UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Year Ended December 31, 2023

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.

Delaware	**45-5338504**
(STATE OF INCORPORATION)	**(I.R.S. ID)**

1401 N. Westshore Blvd., Tampa, FL, 33607
(727) 362-7200

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**

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

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

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

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, 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. (Check one):

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 market value of the Registrant’s common stock held by non-affiliates was $72,955,436 on June 30, 2023, computed on the basis on the closing sale price of the Registrant’s common stock on the New York Stock Exchange on that date. As of March 4, 2024, the number of shares outstanding of the Registrant’s common stock was 30,218,938.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement for its Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K, provided that if such Proxy Statement is not filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K, an amendment to this Form 10-K shall be filed no later than the end of such 120-day period.

HERITAGE INSURANCE HOLDINGS, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

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FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements include, but are not limited to, statements regarding: our core strategy and ability to fully execute our business plan; our growth, including by geographic expansion, new lines of business, additional policies and new products and services, competitive strengths, proprietary capabilities, processes and new technology, results of operations and liquidity; strategic initiatives and their impact on shareholder value; statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance; statements of management's goals and objectives, including intentions to pursue certain business and the handling of certain claims; projections of revenue, earnings, capital structure, reserves and other financial items; assumptions underlying our critical accounting policies and estimates; assumptions underlying statements regarding us and our business; statements regarding the impact of legislation; expectations regarding claims and related expenses, and our reinsurers' obligations; and 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" and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in this Annual Report on Form 10-K. 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

Item 1. Business

Our Business

Heritage Insurance Holdings, Inc. (“we”, “our”, “us”, “Heritage” and the “Company”) is a super-regional property and casualty insurance holding company that primarily provides personal and commercial residential insurance through our insurance company subsidiaries. We are vertically integrated and control or manage substantially all aspects of insurance underwriting, customer service, actuarial analysis, distribution and claims processing and adjusting. We are led by a highly experienced and diverse management team with significant expertise in the residential property insurance industry and deep industry relationships.

Our insurance subsidiaries include:

- Heritage Property & Casualty Insurance Company (“Heritage P&C”), which provides personal and commercial residential property insurance and commercial general liability insurance;
- Narragansett Bay Insurance Company (“NBIC”), which provides personal and commercial residential property insurance; and
- Zephyr Insurance Company (“Zephyr”), which provides personal residential and wind-only property insurance in Hawaii.

Our financial strength ratings are important in establishing our competitive position and can significantly impact our ability to write policies. We are rated by both Demotech, Inc. (“Demotech”) and Kroll Bond Rating Agency (“KBRA”). Demotech, a rating agency specializing in evaluating the financial stability of insurers, maintains a letter-scale financial stability rating system (“FSR”) from A” (A double prime) to L (licensed by insurance regulatory authorities). KBRA’s ratings assigned to insurance companies range from AAA (extremely strong operations to no risk) to R (operating under regulatory supervision).

Demotech and KBRA have assigned the following insurance financial strength ratings (“IFSR”) to the Company and our key operating subsidiaries.

Subsidiary	Demotech Rating	KBRA Rating	KBRA Investment Rating
Heritage Insurance Holdings	N/A	N/A	BBB-
Heritage P&C	A	BBB+	N/A
Zephyr	A'	BBB+	N/A
NBIC	A	BBB+	N/A

The KBRA outlook for Heritage P&C and NBIC is stable and the KBRA outlook for Heritage Insurance Holdings, Inc. and Zephyr is negative.

We also provide insurance and insurance-related services through the following operating subsidiaries:

- Osprey Re Ltd. (“Osprey”), our captive reinsurance subsidiary that may provide a portion of the reinsurance protection purchased by our insurance company subsidiaries;
- Heritage MGA, LLC, our managing general agent;
- NBIC Service Company, which provides services to NBIC;
- Contractors’ Alliance Network, LLC (“CAN”), our vendor network manager for claims and provider of restoration, emergency and recovery services; and
- Skye Lane Properties, LLC, our property management subsidiary.

Our Company

Our primary products are personal and commercial residential property insurance. On an admitted basis, we provide personal residential insurance in fourteen eastern and gulf states and commercial residential insurance in three of those states. We also write personal residential insurance on an admitted basis in Hawaii and on an excess and surplus lines basis in California and Florida. We are licensed, but inactive, in Pennsylvania.

We conduct our operations under one business and reporting segment.

As of December 31, 2023, we had 436,656 personal residential policies in force, representing $1.1 billion of annualized premium, 2,838 commercial residential policies in force, representing $253.4 million of annualized premium, and 11,181 commercial general liability policies in force, representing $11.0 million of annualized premium, for a total of 450,675 policies and $1.4 billion of annualized premium. For the year ended December 31, 2023, we had gross premiums written of $1.3 billion and operating income of $63.2 million. At December 31, 2023, we had total assets of $2.2 billion and total stockholders' equity of $220.3 million.

Our Strategy

Our overall strategy continues to focus on optimizing our portfolio of over $1.0 billion in gross premiums written toward products and geographies that maximize long term returns to our shareholders, while mitigating risk from a single or series of catastrophic weather events. We intend to continue to improve underwriting results by undertaking the following:

Improve the Profitability of our Portfolio

We believe that our goal to improve the profitability of our business will be achieved through disciplined underwriting, diversification of our book of business, and rate adequacy, as well as a robust reinsurance program. More selective underwriting has led to an intentional decline in policy count for our admitted personal lines product while achieving a higher average premium per policy through rate actions. Given our coastal exposure, which includes exposure to hurricanes and other severe weather events, our reinsurance program provides meaningful balance sheet protection and reduces earnings volatility. We continue to take underwriting and rate actions to improve the profitability of our business and continuously monitor our portfolio to manage the risk of wind and other perils as well as the cost of our reinsurance program.

Optimize Our Reinsurance Program

We continue to strategically evaluate our reinsurance program to obtain what we believe to be the most appropriate levels and sources of reinsurance, and we trade with high quality reinsurers who are either highly rated or who collateralize our risk transfer program. Our reinsurance program includes excess of loss, quota share, per risk and facultative coverage. We believe there is sufficient capital to support our reinsurance program and that we have an opportunity to obtain reasonable pricing and contract terms and conditions. We continue to evaluate cost-efficient alternatives to traditional reinsurance, such as the issuance of catastrophe bonds by Citrus Re Ltd. ("Citrus Re"), a Bermuda special purpose insurer. In addition, each year we evaluate whether to meet a portion of our reinsurance needs through the use of our reinsurance subsidiary, Osprey, which helps to manage our reinsurance expense and reduces our reliance on third-party reinsurance.

Efficiently Manage Losses and Loss Adjustment Expenses

We are committed to proactively managing our loss costs through prudent underwriting and in-sourcing critical aspects of claims adjusting and remediation services. We have over 275 full-time employees dedicated to claims management. This includes personnel who in take claim information, an in-house insurance defense team, claims examiners, and claims vendor management and mediation personnel. We have additional contracted claims adjusting and loss mitigation resources in all states in which we conduct business and deploy those additional resources as needed. Our CAN subsidiary provides emergency claims and mitigation services to our policyholders. We believe our significant internal and external resources allow us to deliver timely service to our policyholders and effectively manage claims costs.

Expand and Cultivate Relationships with Large Independent Agencies

As described in our competitive strengths below, we believe that continuing to expand and cultivate our relationships with large independent agencies and other stakeholders will foster a higher quality book of business. We also have established relationships with auto insurance carriers who package their auto product with our residential property insurance product to provide diversification opportunities.

Develop IT Solutions to More Effectively Service our Customers

We continuously work to enhance our technology resources in order to better serve our agents and policyholders, streamline our processes and improve efficiency. We have made it a priority to use consistent policy and claims systems for our insurance company affiliates, which provides efficiencies for our personnel as well as our agency networks. We completed a transition to a new claims system used by each of our insurance company subsidiaries during 2023 and are transitioning to a new policy and billing system which is expected to be completed by 2025.

Privacy and Cybersecurity Regulations and Oversight

We are subject to numerous federal and state insurance regulations that impose significant requirements and standards for protecting personally identified information of insurance company policyholders, employee and other individuals.

Federal Regulation

The federal Gramm-Leach-Bliley Act ("GBLA") requires financial institutions, including insurers, to protect the privacy of non-public information, to restrict use of such information and disclosure to non-affiliated third parties, and to provide notices to customers regarding use of their non-public personal information and an opportunity to “opt out” of certain disclosures. State departments of insurance and certain federal agencies adopted implementing regulations as required by federal law. In addition, SEC rules require disclosure regarding cybersecurity oversight and incidents.

State Laws and Regulations

For the past few years, state insurance regulators have focused increasing attention on cybersecurity. As an example, insurance companies are required to maintain a cybersecurity program, incident response plan and information technology system safeguards that protect customer information under extensive cybersecurity regulations implemented by the NY Department of Financial Services and statutes adopted by a number of states based on a model data security law adopted by the National Association of Insurance Commissioners (“NAIC”). In addition, state insurance regulators focus significant attention on data security during financial exams, and the NAIC has strengthened and enhanced the cybersecurity guidance included in its handbook for state insurance examiners. Additional state laws outside of the insurance industry impose notification requirements in the event of cybersecurity breaches affecting their residents. On the privacy front, we anticipate continued focus on new regulatory and legislative proposals at the state and federal levels that may further regulate practices regarding privacy and security of personal information. However, we note that in many instances we will be exempt from comprehensive state privacy laws as a financial institution regulated under the GBLA. We continue to assess the applicability of this exemption to the Company in light of our operations so as to stay vigilant of new compliance requirements under applicable privacy laws.

Our Competitive Strengths

We believe that our business diversification to date and our ability to capitalize on our future business prospects are a result of the following competitive strengths of our business:

Experienced Management Team With a Long History in the Residential Property Insurance Market

We have an experienced executive management team led by Ernesto Garateix, Chief Executive Officer, Kirk Lusk, Chief Financial Officer and a highly experienced and diverse senior management team with significant expertise in the residential property insurance industry and deep industry relationships. Our former President, Richard Widdicombe, who serves as Chairman of the Board also has extensive experience in and an in-depth knowledge of the insurance industry.

Strong, Conservative Capital Structure

As of December 31, 2023, we had stockholders’ equity of $220.3 million and Heritage P&C, NBIC and Zephyr, had policyholder surplus, as defined by statutory accounting principles, of $143.5 million, $72.3 million and $35.8 million, respectively. The surplus for each of our insurance subsidiaries is in excess of the minimum capital levels required by our insurance regulators and our ratings agencies.

Selective Underwriting and Policy Acquisition Criteria

We believe our proprietary data analytics capabilities and underwriting processes allow us to make better risk selections leading to profitability and high levels of policy retention. Our data analytics are embedded in the underwriting process and are used for new and existing business as well as strategic expansion into new product lines and states.

Unique Claims Servicing Model and Superior Customer Service

We believe that the vertical integration of our claims adjusting, water mitigation, and repair services provides us with a competitive advantage. Through our management of both claims adjusting and repair services, we are less reliant on third parties and are generally able to begin the adjustment and mitigation process in a timely manner, which helps manage our loss costs. We also believe our unique model provides a superior level of customer service for our policyholders, enhancing our reputation and increasing the likelihood that our policyholders will renew their policies with us.

Relationships with Highly Rated Reinsurers

We manage our exposure to catastrophic events through, among other things, the purchase of reinsurance. Our relationships with highly rated reinsurers have been developed as a result of our management team’s industry experience and our reputation for selective underwriting and effective claims management. Our financial strength, underwriting results and the long-term relationships between our management team and our reinsurance partners help improve the cost-effectiveness of our reinsurance program.

Relationships with Independent Agents and National Underwriters

We have developed relationships with a large network of independent insurance agents. We have partnerships with certain large retail agencies which amplify our production. We believe we have been able to build this network due to our financial stability, disciplined underwriting, claims and mitigation capabilities, customer service, and robust reinsurance program. We have forged strategic relationships with national insurers and agencies that provides us access to their agent and production networks. The Products and Distribution section below describes the breadth of our agency network.

ESG Strategy

The advancement of the environmental, social and governance ("ESG") framework is intended to promote awareness, sustainable and inclusive development of insurance markets which has been an area of focus for standard setters and regulatory agencies at the state and federal level. We continue to progress in integrating ESG strategies into our business and operations. Specifically:

- ***Environment*** - we seek to operate our own facilities in a more intelligent, environmentally-friendly manner. We are focused on becoming more energy efficient, mitigating and adapting to climate change, conserving water and reducing waste.
- ***Social*** – we have put emphasis on creating an inclusive equal opportunity workplace and inspiring employees to support community relations. Our goals are to ensure that all employees feel valued, respected and accepted for their contributions regardless of their race, sex, religion, ethnicity, age, gender identity, disabilities, national origin, sexual orientation, or other unique characteristics.
- ***Governance*** – we are committed in our pursuit to create an ethical and transparent organization.

We continue to enhance our ESG policies as we assess, analyze and identify critical topics. We continue to monitor the expansion of these policies to ensure compliance with future regulations and seek to implement best practices in response to any emerging guidance.

Our Competition

The market for residential property insurance is highly competitive in the states in which we conduct business. We primarily compete against single state or regional carriers, but also compete to varying degrees against large national carriers and state-sponsored homeowners' insurance entities. We compete for business on the basis of price, financial strength, types of coverages offered, availability of coverage desired by customers, commission structure and quality of service. We believe Heritage differentiates itself from many competitors with our service levels, financial resources, including a robust reinsurance program, streamlined processes, and vertical integration of loss mitigation services. We've consistently ranked in the top 25 writers of homeowners' insurance business nationwide. Our market share by state varies depending upon our premium volume and that of competing property insurance writers in those states.

