than all of the Company's current and future regulated insurance subsidiaries (collectively, the "Guarantors").

The Company and the Guarantors are party to a Pledge and Security Agreement, (as amended from time to time the "Security Agreement"), in favor of a collateral agent. Pursuant to the Security Agreement, amounts borrowed under the Credit Facilities are secured on a first priority basis by a perfected security interest in substantially all of the present and future assets of the Company and each Guarantor (subject to certain exceptions), including all of the capital stock of the Company's domestic subsidiaries, other than its regulated insurance subsidiaries.

The Credit Agreement contains, among other things, covenants, representations and warranties and events of default customary for facilities of this type. The Company is required to maintain, as of each fiscal quarter (1) a maximum consolidated leverage ratio of 2.50 to 1.00, stepping down to 2.25 to 1.00 as of the second quarter of 2024 and 2.00 to 1.00

as of the second quarter of 2025, (2) a minimum consolidated fixed charge coverage ratio of 1.20 to 1.00 and (3) a minimum consolidated net worth for the Company and its subsidiaries, which is required to be not less than $100 million plus 50% of positive quarterly net income (including its subsidiaries and regulated subsidiaries) plus the net cash proceeds of any equity transactions. Events of default include, among other events, (i) nonpayment of principal, interest, fees or other amounts; (ii) failure to perform or observe certain covenants set forth in the Credit Agreement; (iii) breach of any representation or warranty; (iv) cross-default to other indebtedness; (v) bankruptcy and insolvency defaults; (vi) monetary judgment defaults and material nonmonetary judgment defaults; (vii) customary ERISA defaults; (viii) a change of control of the Company; and (ix) failure to maintain specified catastrophe retentions in each of the Company's regulated insurance subsidiaries.

Convertible Notes

On August 10, 2017, the Company and Heritage MGA, LLC (the "Notes Guarantor") entered into a purchase agreement (the "Purchase Agreement") with the initial purchaser party thereto (the "Initial Purchaser"), pursuant to which the Company agreed to issue and sell, and the Initial Purchaser agreed to purchase, $136.8 million aggregate principal amount of the Company's 5.875% Convertible Senior Notes due 2037 (the "Convertible Notes") in a private placement transaction pursuant to Rule 144A under the Securities Act, as amended (the "Securities Act"). The net proceeds from the offering of the Convertible Notes, after deducting discounts and commissions and estimated offering expenses payable by the Company, were approximately $120.5 million. The offering of the Convertible Notes was completed on August 16, 2017.

The Company issued the Convertible Notes under an Indenture (the "Convertible Note Indenture"), dated August 16, 2017, by and among the Company, as issuer, the Notes Guarantor, as guarantor, and the trustee party thereto (the "Trustee").

The Convertible Notes bear interest at a rate of 5.875% per year. Interest is payable semi-annually in arrears, on February 1 and August 1 of each year. The Convertible Notes are senior unsecured obligations of the Company that rank senior in right of payment to the Company's future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to the Company's unsecured indebtedness that is not so subordinated; effectively junior to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness or other liabilities incurred by the Company's subsidiaries other than the Notes Guarantor, which fully and unconditionally guarantee the Convertible Notes on a senior unsecured basis.

The Convertible Notes mature on August 1, 2037, unless earlier repurchased, redeemed or converted.

Holders may convert their Convertible Notes at any time prior to the close of business on the business day immediately preceding February 1, 2037, other than during the period from, and including, February 1, 2022 to the close of business on the second business day immediately preceding August 5, 2022, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2017, if the closing sale price of the Company's common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price of the Convertible Notes in effect on each applicable trading day; (2) during the ten consecutive business-day period following any five consecutive trading-day period in which the trading price for the Convertible Notes for each such trading day was less than 98% of the closing sale price of the Company's common stock on such date multiplied by the then-current conversion rate; (3) if the Company calls any or all of the Convertible Notes for redemption, at any time prior to the close of business on the second business day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events.

During the period from and including February 1, 2022 to the close of business on the second business day immediately preceding August 5, 2022, and on or after February 1, 2037 until the close of business on the second business day immediately preceding August 1, 2037, holders may surrender their Convertible Notes for conversion at any time, regardless of the foregoing circumstances.

Upon the occurrence of a fundamental change (as defined in the Convertible Note Indenture) (but not, at the Company's election, a public acquirer change of control (as defined in the Convertible Note Indenture), holders of the Convertible Notes may require the Company to repurchase for cash all or a portion of their Convertible Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

At any time prior to February 1, 2037, the Company may redeem for cash all or any portion of the Convertible Notes, at the Company's option, at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Convertible Notes, which means that the Company is not required to redeem or retire the Convertible Notes periodically.

Holders of the Convertible Notes are able to cause the Company to repurchase their Convertible Notes for cash on any of August 1, 2022, August 1, 2027 and August 1, 2032, in each case at 100% of their principal amount, plus accrued and unpaid interest to, but excluding, the relevant repurchase date.