Products and Distribution

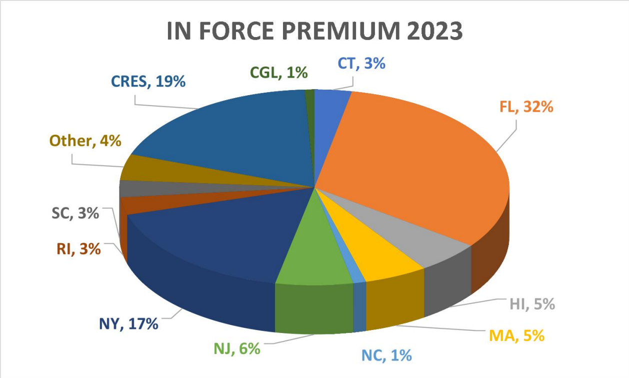
Heritage P&C writes personal residential insurance policies through a network of more than 2,000 independent agents in the states in which it is licensed. Approximately 22.0% of our voluntary personal lines policies are written by agents that are affiliated with eight large agency networks with which we have entered into master agency agreements. We market and write commercial residential policies through a network of approximately 400 independent agents in Florida.

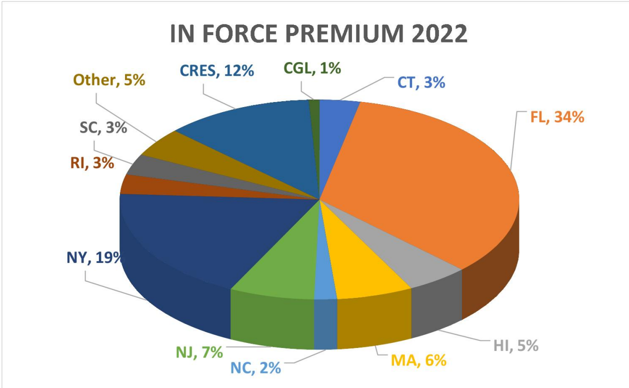
NBIC writes personal residential insurance policies through a network of retail independent agents, wholesale agents and a partnership with a large direct agency. We maintain master agency agreements with approximately 500 retail independent agents, representing over 800 agency locations, including several large agency networks. We also distribute indirectly to over 1,500 retail locations through eight wholesale agency relationships. Our three largest independent agency relationships represent approximately 16.0% of annualized premiums. Additionally, we have expanded our product offering to include commercial residential products in New Jersey and New York.

Zephyr writes personal residential insurance policies through a network of approximately 70 independent agencies in Hawaii. Approximately 50.6% of our premium is written by agents that are affiliated with three large agency networks with which we have entered into master agency agreements.

Our Markets

The following charts depict the geographic distribution of our in-force premium as of December 31, 2023 and 2022, respectively. Our in-force premium for Florida commercial residential business has increased, while in-force premium for personal lines has declined as part of our strategy to re-allocate capital to products and geographies that maximize long-term returns.





** * Other includes AL, CA, DE, GA, MD, MS and VA*
CGL = commercial general liability
CRES = commercial residential insurance

Underwriting

Our management establishes underwriting criteria for policies we accept. For consistency, efficiency, and compliance with our underwriting standards, our underwriting process is generally automated with predetermined criteria programmed into our policy system. Certain policies have characteristics which require an independent review by our underwriters. Our underwriters evaluate and accept only those risks that they believe will enable us to achieve an underwriting profit. To achieve underwriting profitability on a consistent basis, we focus on (1) the suitability of the risk to be assumed or written, (2) the adequacy of the premium with regard to the risk to be assumed or written and (3) the geographic distribution of existing risk relative to the risk to be assumed or written.

All of our underwriting is performed internally. The underwriting team includes actuarial staff, underwriters, our risk management team, and product development personnel. Our underwriting team leverages our proprietary data analytics, which include a number of automated processes, to analyze a number of risk evaluation factors, including the age, construction, location and value of the residence, premiums to be received from insuring the residence, geographic concentrations of policies and the cost of reinsurance. The underwriting criteria that we consider continues to evolve with our business and strategy.

We also review our expiring policies to determine if those risks continue to meet our underwriting guidelines. If a given policy no longer meets our criteria, we will take appropriate action, including raising rates, or, to the extent permitted by applicable law, not offering to renew the policy.

Policy Administration

We utilize web-based software solutions and insurance personnel to perform policy administration services, including processing, billing and policy maintenance. The software is able to adapt to a variety of forms and rates, handle the administration of our policy volume, and provides detailed information about our book of business to our internal underwriters so that they can adjust our underwriting criteria, as necessary. The systems also allow us to provide renewal notices, late payment notices, cancellation notices, endorsements and policies to our customers on a timely basis.

Claims Administration

We closely manage all aspects of the claims process, from processing the initial claim submission to providing remediation services for claims through our wholly-owned subsidiary, CAN, or preferred vendors. Claims from policyholders are reviewed by our managers and staff adjusters, who assess the extent of the loss, which may include thorough on-site investigations, and determine the resources needed to adjust each claim. Our claims are generally adjusted by our staff claims professionals, except in the case of a catastrophic event for which we have contracted with several large national claims adjusting firms and experienced independent contractors to assist our adjusters with the increased volume of claims to ensure timely responses to our policyholders. Our CAN subsidiary performs both catastrophe and non-catastrophe related repair and remediation services. We believe our approach to claims handling results in a higher level of customer service and reduces our losses and loss adjustment expense.

To encourage our Florida policyholders to allow us to manage their claims from beginning to end, we developed a program that provides participating customers with a 10% discount on their claim deductible, and gives us control over inspection, claims adjusting and repair services.

Loss and Loss Adjustment Expense Reserves

Our liability for losses and loss adjustment expenses represents our estimated ultimate liability of (i) claims that have been incurred and reported, but not yet paid (case reserves), (ii) claims that have been incurred but not yet reported to us ("IBNR"), and (iii) loss adjustment expenses ("LAE") which are intended to cover the cost of settling claims, including investigation and defense of lawsuits resulting from such claims.

Considerable time can pass between the occurrence of an insured loss, the reporting of the loss, and the payment of that loss. Our liability for losses and LAE, which we believe represents the best estimate at a given point in time based on facts, circumstances and historical trends then known, may necessarily be adjusted to reflect additional facts that become available during the loss settlement period. We continually review and adjust our estimated losses as necessary based on industry development trends, evolving claims experience and new information obtained.

For a discussion and summary of the activity in the liability for losses and LAE for the years ended December 31, 2023, 2022 and 2021, Refer to Note 13 "*Reserve for Unpaid Losses*" to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Technology

Technology has become an integral part of our organization and makes us more efficient, cost-effective and customer-centric. Our business depends upon the development, implementation and use of integrated technology systems to automate various processes such as underwriting, claims processing, billing and customer service. This leads to improved efficiency, reduced errors and faster turnaround times. These systems have enabled us to offer more personalized experience and better service to both our agents as well as our customers. Our technology platform has streamlined our various business processes making them faster and more efficient across our multi-state insurance business. The technology platform is supported by a robust enterprise data warehouse and analytics platform that provides key performance indicator measurements and actionable insights for our management, at the same time supporting all of our regulatory compliance reporting needs.

We license policy, billing and claims administration and catastrophe modeling software from third parties. We also own or license other technology systems used by our insurance company affiliates. Many of our technology platforms run on cloud-based solutions, and some run on servers hosted in a data center. All of our platforms are resilient and have disaster recovery backups.

Reinsurance

In order to limit our potential exposure to individual risks and catastrophic events, we purchase significant reinsurance from third party reinsurers. Purchasing reinsurance is an important part of our risk strategy, and premiums ceded to reinsurers is one of our largest costs. Reinsurance involves transferring, or "ceding", a portion of the risk exposure on policies we write to another insurer, known as a reinsurer. To the extent that our reinsurers are unable to meet the obligations they assume under our reinsurance agreements, we remain liable for the entire insured loss.

We have strong relationships with reinsurers, which we attribute to our management's industry experience, disciplined underwriting, and claims management capabilities. For each of the twelve months beginning June 1, 2023 and 2022, we purchased reinsurance from the following sources: (i) the Florida Hurricane Catastrophe Fund, a state-mandated catastrophe fund ("FHCF") for Florida admitted market 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) our captive reinsurance subsidiary, Osprey. We also sponsored catastrophe bonds through Citrus Re. In addition to purchasing excess of loss catastrophe reinsurance, we also purchased quota share, property per risk and facultative reinsurance. Our quota share programs limit our exposure to catastrophe and non-catastrophe losses and provide ceding commission income. Our per risk programs limit our net exposure in the event of a severe non-catastrophe loss impacting a single location or risk. We also utilize facultative reinsurance to supplement our per risk reinsurance program where our capacity needs dictate.

Our reinsurance agreements are prospective contracts. We record an asset, prepaid reinsurance premiums, and a liability, reinsurance payable, for the entire contract amount upon commencement of our new reinsurance agreements. We generally amortize our catastrophe reinsurance premiums over the 12-month contract period beginning on June 1 on a straight-line basis. Our quota share, per risk and facultative reinsurance is amortized over the 12-month contract period and may be purchased on a calendar or fiscal year basis.

Our 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. Our reinsurance program provides reinsurance in excess of our state regulator requirements, which are based on the probable maximum loss that we would incur from an individual catastrophic event estimated to occur once in every 100 years based on our 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. We also purchase reinsurance coverage to protect against the potential for multiple catastrophic events occurring in the same year. We share portions of our reinsurance program coverage among our insurance company affiliates.

We are responsible for all losses and loss adjustment expenses in excess of our reinsurance program. For second or subsequent catastrophic events, our total available coverage depends on the magnitude of the first event, as we may have coverage remaining from layers that were not previously fully exhausted.

In the fourth quarter of 2022 we re-estimated our ultimate losses for Hurricane Irma, which struck Florida in 2017. As a result of that re-estimation, Heritage exhausted the private layers of reinsurance specific to Hurricane Irma but had a 45% participation in the FHCF limit remaining. As further described in Note 13 Reserve for Losses, the Company's 2017 reinsurance agreement with the FHCF was commuted during the third quarter of 2023. This commutation process resulted in a final determination of and payment for known, unknown or unreported claims relating to Hurricane Irma. The final amount paid by the FHCF could vary from the Company's future estimation of losses to have been recovered from the FHCF. Accordingly, should future re-estimations to Hurricane Irma losses increase the expected loss reserves, all of the increase will be retained.

For the contract period ending May 31, 2024, our insurance company subsidiaries purchased an aggregate of $2.9 billion of catastrophe excess of loss reinsurance from the following sources: (i) FHCF (i.e., Florida residential admitted market risks only), (ii) over 30 third-party private reinsurers, all of which were rated "A-" or higher by A.M. Best or S&P or which were fully collateralized, (iii) Osprey, our captive reinsurance subsidiary, and (iv) Citrus Re, a Bermuda special purpose insurer formed in 2014 ("Citrus Re"). For the 2023 hurricane season, we also obtained reinsurance from the Florida State Board of Administration's Reinsurance to assist Policyholders ("RAP") program which provide reinsurance for Florida admitted policies only. The RAP component of our reinsurance program was provided at no cost to the Company and is a non-recurring reinsurance program. There is no single reinsurer representing more than 10% of the limit purchased for our program other than the FHCF.

The chart below lists our third-party reinsurers with A.M. Best and S&P ratings as of December 31, 2023. To the extent a reinsurer is not rated, the reinsurance program is fully collateralized. Refer to Note 12 "Reinsurance" to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Reinsurer	A.M. Best Rating	S&P Rating
Aeolus Re Ltd./Keystone PF Segregated Account	Collateralized	Collateralized
Aeolus Re Ltd./Keystone PF Segregated Account	Collateralized	Collateralized
Allianz Risk Transfer AG (Bermuda Branch)	A+ g	AA-
Arch Reinsurance Limited	A+	A+
Ariel Re Bda Limited/Lloyd's Syndicate 1910	A	A+
Chaucer Insurance Company DAC (Bermuda)	A g	A
Chubb Tempest Reinsurance Ltd.	A++	AA
D.E. Shaw Re (Bermuda) Ltd., Bermuda	Collateralized	Collateralized
DUAL Commercial LLC (Tamesis Americas)/Allianz Global Risks US Ins Co	A+ g	AA
Eclipse Re Ltd/Segregated Account EC0047	Collateralized	Collateralized
Everest Reinsurance Company	A+ g	A+
Fidelis Insurance Bermuda Limited	A ug	A-
Hannover Rueck SE (obo Pillar Capital Management)	A+	AA-
Hiscox Insurance Company (Bermuda) Limited	A g	A
Insurance Company of the West	A p	NR
Munich Reinsurance America, Inc.	A+ g	AA-
Odyssey Reinsurance Company	A	A
Swiss Reinsurance America Corporation	A+ g	AA-
Transatlantic Reinsurance Company	A++	AA+
Validus Reinsurance, Ltd.	A g	A+
Conduit Reinsurance Limited	A-	NR
Hannover Rueck SE (obo Chard Re)	A+	AA-
Hannover Rueck SE (obo Eskatos Capital Management)	A+	AA-
Houston Casualty Company (UK Branch)	A++ g	A+
Lloyd's Syndicate 0033 (HIS)	A	A+
Lloyd's Syndicate 1084 (CSL)	A	A+
Lloyd's Syndicate 1301 (IGO)	A	A+
Lloyd's Syndicate 1414 (ASC)	A	A+
Lloyd's Syndicate 1729 (DUW)	A	A+
Lloyd's Syndicate 0623 (AFB)	A	A+
Lloyd's Syndicate 2623 (AFB)	A	A+
Lloyd's Syndicate 4020 (ARK)	A	A+
Lloyd's Syndicate 4444 (CNP)	A	A+
Taiping Reinsurance Company Limited	A	A

Investments

Our investments are managed by a third-party asset manager. We have designed our investment policy to provide a balance between current yield, conservation of capital and the liquidity requirements of our operations. As such, our invested assets are primarily held in cash and bonds of high credit quality with relatively short durations. Our investment policy sets guidelines that provide for a well-diversified investment portfolio that is compliant with insurance regulations applicable to the states in which we operate. Our investment objectives include liquidity, safety and security of principal, and returns. The investment policy limits investments in common and preferred stocks and requires a minimum weighted average portfolio quality of A for our bond portfolio with an overall duration of three to five years. No more than 2% of admitted assets can be invested in any one issuer, with slightly higher limits for highly rated securities, excluding government-related securities. Investments in commercial mortgages cannot exceed 10% of admitted assets. Prohibited investments include short sales and margin purchases, oil, gas, mineral or other types of leases, speculative uses of futures and options, unrated corporate securities, non-US denominated securities, convertible securities, high risk CMO instruments, repurchase agreements, securities lending transactions and speculative foreign currency valuation transactions. Our investment policy, which may change from time to time, is approved by our Investment Committee and is reviewed on a regular basis in order to ensure that our investment policy evolves in response to changes in the financial markets. Refer to Note 2 "*Investments*" to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

As of December 31, 2023, we held $463.6 million in cash and cash equivalents and $569.4 million in investments, which were comprised of $560.7 million in fixed maturities, $1.7 million in common stock and $7.1 million in other invested assets. Of the $560.7 million of fixed maturities, $26.3 million of U.S. government agency securities were pledged to the Federal Home Loan Bank ("FHLB") in connection with a FHLB loan to Heritage P&C. Refer to Note 14 "*Long-Term Debt"* to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Seasonality of our Business

Our insurance business is seasonal; hurricanes typically occur during the period from June 1 through November 30 and winter storms generally impact the first and fourth quarters, while hail and severe convective storms typically occur in the first and second quarters. Because our catastrophe reinsurance program incepts on June 1 annually, any variation in the cost of our reinsurance, whether due to changes to reinsurance rates or changes in the total insured value of our policy base, will be incurred over the twelve month period beginning with that date subject to certain adjustments.

Government Regulation

The insurance industry is extensively regulated. Our insurance company subsidiaries are subject to the laws and regulations of the states in which they conduct business. The insurance regulatory statutes and rules provide for regulation of virtually all aspects of the business of insurance companies. The states in which we conduct business, like many states, have adopted several model laws and regulations as promulgated by the National Association of Insurance Commissioners ("NAIC"). State statutes and administrative rules generally require each insurance company that is part of a holding company group to register with the department of insurance in its state of domicile and to furnish information concerning the operations of the companies within the holding company system which may materially affect the operations, management or financial condition of the insurers within the group. As part of its registration, each insurance company must identify material agreements, relationships and transactions with affiliates, including without limitation loans, investments, asset transfers, transactions outside of the ordinary course of business, certain management, service, and cost sharing agreements, reinsurance transactions, dividends and consolidated tax allocation agreements. In some instances, individual state insurance laws and regulations are even more stringent than those promulgated by the NAIC or other states.

We are subject to regulations administered by a department of insurance in our states of domicile as well as in each state in which we conduct business. These regulations relate to, among other things:

- the content and timing of required notices and other policyholder information;
- the amount of premiums the insurer may write in relation to its surplus (writing ratios);
- the amount and nature of reinsurance a company is required to purchase;
- participation in guaranty funds and other statutorily created markets or organizations;
- business operations and claims practices;
- approval of policy forms and premium rates;
- standards of solvency, including risk-based capital measurements;
- licensing of insurers and their products;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the ability of insurance company subsidiaries to pay dividends to insurance holding companies;
- approval of and restrictions on transactions between insurance companies and their affiliates;
- restrictions on the size of risks insurable under a single policy;
- requiring deposits for the benefit of policyholders;
- requiring certain methods of accounting;
- periodic examinations of our operations and finances;
- the form and content of records of financial condition required to be filed; and
- requiring reserves.

Various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations include (i) the creation of "market assistance plans" under which insurers are induced to provide certain coverages, (ii) restrictions on the ability of insurers to rescind or otherwise cancel certain policies in mid-term or to non-renew policies at their scheduled expirations, (iii) advance notice requirements or limitations imposed for certain policy non-renewals, (iv) limitations upon increases or decreases in rates permitted to be charged, (v) expansion of governmental involvement in the insurance market and (vi) increased regulation of insurers' policy administration and claims handling practices. Further, regulatory authorities have relatively broad discretion to impose fines, sanctions, and other penalties, and to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, we follow practices based on our interpretations of regulations or practices that we believe may be generally followed by the insurance industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us.

Our insurance subsidiaries are subject to risk-based capital standards and other minimum capital and surplus requirements imposed under applicable state laws. The risk-based capital standards, based upon the Risk-Based Capital Model Act adopted by the NAIC, require our insurance subsidiaries to report the results of risk-based capital calculations to state regulators and the NAIC. These risk-based capital standards provide for different levels of regulatory attention depending upon the ratio of an insurance company's total adjusted capital, as calculated in accordance with NAIC guidelines, to its authorized control level risk-based capital. Authorized control level risk-based capital is determined using the NAIC's risk-based capital formula, which measures the minimum amount of capital that an insurance company needs to support its overall business operations.

The State of Florida Office of Insurance Regulation ("FLOIR") imposed certain additional solvency related requirements as a condition of receiving a certificate of authority for our Florida insurance company subsidiary. Finally, our insurance company affiliates are subject to state regulations or consent orders setting conditions related to various transactions, including intercompany transactions. We are in full compliance with all consent orders.

Examinations

State regulators where we are and may become licensed and offer insurance products conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports related to financial condition, holding company issues and other matters. These regulatory authorities also conduct periodic examinations into insurers' business practices. Additionally, we are subject to assessments levied by governmental and quasi-governmental entities from the states in which we conduct business. Generally, other state regulators defer to the state insurance regulator in our state of domicile. However, any state insurance regulator, in the states where we conduct business, has the discretion to conduct examinations to determine compliance with the applicable state insurance laws and regulations. The subject of the examinations may include forms, disclosures, marketing, sales practices, claims processes, underwriting, and various other practices and procedures. Upon the conclusion of the examination, the state regulators may make the examination reports publicly available.

Insurance Holding Company

The Company is also subject to the insurance holding company laws in the states of domicile of our insurance company affiliates. As part of the insurance holding company laws, we are required to file certain information with state insurance regulators in Florida, Rhode Island, and Hawaii, who may require us to file information regarding capital structure, financials, operations, and ownership. These state insurance regulators must approve any transactions between the Company and our affiliate entities.

Human Capital

Growth and Development

At December 31, 2023, we had 566 full-time and part-time employees. We do not have collective bargaining agreements relating to any of our associates. Our employees are our most valuable asset, and we are committed to building a workforce that supports each employee's unique professional journey. We believe having an inclusive work environment, which not only drives engagement but fosters innovation, is critical to driving growth. Our business results depend in part on our ability to successfully manage our human capital resources, including attracting, identifying and retaining key talent. In 2023, we remained focused on employee development though training opportunities, including courses which provide insurance designations, and other employee engagement activities. Our performance management and other processes are intended to align associate aspirations, interests, performance, and experiences with the talent needs that supports a healthy working environment for the success of our business. Managers and associates conduct periodic check-in discussions to encourage continuous performance feedback and improvement. These discussions also act to hold leaders accountable for creating an associate development culture.

We are committed to the health and safety of our employees, which is critical to our success. We provide our employees with access to a variety of innovative, flexible and convenient health and wellness programs. These programs are designed to support employees' physical and mental health by providing tools and resources to help them improve or maintain their health status and encourage engagement in healthy behaviors. We provide competitive compensation and benefits as well as a 401(k) plan with employee matching opportunities, healthcare and insurance benefits, health savings and flexible spending accounts, telemedicine, paid time off, family leave, employee assistance programs and free education, training and development programs.

We are committed to the wellness of our employees and our community and as part of that commitment we have volunteer programs to support our local community's wellness which provides our employees paid time off to volunteer to Heritage-sponsored volunteer opportunities.

Available Information

We make available free of charge on our investor website, investors.heritagepci.com, all materials that we file electronically with the Securities and Exchange Commission ("SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the SEC. During the period covered by this Form 10-K, we made all such materials available through our website as soon as reasonably practicable after filing such materials with the SEC. To access these filings, go to the Company's website at **https://investors.heritagepci.com** and under the "Investors" heading, click on "Financial Information" then "SEC Filings".

The SEC maintains an Internet website, www.sec.gov that contains reports, proxy and information statements and other information that we file electronically with the SEC. Our principal corporate offices are located at 1401 N. Westshore Blvd., Tampa, Florida, 33607.

Item 1A. Risk Factors

Set forth below are certain risk factors that could harm our business, results of operations and financial condition. You should carefully read the following risk factors, together with the financial statements, related notes and other information contained in this Annual Report on Form 10-K. Our business, financial condition and operating results may suffer if any of the following risks are realized. If any of these risks or uncertainties occur, the trading price of our common stock could decline and you might lose all or part of your investment. This Annual Report on Form 10-K contains forward-looking statements that contain risks and uncertainties. Please Refer to the discussion of "Forward-Looking Statements" of this Annual Report in connection with your consideration of the risk factors and other important factors that may affect future results described herein.

Risks Related to Our Business

Our loss reserves are estimates and may be inadequate to cover our actual liability for losses, causing our results of operations to be adversely affected.

We maintain reserves to cover our estimated ultimate liabilities for losses and loss adjustment expenses, also referred to as loss reserves. Our loss reserves are based primarily on our historical data and statistical projections of what we believe the resolution and administration of claims will cost based on facts and circumstances then known to us. Our claims experience and our experience with the risks related to certain claims is inherently limited. We use company historical data to the extent it is available and rely on industry historical data which may not be indicative of future periods. As a result, our projections and our estimates may be inaccurate, which in turn may cause our actual losses to exceed our loss reserves. If our actual losses exceed our loss reserves, our financial results and our ability to expand our business and to compete in the property and casualty insurance industry may be negatively affected.

Factors that affect unpaid losses and loss adjustment expenses include the estimates made on a claim-by-claim basis known as "case reserves" coupled with bulk estimates known as "incurred but not yet reported" (or "IBNR"). Periodic estimates by management of the ultimate costs required to resolve all claims are based on our analysis of historical data and estimations of the impact of numerous factors such as (i) per claim information, (ii) industry and company historical loss experience and development patterns, (iii) legislative enactments, judicial decisions, legal developments in the awarding of damages and changes in political attitudes, and (iv) trends in general economic conditions, including the effects of inflation. Management revises its estimates based on the results of its analysis. This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for estimating the ultimate resolution of all claims. There is no precise method for subsequently evaluating the impact of any specific factor on the adequacy of the reserves because the eventual redundancy or deficiency is affected by multiple factors.

Because of the inherent uncertainties in the reserving process, we cannot be certain that our reserves will be adequate to cover our actual losses and loss adjustment expenses. If our reserves for unpaid losses and loss adjustment expenses are less than actual losses and loss adjustment expenses, we will be required to increase our reserves with a corresponding reduction in our net income in the period in which the deficiency is identified. Future loss experience substantially in excess of our reserves for unpaid losses and loss adjustment expenses could substantially harm our results of operations and financial condition.

We have exposure to unpredictable catastrophes that are more pronounced because a large portion of our insurance business is conducted in coastal states, which exposure can materially and adversely affect our financial results.

We write insurance policies that cover homeowners, condominium owners and commercial residential buildings for losses that result from, among other things, catastrophes. We are therefore subject to losses, including claims under policies we have assumed or written, arising out of catastrophes that may have a significant effect on our business, results of operations and financial condition. A significant catastrophe, or a series of catastrophes, could also have an adverse effect on our reinsurers. Catastrophes can be caused by various events, including hurricanes, severe convective storms, tropical storms, snowstorms, tornadoes, earthquakes, hailstorms, explosions, power outages, fires and by man-made events, such as terrorist attacks. Climate change, to the extent it produces extreme changes in temperatures and changes in weather patterns, could affect the frequency or severity of weather-related catastrophes. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected and the severity of the event.

As of December 31, 2023, nearly all of our premium in force related to business in coastal states, which are especially subject to adverse weather conditions such as hurricanes, tropical storms, earthquakes, and winter storms. A single catastrophic event, or a series of such events, destructive weather patterns, general economic trend, regulatory development or other condition specifically affecting the states in which we conduct business, particularly the more densely populated areas of those states, could have a disproportionately adverse impact on our business, financial condition and results of operations. Therefore, although we attempt to manage our exposure to catastrophes through our underwriting process and the purchase of reinsurance protection, an especially severe catastrophe or series of catastrophes could exceed our reinsurance protection and may have a material adverse impact on our results of operations and financial condition. As further described in Note 13 Reserve for Losses, the Company's 2017 reinsurance agreement with the FHCF was commuted during the third quarter of 2023. This commutation process resulted in a final determination of and payment for known, unknown or unreported claims relating to Hurricane Irma. The final amount paid by the FHCF could vary from the

Company’s future estimation of losses to have been recovered from the FHCF. Accordingly, should future re-estimations to Hurricane Irma losses increase the expected loss reserves, all of the increase would be retained.