The Convertible Note Indenture contains customary terms and covenants and events of default. If an Event of Default (as defined in the Convertible Note Indenture) occurs and is continuing, the Trustee by notice to the Company, or the holders of at least 25% in aggregate principal amount of the Convertible Notes then outstanding by notice to the Company and the Trustee, may declare 100% of the principal of, and accrued and unpaid interest, if any, on, all the Convertible Notes to be immediately due and payable. In the case of certain events of bankruptcy, insolvency or reorganization (as set forth in the Convertible Note Indenture) with respect to the Company, 100% of the principal of, and accrued and unpaid interest, if any, on, the Convertible Notes automatically become immediately due and payable.

As of September 30, 2024 and December 31, 2023, there was $885,000 principal amount of outstanding Convertible Notes, net of $21.1 million of Convertible Notes held by an insurance company subsidiary.

FHLB Loan Agreements

In December 2018, a subsidiary of the Company received a 3.094% fixed interest rate cash loan of $19.2 million from the Federal Home Loan Bank ("FHLB") Atlanta. On September 29, 2023, the Company restructured the December 2018 agreement to extend the maturity date to March 28, 2025, with a 5.109% fixed interest rate payable quarterly commencing on December 28, 2023. The subsidiary continues to be a member in the FHLB. Membership in the FHLB required an investment in FHLB's common stock which was purchased in December 2018 and valued at $1.4 million. As of September 30, 2024, the common stock was valued at $1.5 million. The subsidiary is permitted to withdraw any portion of the pledged collateral over the minimum collateral requirement at any time, other than in the event of a default by the subsidiary. The proceeds from the loan were used to prepay the Company's Senior Secured Notes due 2023.

In December 2018, an insurance subsidiary became a member of the FHLB-DM. Membership in the FHLB-DM required an investment in FHLB-DM's common stock which was purchased in December 2018 and valued at $133,200. In January 2024, the insurance subsidiary of the Company received a 4.23% fixed interest rate cash loan of $5.5 million from the Federal Home Loan Bank ("FHLB-DM") Des Moines. Additionally, the transaction required the acquired FHLB-DM common stock and certain other investments to be pledged as collateral. As of September 30, 2024, the fair value of the collateralized securities was $7.1 million and the equity investment in FHLB common stock was $295,500.

Critical Accounting Policies and Estimates

When we prepare our condensed consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles (GAAP), we must make estimates and assumptions about future events that affect the amounts we report. Certain of these estimates result from judgments that can be subjective and complex. As a result of that subjectivity and complexity, and because we continuously evaluate these estimates and assumptions based on a variety of factors, actual results could materially differ from our estimates and assumptions if changes in one or more factors require us to make accounting adjustments. We have made no material changes or additions with regard to those policies and estimates as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023.

Recent Accounting Pronouncements

The information set forth under Note 1 to the condensed consolidated financial statements under the caption "Basis of Presentation and Significant Accounting Policies" is incorporated herein by reference. We do not expect any recently issued accounting pronouncements to have a material effect on our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The duration of the financial instruments held in our portfolio that are subject to interest rate risk was 3.189 years and 2.605 years at September 30, 2024 and 2023, respectively, and 2.67 years at December 31, 2023. As interest rates rise, the fair value of our fixed rate debt securities are subject to decline. Credit risk results from uncertainty in a counterparty's ability to meet its obligations. Credit risk is managed by maintaining a high credit quality fixed maturity securities portfolio. As of September 30, 2024, the estimated weighted-average credit quality rating of the fixed maturity securities portfolio was A, at fair value, compared to the estimated weighted-average credit quality rating of an A+ at December 31, 2023.

We have not experienced a material impact when compared to the tabular presentations of our interest rate and market risk sensitive instruments in our Annual Report on Form 10-K for the year ended December 31, 2023.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) that are designed to assure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2024.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There were no significant changes to our internal control over financial reporting for the period ending September 30, 2024.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to routine legal proceedings in the ordinary course of business. We believe that the ultimate resolution of these matters will not have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

The Company documented its risk factors in Item 1A of Part I of its Annual Report on Form 10-K for the year ended December 31, 2023 filed on March 13, 2024. There have been no material changes to the Company's risk factors since the filing of that report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 5. Other Information

Trading Arrangements

During the nine months ended September 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this Quarterly Report on Form 10-Q.

Index to Exhibits

3.1	Certificate of Incorporation of Heritage Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2014
3.2	By-laws of Heritage Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2014
4	Form of Stock Certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1/A (File No. 333-195409) filed on May 13, 2014)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline XBRL (included in Exhibit 101)

* Filed herewith
** Furnished herewith
† Management contract or compensatory plan or arrangement

SIGNATURES

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

HERITAGE INSURANCE HOLDINGS, INC.

Date: November 8, 2024 By: /s/ ERNESTO GARATEIX
Ernesto Garateix
Chief Executive Officer
(Principal Executive Officer and Duly Authorized Officer)

Date: November 8, 2024 By: /s/ KIRK LUSK
Kirk Lusk
Chief Financial Officer
(Principal Financial Officer)