In total, for the period from June 1, 2022 through May 31, 2023, we have purchased an aggregate limit of $2.9 billion of catastrophe reinsurance coverage for Heritage P&C, Zephyr, and NBIC, for multiple catastrophic events. Our ability to access this coverage, however, is subject to the severity and frequency of such events. We may experience significant losses and loss adjustment expenses in excess of our retention or experience multiple retentions for a series of catastrophic events in a single season, which could materially and adversely affect our financial results.

Our success depends on our ability to adequately assess risk and set premiums accordingly, and our failure to do so could affect the growth of our business and adversely impact our financial results.

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

- the availability of sufficient reliable data and our ability to properly analyze available data;
- regulatory delays in approving filed rate changes;
- the uncertainties that inherently characterize estimates and assumptions;
- inflationary pressures on labor and materials, including supply chain disruptions;
- our ability to stay competitive as evolving competitive technologies emerge such as artificial intelligence (“AI”) and machine learning to make pricing, underwriting, or other decisions;
- our selection and application of appropriate rating and pricing techniques;
- the effect of climate change on frequency and severity of insured events from severe weather;
- changes in legal standards, claim resolution practices, and restoration costs; and
- legislatively imposed consumer initiatives

In addition, we could underprice risks, which would negatively affect our profit margins. We could also overprice risks, which could reduce the number of policies we write and our competitiveness. In either event, our profitability could be materially and adversely affected.

Our results of operations may fluctuate significantly based on industry factors.

The insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excess underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing. As premium levels increase, there may be new entrants to the market, which could then lead to increased competition, a significant reduction in premium rates, less favorable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on our results of operations and cash flows. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers, including changes resulting from multiple and/or catastrophic weather events, may affect the cycles of the insurance business significantly. We cannot predict whether market conditions will improve, remain constant or deteriorate. Negative market conditions may impair our ability to write insurance at rates that we consider appropriate relative to the risk assumed. If we cannot write insurance at appropriate rates, our business would be materially and adversely affected.

In addition, the uncertainties inherent in the reserving process, together with the potential for unforeseen developments, including changes in laws and the prevailing interpretation of policy terms, may result in losses and loss adjustment expenses materially different from the reserves initially established. Changes to prior year reserves will affect current underwriting results by increasing net income if the prior year reserves prove to be redundant or by decreasing net income if the prior year reserves prove to be insufficient. We may not record contingency reserves to account for expected future losses. As a result, we expect volatility in operating results in periods in which significant loss events occur because generally accepted accounting principles do not permit insurers or reinsurers to reserve for loss events until they have occurred and are expected to give rise to a claim. We anticipate that claims arising from future events may require the establishment of substantial reserves from time to time.

Reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all.

The cost of reinsurance is subject to prevailing market conditions beyond our control such as the amount of capital in the reinsurance market, public policy decisions and the expiration of time-limited governmental programs such as the RAP program, as well as the frequency and magnitude of natural and man-made catastrophes. Our total cost of obtaining reinsurance over the last few years has increased, both on an absolute basis and as a percentage of premiums-in-force, and is expected to continue to increase in the future. We cannot be assured that reinsurance will remain continuously available to us in the amounts we consider sufficient and at prices acceptable to us. As a result, we may determine to increase the amount of risk we retain or look for other alternatives to reinsurance, which could in turn have a material adverse effect on our financial position, results of operations and cash flows.

We may not be able to collect reinsurance amounts due to us from the reinsurers with which we have contracted.

Reinsurance is a method of transferring part of an insurance company's risk under an insurance policy to another insurance company. To the extent that our reinsurers are unable to meet the obligations they assume under our reinsurance agreements, we remain liable for the entire insured loss. We use reinsurance arrangements to significantly limit and manage the amount of risk we retain, to stabilize our underwriting results, and to increase our underwriting capacity. Our ability to recover amounts due from reinsurers under the reinsurance treaties we currently have in effect is subject to the reinsurance company's ability and willingness to pay and to meet its obligations to us. We attempt to select financially strong reinsurers with an A.M. Best or S&P rating of "A-" or better or we require the reinsurer to fully collateralize its exposure. While we monitor from time to time their financial condition, we also rely on our reinsurance broker and rating agencies in evaluating our reinsurers' ability to meet their obligations to us.

Our reinsurance coverage in any given year may be concentrated with one or a limited group of reinsurers. No single private market reinsurer represented more than 10% of the overall limit purchased from our total reinsurance coverage. Any failure on the part of any one reinsurance company to meet its obligations to us could have a material adverse effect on our financial condition or results of operations.

All residential insurance companies that write admitted business in Florida, including Heritage P&C, are required to obtain reinsurance through the FHCF, and this coverage comprises a substantial portion of the Heritage P&C reinsurance program for our Florida insured properties. The limit and retention of the FHCF coverage is subject to upward or downward adjustment based on, among other things, submitted exposures to FHCF by all participants. We have purchased private reinsurance alongside our FHCF layer to fill in gaps in coverage that may result from the adjustment of the limit or retention of our FHCF coverage; however, such reinsurance would not cover any losses we may incur as a result of FHCF's inability to pay the full amount of our claims. If a catastrophic event occurs in Florida, the FHCF may not have sufficient funds to pay all of its claims from insurance companies in full or in a timely manner. This could result in significant financial, legal and operational challenges to our Company. In the event of a catastrophic loss, the FHCF's ability to pay may be dependent upon its ability to issue bonds in amounts that would be required to meet its reinsurance obligations. There can be no assurance that FHCF will be able to do this. While we believe FHCF currently has adequate capital and financing capacity to meet its reinsurance obligations, there can be no assurance that it will be able to meet its obligations in the future, and any failure to do so could have a material adverse effect on our liquidity, financial condition and results of operations.

We carry a significant amount of intangible assets on our consolidated balance sheets. Earnings for future periods may be impacted by impairment charges for intangible assets.

We have a significant amount of intangible assets that could be subject to impairment. If we determine that a significant impairment has occurred in the value of our unamortized intangible assets, we could be required to write off a portion of our assets, which could adversely affect our consolidated financial condition or our reported results of operations.

The inherent uncertainty of models and our reliance on such models as a tool to evaluate risk may have an adverse effect on our financial results.

Along with other insurers in the industry, we license analytic and modeling software from third parties to facilitate our pricing, assess our risk exposure and determine our reinsurance needs. Given the inherent uncertainty of modeling techniques and the application of such techniques, these models have limitations with respect to their usefulness in predicting losses in any reporting period. Examples of these limitations include significant variations in estimates between models and modelers and material increases and decreases in model results due to changes and refinements of the underlying data elements and assumptions, including with respect to the risks arising from climate change, social inflation or other factors. Such limitations may lead to questionable predictive capability and post-event measurements that have not been well understood or proven to be sufficiently reliable. In addition, the models are not necessarily reflective of company or state-specific policy language, demand surge for labor and materials, consumer behavior, prevailing or changing claims, legal and litigation environments, or loss settlement expenses, all of which are subject to wide variation by catastrophe. Further, in accordance with laws and regulatory requirements in various states in which we conduct business, we may be required to use a model that has been reviewed and deemed acceptable by a particular state in accordance with standards over which we have no control and that might not align with our business.

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

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

In addition, industry developments could further increase competition in our industry. These developments could include:

- an influx of new capital in the marketplace as existing companies attempt to expand their businesses and new companies attempt to enter the insurance business as a result of better premium pricing and/or policy terms;
- an increase in programs in which state-sponsored entities provide property insurance in catastrophe-prone areas;
- changes in state regulatory climates; and
- the passage of federal proposals for an optional federal charter that would allow some competing insurers to operate under regulations different or less stringent than those applicable to us.
- technological changes also present competitive risks. For example, our competitive position could be impacted if we are unable to effectively deploy technology such as AI and machine learning that collects and analyzes a wide variety of data points to make underwriting or other decisions, or if our competitors collect and use data we do not have the ability to access or use. In addition, telematics and other usage-based methods of determining premiums can impact product design and pricing and are becoming an increasingly important competitive factor. Furthermore, state insurance regulators could have input on usage of AI and machine learning.

These developments and others could make the property and casualty insurance marketplace more competitive by increasing the supply of insurance available. If competition limits our ability to write new business at adequate rates, our future results of operations would be adversely affected.

We may not be able to effectively integrate newly acquired businesses or achieve expected profitability from acquisitions.

We have in the past and may in the future expand through the acquisition of complementary businesses. This could occur through an acquisition of a company or a portion of a company's business. Any future acquisitions may entail a number of risks that could adversely affect our business and the market price of our common stock, including the integration of the acquired operations and information systems, diversion of management's attention, risks of entering new market regions in which we have limited experience, adverse short-term effects on our reported operating results, the potential loss of key employees of acquired businesses, changes for impairment of long-terms assets or goodwill and risks associated with unanticipated liabilities

In connection with an acquisition, we could incur debt, recognize amortization expenses related to intangible assets, have to take large and immediate write-offs, including but not limited to goodwill impairment, and assume liabilities. We may also use our common stock to pay for acquisitions. If the owners of potential acquisition candidates are not willing to accept our common stock in exchange for their businesses, our acquisition prospects could be limited. Future acquisitions could also result in accounting charges, potentially dilutive issuances of equity securities and increased debt and contingent liabilities, including liabilities related to unknown or undisclosed circumstances, any of which could have a material adverse effect on our business and the market price of our common stock.

We may not be able to effectively execute our business diversification strategy.

We have and intend to continue to invest significant time and resources to employ our business strategies, including the rebalancing of our portfolio toward products and geographies that maximize long-term returns to our shareholders, and we may not achieve the return on our investment that we expect. Initial timetables for optimizing and diversifying our portfolio of policies may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting customer preferences may also impact the successful implementation of our business plan. Such external factors and requirements may increase our costs and potentially affect the speed with which we will be able to re-allocate capital among our portfolio of policies. There can be no assurance that we will be successful in deploying this strategy. Additionally, to the extent our business strategies include any geographic expansion, new line of business and/or new product or service, such expansion or new products or services could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks could have a material adverse effect on our business, results of operations and financial condition.

We rely on independent agents to write insurance policies for us, and if we are not able to attract and retain independent agents, our revenues would be negatively affected.

We write personal and commercial insurance policies through a network of independent agents. Our southeastern personal residential insurance policies are written through a network of more than 2,000 independent agents. Approximately 22.0% of our voluntary personal lines policies are written by agents that are affiliated with eight large agency networks with which we have entered into master agency agreements. We market and write commercial residential policies through a network of approximately 400 independent agents in Florida. Of our network of approximately 500 retail independent agents for business in the northeastern U.S., our three largest relationships represent approximately 16% of annualized premiums. Of our network of approximately 70 Hawaiian independent agencies, approximately 50% are affiliated with three large multi-producer agencies.

Our strategic focus is to improve the underwriting performance of our policies throughout the states in which we are licensed, which will further increase our reliance on our network of independent agents. If any of our independent agents cease writing policies for us, or if any of our master agency agreements are terminated, we may suffer a reduction in the number of products we are able to sell, which would negatively impact our results of operations.

Many of our competitors also rely on independent agents. As a result, we must compete with other insurers for independent agents' business. Our competitors may offer a greater variety of insurance products, lower premiums for insurance coverage, or higher commissions to their agents. If our products, pricing and commissions do not remain competitive, we may find it more difficult to attract business from independent agents to sell our products.

The failure of our claims department to effectively manage or remediate claims could adversely affect our insurance business, financial results and capital requirements.

We rely on our claims department and any outsourced claims resources to facilitate and oversee the claims adjustment process for our policyholders. Many factors could affect the ability of our claims department to effectively manage claims by our policyholders, including:

- the accuracy of our adjusters as they make their assessments and submit their estimates of damages;
- the training, background and experience of our claim's representatives;
- the ability of our claims department to ensure consistent claims handling;
- the ability of our claims department to translate the information provided by adjusters into acceptable claims resolutions;
- the availability and timing of information from, and the overall degree of cooperation or lack thereof by, policyholders and their representatives; and
- the ability of our claims department to maintain and update its claims handling procedures and systems as they evolve over time based on claims and geographical trends in claims reporting.

Any failure to effectively manage the claims adjustment process, including failure to pay claims accurately, could lead to material litigation, undermine our reputation in the marketplace, impair our corporate image and negatively affect our financial results.

Additionally, as a component of the claims process, we leverage CAN's vendor network to provide repair and remediation services to the policyholder. If such services are not performed properly, we may face liability. Although we maintain professional liability insurance to cover losses arising from our repair and remediation services, there can be no assurances that such coverage is adequate. In addition, our failure to timely and properly remediate claims, or the perception of such failure, may damage our reputation and adversely affect our ability to renew existing policies or write new policies.

If actual renewals of our existing contracts do not meet expectations, our premiums written in future years and our future results of operations could be materially adversely affected.

Our insurance policies are written for a one-year term. We make assumptions about the renewal of our prior year's contracts, including for purposes of determining the amount of reinsurance we purchase. If actual renewals do not meet expectations or if we choose not to write on a renewal basis because of pricing conditions, our premiums written in future years and our future operations would be materially adversely affected, and we may purchase reinsurance beyond what we believe is the most appropriate level.

Our inability to maintain our financial stability rating may have a material adverse effect on our competitive position, the marketability of our product offerings, and our liquidity, operating results and financial condition.

Financial stability ratings are important factors in establishing the competitive position of insurance companies and can have a significant effect on an insurance company's business. Many insurance buyers, agents, brokers and secured lenders use the ratings assigned by rating agencies to assist them in assessing the financial stability and overall quality of the companies from which they are considering purchasing insurance or in determining the financial stability of the company that provides insurance. Each of our insurance company affiliates currently maintain a Demotech rating of "A" ("Exceptional") or higher. Our insurance company subsidiaries and the Company is also rated BBB- or better by KBRA. These financial stability ratings provide an objective baseline for assessing solvency and should not be interpreted as (and are not intended to serve as) an assessment of a recommendation to buy, sell, or hold, any securities of an insurance company or its parent holding company, including shares of our common stock.

On an ongoing basis, rating agencies review the financial performance and condition of insurers and can downgrade or change the outlook on an insurer's ratings due to, for example, a change in an insurer's statutory capital, a reduced confidence in management or a host of other considerations that may or may not be under the insurer's control. All ratings are subject to continuous review; therefore, the retention of these ratings cannot be assured. A downgrade in any of these ratings could have a material adverse effect on our competitive position, the marketability of our product offerings and our ability to grow in the marketplace.

If we are unable to expand our business because our capital must be used to pay greater than anticipated claims, our financial results may suffer. Further, we may require additional capital in the future which may not be available or may only be available on unfavorable terms.

Our future growth and future capital requirements will depend on the number of insurance policies we write, the kinds of insurance products we offer, the geographic markets in which we do business and, to the extent part of our business strategy in the future, policy and/or geographic expansion, all balanced by the business risks we choose to assume and cede. Growth initiatives require capital. Our existing sources of funds include possible sales of common or preferred stock, incurring debt and our earnings from operations and investments. Unexpected catastrophic events in our coverage areas, such as hurricanes, may result in greater claims losses than anticipated, which could require us to limit or halt our growth while we redeploy our capital to pay these unanticipated claims unless we are able to raise additional capital.

To the extent that our present capital is insufficient to meet future operating requirements or to cover losses, we may need to raise additional funds through financing or curtail our growth. Based on our current operating plan, we believe that our current capital together with our anticipated retained income will support our operations. However, we cannot provide any assurance in that regard, since many factors will affect the amount and timing of our capital needs, including profitability of our business, the availability and cost of reinsurance, market disruptions and other unforeseeable developments. If we require additional capital, it is possible that equity or debt financing may not be available on acceptable terms or at all. In the case of equity financings, dilution to our stockholders could result, and in any case such securities may have rights, preferences and privileges that are senior to those of existing stockholders. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition or results of operations could be materially adversely affected.

Our financial results may be negatively affected by the fact that a portion of our income is generated by the investment of our company's capital, premiums and loss reserves.

A portion of our income is, and likely will continue to be, generated by the investment of our capital, premiums and loss reserves. The amount of income generated is a function of our investment policy, available investment opportunities and the amount of available cash invested. We are also constrained by investment limitations required by our state insurance regulators. At December 31, 2023, approximately 98% of our total investments was invested in fixed-maturity securities. We may, under certain circumstances, be required to liquidate our investments in securities at prices below book value, which may adversely affect our financial results. This risk could be amplified in periods of rising interest rates. We currently hold all of our cash in accounts with eight financial institutions and, as a result of this concentration, a portion of the balances in such accounts exceeds the Federal Deposit Insurance Corporation ("FDIC") insurance limits. While we monitor and adjust the balances in our accounts as appropriate, these balances could be impacted if any of these financial institutions fail and could be subject to other adverse conditions in the financial markets.

We may alter our investment policy to accept higher levels of risk with the expectation of higher returns. Fluctuating interest rates and other economic factors make it impossible to estimate accurately the amount of investment income that will be realized. In fact, we may realize losses on our investments.

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

Loss frequency and severity in the property and casualty insurance industry and multi-peril personal lines business has continued to increase in recent years, often driven by actual and social inflation. Litigation and assignment of benefits ("AOB") in the State of Florida is an example of these trends. For example, in recent years, Florida homeowners have been assigning the benefit of their insurance recovery to third parties, which has resulted in increases in the size and number of claims and the amount of litigation, interference in the adjustment of claims, the assertion of bad faith actions and one-way rights to claim attorney fees. The Florida legislature enacted several reform bills in the last several years with the intention to limit AOB and frivolous litigation. There can be no assurance that this new legislation will reduce the future impact of AOB or litigated claims practices.

Many legal actions and proceedings have been brought on behalf of classes of complainants, which can increase the size of judgments. The propensity of policyholders and third-party claimants to litigate and the willingness of courts to expand causes of loss and the size of awards may render the loss reserves of our insurance subsidiaries inadequate for current and future losses. In addition, as industry practices and social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until sometime after we have issued insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance policies may not be known at the time such policies are issued or renewed, and our financial position and results of operations may be adversely affected.

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

We utilize a number of strategies to mitigate our risk exposure including:

- employing proper underwriting processes;
- carefully evaluating the terms and conditions of our policies;
- geographic diversification; and
- ceding insurance risk to reinsurance companies.

However, there are inherent limitations in these strategies. No assurance can be given that an event or series of unanticipated events will not result in loss levels which could have a material adverse effect on our financial condition or results of operations.

Lack of effectiveness of exclusions and other loss limitation methods in the insurance policies we assume or write could have a material adverse effect on our financial condition or our results of operations.

Various provisions of our policies, such as limitations or exclusions from coverage which are designed to limit our risks, may not be enforceable in the manner we intend. In addition, the policies we issue contain conditions requiring the prompt reporting of claims to us and our right to decline coverage in the event of a violation of that condition. While our insurance product exclusions and limitations reduce the loss exposure to us and help eliminate known exposures to certain risks, it is possible that a court or regulatory authority could nullify or void an exclusion or limitation, or legislation could be enacted modifying or barring the use of such endorsements and limitations in a way that would adversely affect our loss experience, which could have a material adverse effect on our financial condition or results of operations.

Risks Related to Regulation of Our Insurance Operations

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

We are subject to extensive state regulation. The NAIC and state insurance regulators regularly examine existing laws and regulations, generally focusing on modifications to holding company regulations, interpretations of existing laws and the formation of new laws. Our insurance company affiliates are subject to supervision and regulation that is primarily designed to protect our policyholders rather than our stockholders, and such regulation is imposed by the states in which we are domiciled and the states in which our insurance subsidiaries do business. These regulations relate to, among other things, the approval of policy forms and premium rates, our conduct in the marketplace, our compliance with solvency and financial reporting requirements, transactions with our affiliates, limitations on the amount of business we can write, the amount of dividends we can pay to stockholders, and the types of investments we can make. Insurance holding company regulations generally provide that transactions between an insurance company and its affiliates must be fair and reasonable and must be clearly and accurately disclosed in the records of the respective parties, with expenses and payments allocated between the parties in accordance with customary accounting practices. Many types of transactions between an insurance company and its affiliates, such as transfers of assets, loans, reinsurance agreements, service agreements, certain dividend payments by the insurance company and certain other material transactions, may be subject to prior approval by, or prior notice to, state regulatory authorities. If we are unable to obtain the requisite prior approval for a specific transaction, we would be precluded from taking the action, which could adversely affect our operations. These regulatory requirements may adversely affect or inhibit our ability to achieve some or all of our business objectives. In addition, regulatory authorities also may conduct periodic examinations into insurers' business practices. These reviews may reveal deficiencies in our insurance operations or differences between our interpretations of regulatory requirements and those of the regulators.

State insurance regulations also frequently impose notice or approval requirements for the acquisition of specified levels of ownership in the insurance company or insurance holding company. Additionally, state legislation can impact our results of operations. For example, in 2007, Florida enacted legislation that led to rate levels in the private insurance market that we believe, in many instances in the past, were inadequate to cover the related underwriting risk. This same legislation required Citizens Property Insurance ("Citizens") to reduce its premium rates and begin competing against private insurers in the Florida residential property insurance market. Florida lawmakers may continue to enact or retain legislation that suppresses the rates of Citizens, further adversely impacting the private insurance market and increasing the likelihood that it must levy assessments on private insurance companies and ultimately on Florida consumers. These and other aspects of the political environment in jurisdictions where we operate may reduce our profitability, limit our growth, or otherwise adversely affect our operations.

Various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing. These regulations include (i) the creation of "market assistance plans" under which insurers are induced to provide certain coverages, (ii) restrictions on the ability of insurers to rescind or otherwise cancel certain policies in mid-term or to nonrenew policies at their scheduled expirations, (iii) advance notice requirements or limitations imposed for certain policy non renewals, (iv) limitations upon increases or decreases in rates permitted to be charged, (v) expansion of governmental involvement in the insurance market and (vi) increased regulation of insurers' policy administration and claims handling practices. Further, regulatory authorities have relatively broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, we follow practices based on our interpretations of regulations or practices that we believe may be generally followed by the insurance industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us. This could adversely affect our ability to operate our business.

We cannot predict with certainty the effect any enacted, proposed or future state or federal legislation or NAIC initiatives may have on the conduct of our business. Furthermore, there can be no assurance that the regulatory requirements applicable to our business will not become more stringent in the future or result in materially higher costs than current requirements, or that creation of a federal insurance regulatory system will not adversely affect our business or disproportionately benefit our competitors. Changes in the regulation of our business may reduce our profitability, limit our growth or otherwise adversely affect our operations.

Our insurance subsidiaries are subject to minimum capital and surplus requirements, and our failure to meet these requirements could subject us to regulatory action.

Our insurance subsidiaries are subject to risk-based capital standards and other minimum capital and surplus requirements imposed under applicable state laws. The risk-based capital standards, based upon the Risk-Based Capital Model Act adopted by the NAIC, require our insurance subsidiaries to report the results of risk-based capital calculations to state regulators and the NAIC. These risk-based capital standards provide for different levels of regulatory attention depending upon the ratio of an insurance company's total adjusted capital, as calculated in accordance with NAIC guidelines, to its authorized control level risk-based capital. Authorized control level risk-based capital is determined using the NAIC's risk-based capital formula, which measures the minimum amount of capital that an insurance company needs to support its overall business operations.

An insurance company with total adjusted capital that is less than 200% of its authorized control level risk-based capital is at a company action level, which would require the insurance company to file a risk-based capital plan that, among other things, contains proposals of corrective actions the company intends to take that are reasonably expected to result in the elimination of the company action level event. Additional action level events occur when the insurer's total adjusted capital falls below 150%, 100%, and 70% of its authorized control level risk-based capital. The lower the percentage, the more severe the regulatory response, including, in the event of a mandatory control level event (total adjusted capital falls below 70% of the insurer's authorized control level risk-based capital), placing the insurance company into receivership. As of December 31, 2023, our insurance subsidiaries each maintained a risk-based capital ratio of over 300% and complied with the requirement of our state regulators. Our subsidiary, Heritage P&C, has agreed to continue to maintain a risk-based capital ratio of at least 300%. Our subsidiary, NBIC, has agreed to maintain a risk-based capital ratio requirement of 325%.

In addition, our insurance subsidiaries are required to maintain certain minimum capital and surplus and to limit its written premiums to specified multiples of its capital and surplus. Our insurance subsidiaries could exceed these ratios if their volume increases faster than anticipated or if their surplus declines due to catastrophe or non-catastrophe losses or excessive underwriting and operational expenses.

Any failure by our insurance subsidiaries to meet the applicable risk-based capital or minimum statutory capital requirements or the writings ratio limitations imposed by state law could subject our insurance subsidiaries to further examination or corrective action imposed by state regulators, including limitations on our writing of additional business, state supervision or liquidation.

Any changes in existing risk-based capital requirements, minimum statutory capital requirements, or applicable writings ratios may require us to increase our statutory capital levels, which we may be unable to do.

Litigation or regulatory actions could have a material adverse impact on us.

From time to time, we are subject to civil or administrative actions and litigation. Civil litigation frequently results when we do not pay insurance claims in the amounts or at the times demanded by policyholders or their representatives. We also may be subject to litigation or administrative actions arising from the conduct of our business and the regulatory authority of state insurance departments. Further, we are subject to other types of litigation inherent in operating our businesses, employing personnel, contracting with vendors and otherwise carrying out our affairs. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may arise, including judicial expansion of policy coverage and the impact of new theories of liability, plaintiffs targeting property and casualty insurers in purported class-action litigation relating to claims-handling and other practices, and adverse changes in loss cost trends, including inflationary pressures in home repair costs. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. Current and future litigation or regulatory matters may negatively affect us by resulting in the payment of substantial awards or settlements, increasing legal and compliance costs, requiring us to change certain aspects of our business operations, diverting management attention from other business issues, harming our reputation with agents and customers or making it more difficult to retain current customers and to recruit and retain employees or agents.

Regulation limiting rate increases and requiring us to participate in loss sharing may decrease our profitability.

From time to time, political dispositions affect the insurance market, including efforts to effectively suppress rates at a level that may not allow us to reach targeted levels of profitability. Despite efforts to remove politics from insurance regulation, facts and history demonstrate that public policymakers, when faced with untoward events and adverse public sentiment, can act in ways that impede a satisfactory correlation between rates and risk. Such acts may affect our ability to obtain approval for rate changes that may be required to attain rate adequacy along with targeted levels of profitability and returns on equity. Additionally, because we often must obtain regulatory approval prior to changing rates, delays in the filing, review or implementation of rate changes can adversely affect our ability to attain rate adequacy. Our ability to afford reinsurance required to reduce our catastrophe risk may be dependent upon the ability to adjust rates for our cost. Moreover, when state regulations allow us to implement rate changes while filings are pending, we risk having to refund premiums if the implemented changes are greater than those ultimately approved.

Additionally, we are required to participate in guaranty funds for insolvent insurance companies. The funds periodically assess losses against all insurance companies doing business in the state. Our operating results and financial condition could be adversely affected by any of these factors.

Our revenues and operating performance will fluctuate due to statutorily approved assessments that support property and casualty insurance pools and associations.

We operate in a regulatory environment where certain entities and organizations have the authority to require us to participate in assessments. Currently these entities and organizations include, but are not limited to, state guaranty funds, state joint underwriting associations, fair plans, wind pools, or the FHCF.

Insurance companies currently pass these assessments on to holders of insurance policies in the form of a policy surcharge and reflect the collection of these assessments as fully earned credits to operations in the period collected. The collection of these fees, however, may adversely affect our overall marketing strategy due to the competitive landscape of our business. As a result, the impact of possible future assessments on our balance sheet, results of operations or cash flow are indeterminable at this time.

Risks Relating to Financing

Our variable rate indebtedness subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

Borrowings under our credit facilities are at variable rates of interest and expose us to interest rate risk. If the rates on which our borrowings are based were to increase from current levels, our debt service obligations on our variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash available to service our other obligations would decrease. Due to inflationary pressures on the U.S. economy and governmental action to combat inflation, interest rates have been above recent historical levels, which may decrease our net income and cash flows.

Our credit agreement contains restrictions that can limit our flexibility in operating our business.

The agreement governing our credit facilities contains various covenants that limit our ability to engage in certain transactions. These covenants limit our and our subsidiaries' ability to, among other things:

- incur additional indebtedness;
- declare or make any restricted payments, including dividends;
- make investments, including the contribution of capital to our insurance subsidiaries;
- create liens on any of our current or future assets;
- consolidate, merge, sell, or otherwise dispose of all or substantially all of our current or future assets; and
- enter into certain transactions with our affiliates.

These covenants could place us at a disadvantage compared to some of our competitors that may have fewer restrictive covenants and may not be required to operate under these restrictions. Further, these covenants could have an adverse effect on our business by limiting our ability to take advantage of financing and business opportunities. If we fail to comply with these covenants, it could result in an event of default under our credit facilities. If any default occurs, all amounts outstanding under our credit facilities may become immediately due and payable.

Dividend payments on our common stock in the future are uncertain.

Although we have paid dividends on our common stock in the past, the declaration and payment of dividends will be at the discretion of our board of directors and will depend on our profits, financial requirements and other factors, such as restrictions under our credit facilities, which limit our ability to pay dividends, and other legal and regulatory restrictions on the payment of dividends, our overall business condition and other elements our board of directors considers relevant. Therefore, investors who purchase our common stock may only realize a return on their investment if the value of our common stock appreciates.

We depend on the ability of our subsidiaries to generate and transfer funds to meet debt obligations and to make dividend payments.

We do not have significant revenue generating operations at the parent company. As such, our ability to make scheduled payments on our debt obligations and pay dividends depends on the financial condition and operating performance of our subsidiaries. If the funds we receive from our subsidiaries, some of which are subject to regulatory restrictions on the payment of distributions, are insufficient to meet our debt obligations, we may be required to raise funds through the issuance of additional debt or equity securities, reduce or suspend dividend payments, or sell assets.

Risks Relating to Ownership of Our Common Stock

Certain provisions of our certificate of incorporation and our bylaws may make it difficult for stockholders to change the composition of our board of directors and may discourage hostile takeover attempts that some of our stockholders may consider to be beneficial.

Certain provisions of our certificate of incorporation and bylaws may have the effect of delaying or preventing changes in control if our board of directors determines that such changes in control are not in the best interests of us and our stockholders. The provisions in such certificate of incorporation and bylaws include, among other things, the following:

- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms, including preferences and voting rights, of those shares without stockholder approval;

- stockholder action can only be taken at a special or regular meeting and not by written consent;
- advance notice procedures for nominating candidates to our board of directors or presenting matters at stockholder meetings; and
- allowing only our board of directors to fill vacancies on our board of directors.

We have elected in our certificate of incorporation not to be subject to Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15% or more of the corporation's voting stock for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Accordingly, we will not be subject to any anti-takeover effects of Section 203.

While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our board of directors, they could enable the board of directors to hinder or frustrate a transaction that some, or a majority, of the stockholders might believe to be in their best interests, including an acquisition that would result in a price per share at a premium over the market price, and, in that case, may prevent or discourage attempts to remove and replace incumbent directors.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

Applicable insurance laws may make it difficult to effect a change of control of our company.

State insurance holding company laws require prior approval by the state insurance department of any change of control of an insurer that is domiciled in that respective state. "Control" is generally defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a company, whether through the ownership of voting securities, by contract or otherwise. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of us, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

Our stock price in recent years has been volatile and is likely to continue to be volatile, which may impact the value of stock held by investors.

The market price of our common stock has experienced, and may continue to experience, significant volatility from time to time. Such volatility may be affected by various factors and events, such as:

- our operating results, including a shortfall in revenues or operating performance from that expected by securities analysts and investors;
- recognition of large unanticipated accounting charges, such as impairment charges;
- changes in securities analysts' estimates of our financial performance or the financial performance of our competitors or companies in our industry generally;
- a downgrade of our Demotech or KBRA rating;
- the announcement of a material event or anticipated event involving us or our industry or the markets in which we operate; and
- the other risk factors described in this Annual Report.

In recent years, the U.S. stock market has experienced extreme price and volume fluctuations, which have sometimes affected the market price of the securities issued by a particular company in a manner unrelated to our operational performance. This type of market effect could impact the price of our common stock as well. This volatility means that the price of our common stock may have declined substantially at such time as our stockholders may look to sell shares of our common stock, which reduces the value of their investment.

General Risk Factors

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

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

The development and expansion of our insurance business is dependent upon the successful development and implementation of advanced technology, including modeling, underwriting and information technology systems. We have engaged service providers to provide us with policy and other administration services for certain policies and we intend to continue to utilize third party systems. The failure of any of these systems to function as planned could adversely affect our future business volume service levels and results of operations. In addition, we have licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable systems, or that our technology or applications will continue to operate as intended. Moreover, we cannot be certain that we would be able to replace these systems without slowing our underwriting or claims handling response time. A major defect or failure in our internal controls or information technology systems could result in management distraction, harm to our reputation, a loss or delay of revenues or increased expense.

We may be subject to information technology failures, including data protection breaches and cyber-attacks, that could disrupt our operations, damage our reputation and adversely affect our business, operations, and financial results.

We rely on our information technology systems for the effective operation of our business and for the secure maintenance and storage of confidential data relating to our business and for our policyholders. Cybersecurity risks could include breaches of systems resulting in compromised data including personally identifiable customer information or other proprietary or confidential information. We could also be subject to attacks that include denial of service attacks, or the deployment of malware intended to compromise the functionality of our information systems. Our third-party providers of products, services and support are subject to similar cybersecurity risks. Any of these breaches could impact our policyholders and our business, resulting in a loss of customers, suppliers, or revenue, including interruptions to our operations or damage to our reputation, regulatory enforcement actions, substantial fines and penalties, litigation or other liability or actions which could have a material adverse effect on our business, cash flows, financial condition and results of operations.

We have implemented security controls to protect our information technology systems, but experienced programmers or hackers may be able to penetrate our security controls, and develop and deploy viruses, worms and other malicious software programs that compromise our confidential information or that of third parties and cause a disruption or failure of our information technology systems. In addition, we have in the past and may in the future be subject to "phishing" attacks in which third parties send emails purporting to be from reputable companies in order to obtain personal information and infiltrate our systems to initiate wire transfers or otherwise obtain proprietary or confidential information.

Our customers provide personal information that we store and maintain in our data warehouse and policy and claims systems. We have implemented systems and processes to protect against unauthorized access to or use of such personal information, but there is no guarantee that these procedures can prevent any security breaches or misuse of the information. Furthermore, we rely on encryption and authentication technology to provide security and authentication to secure transmission of confidential information, including customer bank account, credit card information and other personal information. However, there is no guarantee that these systems or processes will address all of the cyber threats that continue to evolve. In addition, many of the third parties who provide products, services, or support to us could also experience any of the above cyber risks or security breaches, which could impact our policyholders and our business and could result in a loss of customers, suppliers or revenue.

Any compromise of our information technology systems could result in the unauthorized publication of our confidential business or proprietary information, result in the unauthorized release of customer, supplier or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation, cause us to incur direct losses if attackers access our actuarial and other models, bank or investment accounts. Any breach in our information systems could result in interruptions to our operations and damage to our reputation, and the misappropriation of confidential information could result in regulatory enforcement actions, substantial fines and penalties, litigation or other liability or actions which could have a material adverse effect on our business, cash flows, financial condition and results of operations. Any interruption to the use or access of our information systems at critical points in time could adversely affect the timely and efficient operation of our business. Any delay in our business growth, significant costs or lost policyholders resulting from such information technology failures could adversely affect our business, operations and financial results.

The cost and operational consequences of implementing additional data protection measures either as a response to specific breaches or as a result of evolving changes in technology or risks, could be significant and negatively affect our business.

The development and implementation of new technologies will require an additional investment of our capital resources in the future.

Frequent technological changes, new products and services and evolving industry standards are all influencing the insurance business. We believe that the development and implementation of new technologies will require additional investment of our capital resources in the future. We have not determined, however, the amount of resources and the time that this development and implementation may require, which may result in short-term, unexpected interruptions to our business, or may result in a competitive disadvantage in price and/or efficiency, as we endeavor to develop or implement new technologies. In addition, changes in technology typically outpace corresponding regulations, which may lead to periods of uncertainty in the permissible uses of certain technology and to differences or even inconsistencies in the regulatory approaches across jurisdictions. The absence of regulations or conflicts in regulations may further limit our ability to implement new technology in an effective and timely manner.

We do not have significant redundancy in our operations.

Despite system redundancy, our security measures and disaster recovery plan for our internal information technology may not be effective. Our systems are vulnerable to damage from a number of sources, including energy blackouts, natural disasters and other catastrophic events, terrorism, war, telecommunication failures and malicious software programs or cyber security attacks. We conduct our business primarily from offices located in Florida, Hawaii, and Rhode Island where catastrophic weather events could damage our facilities or interrupt our power supply. The loss or significant impairment of functionality in these facilities for any reason could have a material adverse effect on our business, as we do not have significant redundancies to replace our facilities if functionality is impaired. We contract with a third-party vendor to maintain complete daily backups of our systems; however, we have not fully tested our plan to recover data in the event of a disaster.

Furthermore, our disaster recovery and business continuity plans involve arrangements with our off-site, secure data centers. In the event of a catastrophic weather event or cyber security attack, we cannot assure that we will be able to access our systems from these facilities in the event that our primary systems are unavailable. While we have established infrastructure and geographic redundancy for our critical systems, our ability to utilize these redundant systems requires further testing and we cannot be assured that such systems are fully functional.

We are dependent on our executives, key employees and the ability to hire and retain a qualified workforce.

Our future success depends on the efforts of our leadership team and workforce.

If any other member of senior management dies or becomes incapacitated, or leaves the company to pursue employment opportunities elsewhere, we would be solely responsible for locating an adequate replacement for such senior management and for bearing any related cost. To the extent that we are unable to locate an adequate replacement or are unable to do so within a reasonable period of time, our business may be significantly and negatively affected.

Additionally, our future success is also based on our ability to develop the talent and skills of our human resources and attract and retain experienced and qualified employees. For example, if the quality of our underwriters, claims or other personnel decreases, we may be unable to maintain our current competitive position in the specialized markets in which we operate, which could adversely affect our results. There is strong competition within the insurance industry and from businesses outside the insurance industry for qualified employees. The unexpected loss of key employees in any of our could have a material adverse impact on our business because of the loss of such skills, knowledge of our products and years of industry experience.

Item 1B. Unresolved Staff Comments

None

Item 1C. Cybersecurity

The Audit Committee (“Audit Committee”) of the Company’s Board of Directors (the “Board”) is actively involved in oversight of the Company’s risk management program, which includes the identification, assessment and management of material cybersecurity risks. A cybersecurity threat is any potential unauthorized occurrence, on or conducted through, the Company’s information systems that may result in adverse effects on the confidentiality, integrity or availability of the Company’s information systems or any information residing therein. In general, the Company seeks to address cybersecurity risks through a comprehensive, cross-functional approach that is focused on preserving the confidentiality, security and availability of the information that the Company collects and stores by identifying, preventing and mitigating cybersecurity threats and effectively responding to cybersecurity incidents when they occur.

Cybersecurity risk management and strategy

As one of the elements of the Company’s overall risk management program, the Company’s cybersecurity program is focused on the following key areas:

- **Technical Safeguards:** The Company deploys technical safeguards that are designed to protect the Company's information systems from cybersecurity threats, including firewalls, intrusion prevention and detection systems, anti-malware functionality and access controls, which are evaluated and improved through vulnerability assessments and cybersecurity threat intelligence.
- **Incident Response and Recovery Planning:** The Company has established and maintains incident response and recovery plans to timely, consistently, and compliantly address cybersecurity threats that may occur despite the Company's safeguards, and such plans are tested and evaluated on a regular basis.
- **Third-Party Risk Management:** The Company maintains a risk-based approach to identifying and overseeing cybersecurity risks presented by third parties, including vendors, service providers and other external users of the Company's systems, as well as the systems of third parties that could adversely impact the Company's business in the event of a cybersecurity incident affecting those third-party systems.
- **Outside Consultants:** The Company engages various outside consultants, including contractors, assessors, auditors, outside attorneys and other third parties, to among other things:
    - Assist in the design, implementation, and testing of our cybersecurity program, policies and procedures;
    - monitor Company networks, servers and endpoints to identify vulnerabilities;
    - perform assessments on the Company's cybersecurity measures, including audits and independent reviews of the Company's information security control environment and operating effectiveness;
    - obtain information of a cybersecurity incident and isolate compromised systems and electronic data from further exposure;
    - determine and execute mitigation and remediation options and plans; and
    - ensure ongoing compliance with applicable legal and regulatory requirements, including notification to required individuals and regulatory bodies in the event of the discovery of an information security breach as defined under applicable laws, and timely and adequate disclosure under applicable SEC rules.
- **Education and Awareness:** The Company provides annual training for personnel regarding cybersecurity threats as a means to equip the Company's personnel with effective tools to address cybersecurity threats, and to communicate the Company's evolving information security policies, standards, processes and practices.

Governance

The Company maintains an Information Security Committee (the "ISC") which is a cross-functional governance committee comprised of the AVP-Enterprise Information Technology ("IT AVP"), Chief Financial Officer ("CFO") and Chief Executive Officer ("CEO"). The ISC is the focal point for all information security activities throughout the Company and acts as a liaison on security matters throughout our group of affiliates. The ISC, led by the IT AVP works collaboratively across the Company to implement a program designed to protect the Company's information systems from cybersecurity threats and to promptly respond to any cybersecurity incidents in accordance with the Company's incident response and recovery plans. The ISC is charged with developing and implementing policies and procedures for incident response handling, monitoring, and addressing security risks on an ongoing basis. The ISC is responsible for deploying technology and information security experts to monitor security risks and advise, contain, analyze, and report on security incidents, as necessary. As described above, the Company also retains a third-party cyber security firm to work hand-in-hand with the ISC to develop and oversee a program to prevent, detect, mitigate and remediate cybersecurity incidents.

The Board has delegated to the Audit Committee the responsibility for monitoring and overseeing the Company's cybersecurity and other information technology risks, controls, strategies and procedures. The Company's IT AVP, on behalf of the ISC, reports to the Audit Committee at least annually regarding technological risk exposure and the Company's cybersecurity risk management strategy and reports any incidents to the Audit Committee in real time. Based on these reports, the Audit Committee periodically evaluates the Company's information security strategies to ensure its effectiveness and, if appropriate, may also include a review from third-party experts. The Company's Internal Audit function also provides quarterly updates to the Audit Committee which include an update on cybersecurity risks and related internal controls.

Management's Expertise

Our IT AVP also ensures he is continually informed about the latest developments in cybersecurity, including potential threats and innovative risk management techniques. Staying informed on developments in the cyber industry is crucial to the Company’s effective prevention, detection, mitigation and remediation of any cybersecurity incidents. In addition, the Company’s CEO and IT AVP each hold undergraduate degrees and graduate degrees in their respective fields, and each have over 20 years of experience managing risks at the Company or at similar companies, including risks arising from cybersecurity threats.

Risks from Cybersecurity Threats

Cybersecurity threats, including as a result of any previous cybersecurity incidents, have not materially affected or are reasonably likely to affect the Company, including its business strategy, results of operations or financial condition.

Item 2. Properties

The following is a summary of our offices and locations:

Location	Business Use	Square Footage	Lease Expiration Dates
Tampa, Florida	Corporate Headquarters	89,000	Leased
Honolulu, Hawaii	Insurance Company HI, Operations	4,405	Leased
Clearwater, Florida	Property occupied by unaffiliated tenants	75,736	Company owned
Sunrise, Florida	Regional Office	28,000	Leased
Johnston, Rhode Island	Insurance Company NE, Operations	28,098	Leased

Approximately 90% of the building in Clearwater is leased to unaffiliated tenants. We believe that these properties are suitable and adequate to meet the needs of our business.

Item 3. 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 4. Mine Safety Disclosures

Not applicable

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "HRTG". As of March 4, 2024, we had 30,218,938 shares of common stock outstanding, including 1,579,369 shares of restricted stock for which restrictions have not lapsed.

Holders of Record

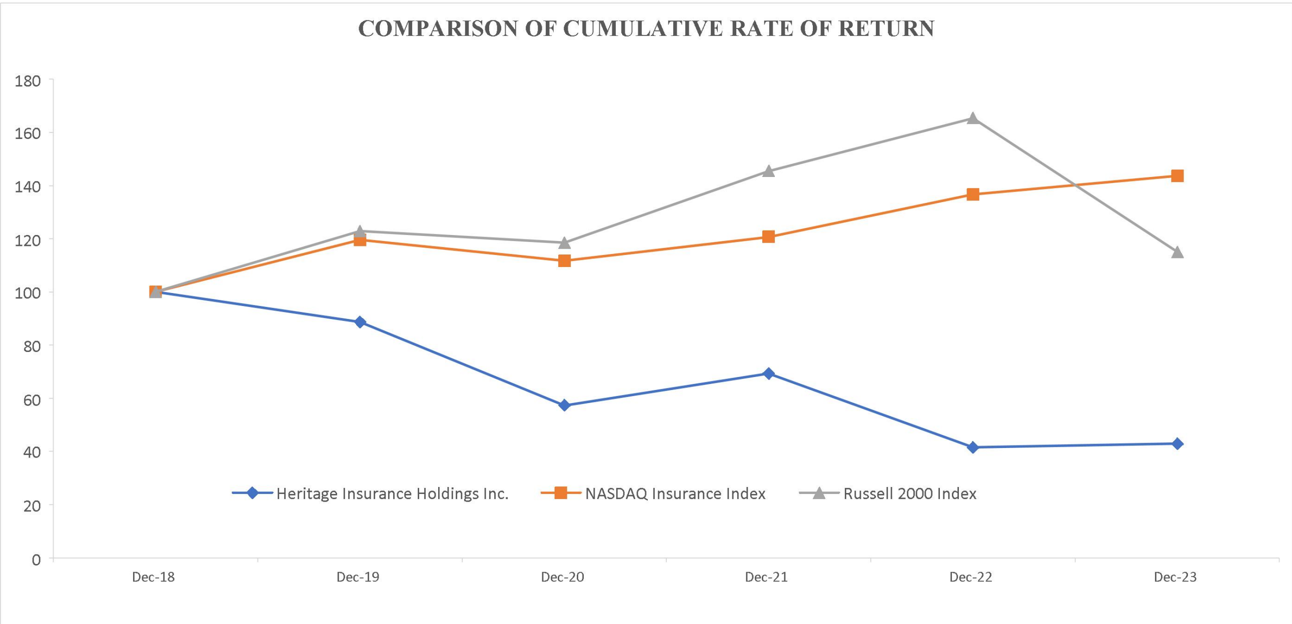
As of March 4, 2024, there were 58 holders of record of our common stock.

Dividends

While we have historically declared quarterly dividends, our board of directors did not declare a dividend during 2023 or for the second, third, and fourth quarters of 2022. The declaration and payment of dividends will continue to be at the discretion of our board of directors and will depend on our profits, financial requirements and other factors, such as restrictions under our credit facilities, which limit our ability to pay dividends, and other legal and regulatory restrictions on the payment of dividends, our overall business condition and other elements our board of directors considers relevant. Refer to Note 22 "*Equity*" to our consolidated financial statements under Item 8 of this Annual Report on Form 10-K.

Stock Performance Graph

The following five year graph and table compare the cumulative total stockholder return of our common stock over the period from December 31, 2018 through 2023, assuming an initial investment of $100 and reinvestment of dividends with the performance among Heritage, NASDAQ Insurance Index and Russell 2000 Index. We are a component of the Russell 2000 index and it provides a small and mid-cap benchmark index. The NASDAQ Insurance Index consists of all publicly traded insurance underwriters in the property and casualty sector in the United States.



	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23
Heritage Insurance Holdings Inc.	100	89	57	69	42	43
NASDAQ Insurance Index	100	120	112	121	137	144
Russell 2000 Index	100	123	119	146	165	115

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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, we have experienced, and may continue to experience, increased cost of materials and labor needed for repairs and to otherwise remediate claims throughout all states in which we conduct business. Additionally, we anticipate continued rising costs and constrained availability of catastrophe reinsurance. We mitigate these conditions by continued exposure management, implementation of increased rates 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.

In December 2023, the Company completed a public and private offering by issuing 3.9 million of its common stock for cash proceeds of approximately $24.7 million, net of offering costs. The Company intends to use the net proceeds for general corporate and operational purposes and to provide capital for anticipated growth and expansion efforts.

Goodwill impairment Charge (2022)

We evaluate goodwill and other intangible assets for impairment annually, or whenever events or changes in circumstances indicate that it is likely that the carrying amount of goodwill and other intangible assets may exceed the implied fair value. Any impairment is charged to operations in the period that the impairment is identified. The evaluation of goodwill impairment requires considerable management judgment and includes a review of a variety of factors as described in Note 3, *Intangible Assets, net* to our consolidated financial statements. Any adverse change in those factors could have a significant impact on the recoverability of goodwill and a material impact on our financial results. During the second quarter of 2022, we concluded it was appropriate to perform an interim evaluation of goodwill for potential impairment given a variety of market trends. As a result of the analysis, management determined the entire amount of remaining goodwill was impaired, which reduced our carrying value of goodwill from $92.0 million to $0 based on the following factors: (i) disruptions in the equity markets, specifically for property and casualty insurance companies, largely due to weather-related catastrophe events; (ii) elevated loss ratios for property insurers in our markets; and (iii) trading of our stock below book value. These factors reduced our previously modeled fair value of the Company and resulted in a $92.0 million non-cash goodwill impairment charge, most of which is not tax deductible.

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 December 31, 2023 and comparing those metrics to December 31, 2022. One of our strategies has been to reduce personal lines exposure in Florida, given historical abusive claims practices. While the Florida legislature made significant progress aimed at curtailing assignment of benefits and litigated claims abuse, we continue to carefully manage our Florida personal lines exposure.

	At December 31,		
Policies in force:	*2023*	*2022*	*% Change*
Florida	153,387	182,673	(16.0) %
Other States	297,288	347,234	(14.4) %
Total	**450,675**	**529,907**	(15.0) %
Premiums in force:			
Florida	$ 695,010,638	$ 599,596,526	15.9 %
Other States	661,392,787	684,469,189	(3.4) %
Total	$ **1,356,403,425**	$ **1,284,065,715**	5.6 %
Total Insured Value:			
Florida	$ 103,535,162,876	$ 103,752,777,168	(0.2) %
Other States	286,860,809,967	306,070,446,229	(6.3) %
Total	$ **390,395,972,843**	$ **409,823,223,397**	(4.7) %

Florida policies-in-force declined from the prior year by 16.0% while premiums-in-force increased 15.9%, and TIV was down by 0.2%. The increase in Florida premiums-in-force was driven by organic growth of our commercial residential business which generates higher average premium, rate increases across the book of business and use of inflation guard, partly offset by a premium reduction associated with fewer Florida personal lines policies. The Florida TIV remained relatively flat based on the reduction in personal lines policies 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 year ended December 31, 2022, the policy count for markets outside of Florida decreased 14.4% due to underwriting actions and intentional exposure management, resulting in a TIV decrease of 6.3% while premiums-in-force decreased only 3.4% due to rating actions.

Strategic Profitability Initiatives

The following provides an update to our strategic initiatives that we expect will enable us to achieve consistent long-term quarterly earnings and drive shareholder value.

- **Generate underwriting profit though rate adequacy and more selective underwriting.**
  - Significant rating actions throughout the book of business continues to favorably impact the book of business resulting in an increase in average premium per policy of 24.2% over the prior year.
  - Gross premiums earned increased 9.5% from the prior year, driven by rate actions taken in 2022 and 2023 as well as growth in commercial residential business, which helps drive the higher average premium.
  - Premiums-in-force of $1.4 billion are up 5.6% from the prior year while policy count is down 15.0% due to continued underwriting efforts aimed at rate adequacy, managing the reinsurance cost and improving the quality of the book of business.
  - Continued focus on timely rate actions, tightening underwriting criteria, and expanding restrictions on new business written in over-concentrated markets or products.
- **Allocate capital to products and geographies that maximize long-term returns.**
  - Selectively increased commercial residential policy count driving an increase in premiums-in-force by 63.9% year over year while TIV only increased 20.7% and policies in force increased by only 3.0%. Commercial residential business tends to have a significantly lower attritional loss ratio and generates materially higher premium, and the TIV increase from growth is offset by a reduction in personal lines exposure, which manages reinsurance costs and is additive to underwriting income and return on equity. Commercial residential business represents 18.7% of in-force premium compared to 12.0% as of the prior year .
  - As part of our exposure management strategy, reduced policy count for Florida personal lines business by 16.3% as compared to the prior year. The disciplined underwriting and rating actions have reduced Florida personal lines TIV by 9.4% while reducing premiums in force by only 0.7% and improved the quality of our Florida book of business.
  - This disciplined underwriting approach resulted in a policy count reduction of 14.4% in other states, with a reduction in TIV by 6.3%, resulting in a reduction in premiums in force of only 3.4%.
- **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 26.5% of the Company's TIV.
- TIV for the top four states declined by 18.4%, while TIV for all other states increased by 88.0%.
- In-force premium for the four states with the highest TIV decreased by 4.6% while in-force premium for all other states grew by 89.4%.-
- As a result of diversification efforts, personal lines TIV for the five states with the highest TIV decreased by 5.2% from the prior year period and represented 71.6% of all TIV at December 31, 2023 compared to 71.9% of all TIV at December 31, 2022.

• **Provide coverages suitable to the market and return targets.**
  - Offering Excess & Surplus lines ("E&S") policies in California, Florida, and South Carolina. This product allows greater flexibility in product terms as well as speed to market.
  - Continuing to evaluate other states for E&S and other products.

Reinsurance Commutation

As further described in Note 17, Commitments and Contingencies, to the condensed consolidated financial statements for the second quarter of 2023, our 2017 reinsurance agreement with the FHCF required a commutation no later than 60 months after the end of the contract year. As part of this process, Heritage and FHCF terminated the 2017 reinsurance agreement and agreed on the amount that the FHCF would pay to the Company to settle all outstanding losses owed under the agreement related to losses from Hurricane Irma. As such, this commutation process resulted in a final determination of and payment for known, unknown or unreported claims relating to Hurricane Irma. Social inflation and the litigated claims environment in the State of Florida, which affected Hurricane Irma claims, could result in adverse development of these claims, which creates uncertainty as to the ultimate cost to settle all of the remaining Hurricane Irma claims. Accordingly, the final amount paid by the FHCF could vary from the Company's future estimation of losses to be recovered from the FHCF. As such, should further re-estimations to Hurricane Irma losses increase the Company's expected loss reserves, all the increase will be retained by the Company. The commutation process was finalized and binding for both parties upon completion which occurred during the quarter ended September 30, 2023 and the final payment by the FHCF was received by the Company in September 2023.

Trends

Inflation, Underwriting and Pricing

We continue to address rising reinsurance and loss costs in the property insurance sector through continued implementation of increased rates and inflation guard factors resulting in an increase in the average premium per policy of 24.2% for the year ended December 31, 2023 as compared to the prior year. The increase in average premium includes rate changes, inclusion of inflation in premiums as described below, and in the mix of business written. We experienced intentional growth of our commercial residential business during 2023 and this line of business generates significantly higher average premium per policy. 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 steadily in the range of 90% despite the rate increases we have implemented, in large part due to a challenging property insurance market in many of the regions in which we operate. Weather losses and a higher cost of reinsurance have impacted these markets. While we believe our rates are generally competitive with private market insurers operating in our space, we are focused on 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. Our Florida personal lines market is also seeing claim costs impacted by litigated claims, which substantially increases loss costs thereby driving up rates for the insurance buying public. Our response to this phenomenon is a combination of raising rates and reducing exposure. Claims abuse has extended throughout much of Florida, generated from assignment of benefits, excessive roof claims, and unwarranted litigated claims which far exceeds levels experienced in other states. Correspondingly, our exposure reduction plan expanded to personal lines business throughout the state of Florida. Recent legislative changes have been made in Florida in each of the last three years, which we believe is making some progress toward reducing losses from abusive claim reporting practices. The special legislative session of December 2022 included a number of additional provisions aimed at driving down claims abuses and stabilizing the Florida property insurance market. The impact of this legislation continues to be evaluated by management before growing exposures in the Florida personal lines market.

Our industry experienced significantly higher reinsurance costs and more constrained availability for catastrophe excess of loss reinsurance in the Spring 2022 renewals. This trend continued but to a lesser extent during the Spring 2023 renewals. As described herein, we are carefully managing exposure by reducing new personal lines business written in many geographies, non-renewing unprofitable business in compliance with regulatory requirements, and narrowing our underwriting requirements. We have improved the geographic distribution of our business, which is becoming more rate adequate. Our Florida net incurred losses and LAE declined for the year ended December 31, 2023, mostly due to more favorable weather, our improved portfolio, and legislative changes aimed at curtailing claims abuse. Our Florida net incurred losses and LAE for the year ended December 31, 2022 were significantly higher from a combination of adverse weather and exacerbation of losses on weather and other claims resulting from the litigated claims environment.

Key Components of our Results of Operations

Revenue

Gross premiums written represent, with respect to a period, the sum of direct premiums written (premiums from policies written during the period, net of any midterm cancellations and renewals of voluntary policies) and assumed premiums written (primarily premiums from state fair plan policies), in each case prior to ceding premiums to reinsurers.

Gross premiums earned represent the total premiums earned during a period from policies written. Premiums associated with new and renewal policies are earned ratably over the twelve-month term of the policy and premiums associated with assumed policies are earned ratably over the remaining term of the policy.

Ceded premiums represent the cost of our reinsurance during a period. We recognize the cost of our reinsurance program ratably over term of the arrangement, which is typically twelve months. Our catastrophe excess of loss reinsurance generally incepts June 1 and runs through May 31 of the following year. Our net quota share treaty incepts December 31. Our other reinsurance programs may be purchased on a calendar or fiscal year basis.

Net premiums earned reflect gross premiums earned less ceded premiums during the period.

Net investment income represents interest earned on fixed maturity securities, short term securities and other investments, dividends on equity securities.

Net realized and unrealized gains or losses represent gains or losses on investment sales and unrealized gains or losses on equity securities.

Other revenue includes rental income due under non-cancelable leases for space at the Company's commercial property in Clearwater, Florida, and all policy and pay-plan fees. Our regulators have approved a policy fee on each policy written for certain states; to the extent these fees are not subject to refund, the Company recognizes the income immediately when collected. The Company also charges pay-plan fees to policyholders that pay premiums in more than one installment and record the fees as income when collected.

Expenses

Losses and loss adjustment expenses ("LAE") reflect losses paid, expenses paid to resolve claims, such as fees paid to adjusters, attorneys and investigators, and changes in our reserves for unpaid losses and loss adjustment expenses during the period, in each case net of losses ceded to reinsurers. Our reserves for unpaid losses and loss adjustment expenses represent the estimated ultimate cost of resolving all reported claims plus all losses we incurred related to insured events that we assume have occurred as of the reporting date, but that policyholders have not yet reported to us (which are commonly referred to as incurred but not reported, or "IBNR"). We estimate our reserves for unpaid losses using individual case-based estimates for reported claims and actuarial estimates for IBNR losses. We continually review and adjust our estimated losses as necessary based on our evolving claims experience, new information obtained and industry development trends. If our unpaid losses and loss adjustment expenses are considered deficient or redundant, we increase or decrease the liability in the period in which we identify the difference and reflect the change in our current period results of operations.

Policy acquisition costs ("PAC") consist of: (i) commissions paid to outside agents at the time of policy issuance, (ii) policy administration fees paid to a third-party administrator at the time of policy issuance, (iii) premium taxes and (iv) inspection fees. We recognize policy acquisition costs ratably over the term of the underlying policy. We earn ceding commissions on our net quota share reinsurance contract and certain other reinsurance contracts, which are reported as a reduction to policy acquisition costs and general and administrative expenses based upon the proportion these costs bear to production of new business. Refer to Note 11 "*Deferred Policy Acquisition Costs*" to our consolidated financial statements under Item 8 of this Annual Report on Form 10K. Ceding commission income is deferred and earned over the contract period. The amount and rate of ceding commissions earned on the net quota share contract can slide within a prescribed minimum and maximum, depending on loss performance and how future losses develop.

General and administrative expenses ("G&A") include compensation and related benefits, professional fees, office lease and related expenses, information system expenses, corporate insurance, and other general and administrative costs. As noted above, a certain portion of our ceding commissions are allocated to general and administrative expenses.

Provision for income taxes consists of federal and state corporate level income taxes. The effective tax rate can fluctuate throughout the year as estimates used in the quarterly tax provision are updated with additional information throughout the year and updated with actual amounts in the fourth quarter. The effective tax rate can vary from the 26.5% statutory federal and state blended rate depending on the amount of pretax income in proportion to permanent tax differences as well as state tax apportionment. The 2023 effective tax rate was favorably impacted by the release of valuation allowance associated with the operations of our captive reinsurer, Osprey. The December 31, 2022 effective tax rate was adversely impacted by the non-deductible goodwill impairment and the establishment of a valuation allowance associated with the operations of our captive reinsurer, Osprey.

Ratios

Ceded premium ratio represents ceded premiums earned as a percentage of gross premiums earned.

Net loss ratio represents net losses and LAE as a percentage of net premiums earned.

Net expense ratio represents PAC and G&A expenses as a percentage of net premiums earned. Ceding commission income is reported as a reduction of policy acquisition costs and G&A expenses.

Net combined ratio represents the sum of the net loss and expense ratio. The net combined ratio is a key measure of underwriting performance traditionally used in the property and casualty insurance industry. A net combined ratio under 100% generally reflects profitable underwriting results.

Overview of 2023 Financial Results

In the following section, we discuss our financial condition and results of operations for the year ended December 31, 2023 compared to the year ended December 31, 2022. For a discussion of the year ended December 31, 2022 compared to the year ended December 31, 2021, please Refer to Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 13, 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 year to year, 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 Part II, Item 8 of this Annual Report on Form 10-K.

- Net income for the year ended December 31, 2023 was $45.3 million or $1.73 per diluted share, compared to a net loss of $154.4 million or $5.86 diluted loss per share in the prior year. The increase was driven mostly by the positive impact of rate actions, underwriting actions, and exposure management undertaken during 2022 and 2023, which favorably affected 2023 results. Additionally, net income benefitted from significantly lower losses as described below and a $6.4 million reduction in the valuation allowance associated with certain tax elections made by Osprey. Certain factors adversely affected 2022 results and impacted the year over year variance. The 2022 net loss stemmed from a $90.8 million, net of income tax, non-cash goodwill impairment charge contributing a $3.45 loss per share, combined with higher losses and loss adjustment expenses incurred for the year as described below. In addition, during 2022 the Company recorded a $6.4 million valuation allowance against our net deferred tax asset related to certain tax elections made by Osprey, our captive reinsurer domiciled in Bermuda.
- Gross premiums written of $1.34 billion, up 5.3% from $1.28 billion in the prior year, driven primarily by rate actions taken in all states with a policy count reduction of 7.2% driven substantially by a reduction in the number of Florida personal lines policies. The decline in gross premiums written associated with the decline in personal lines policies was more than offset by growth in the commercial line gross premiums written. Additionally, rate increases continued to meaningfully benefit written premiums throughout the book of business and use of inflation guard results in higher premium.

- Gross premiums earned of $1.32 billion, up 9.5% from $1.28 billion in the prior year, reflecting higher gross premiums written over the last twelve months driven by a higher average premium per policy.
- Net premiums earned of $697.2 million, up 9.4% from $637.1 million in the prior year, reflecting the higher gross earned premium outpacing the increase in ceded premiums for the year.
- Losses and loss adjustment expenses incurred of $426.1 million, down 15.0% from $501.2 million in the prior year. The decrease primarily stems from lower weather and attritional losses as described below. Additionally, we experienced $1.6 million of favorable prior year development compared to $3.7 million of adverse prior year development in 2022.
- Ceded premium ratio of 47.3%, flat from 47.3% in the prior year. The impact of higher catastrophe excess of loss reinsurance premium was partly offset by the increase in gross premiums earned.
- Net loss ratio of 60.4%, an 18.3 point improvement over the prior year of 78.7%, driven by lower weather and attritional losses incurred and benefiting from higher net premiums earned as described above.
- Net expense ratio of 35.2%, down 0.4 points from the prior year amount of 35.6%, as growth in net premiums earned outpaced higher policy acquisition costs and general and administrative expenses. The increase in policy acquisition costs is associated with the increase in gross premiums written. The increase in general and administrative expenses is driven mostly by software and other costs associated with the implementation of a new claims system that was placed in service in June 2023 as well human capital costs.
- Net combined ratio of 95.6%, an 18.7 point improvement from 114.3% in the prior year, primarily driven by lower net loss and net expense ratios as described above.
- Effective tax rate was 12.9% compared to 7.1% in the prior year. The effective tax rate for 2023 benefitted from a $6.4 million reduction in the valuation allowance against our Osprey net deferred tax assets that had been established in the prior year, as operating income at Osprey for the year ended December 31, 2023 resulted in sufficient positive evidence to release the valuation allowance on the Osprey net deferred assets. In contrast, for the year ended December 31, 2022 a $6.4 million valuation allowance was established against our Osprey net deferred tax assets whose utilization may be limited under the Internal Revenue Code. The effective tax rate for 2022 was also significantly lower than the statutory rate due to a non-cash, mostly tax non-deductible goodwill impairment of $92.0 million recorded in the second quarter. The effective tax rate can also vary driven by the impact of permanent differences in relation to the pre-tax income or loss each year.

Consolidated Results of Operations

The following table summarizes our results of operations for the years indicated:

	Year Ended December 31,			
	2023	2022	$ Change	% Change
		(in thousands, expect per share amounts)		
REVENUE:				
Gross premiums written	$ 1,343,101	$ 1,275,031	$ 68,070	5.3 %
Change in gross unearned premiums	(19,458)	(66,207)	46,749	(70.6 %)
Gross premiums earned	1,323,643	1,208,824	114,819	9.5 %
Ceded premiums	(626,458)	(571,759)	(54,698)	9.6 %
Net premiums earned	697,186	637,065	60,121	9.4 %
Net investment income	25,756	11,977	13,778	115.0 %
Net realized losses and impairment losses	(972)	(258)	(713)	276.1 %
Other revenue	13,529	13,676	(147)	(1.1 %)
Total revenue	$ 735,499	$ 662,460	$ 73,039	11.0 %
OPERATING EXPENSES:				
Losses and loss adjustment expenses	$ 426,129	$ 501,162	$ (75,033)	(15.0 %)
Policy acquisition costs	167,610	156,304	11,306	7.2 %
General and administrative expenses	77,777	70,396	7,381	10.5 %
Goodwill or intangible asset impairment	767	91,959	(91,193)	(99.2 %)
Total expenses	672,283	819,821	(147,538)	(180.0 %)
Operating income (loss)	63,216	(157,361)	220,577	(140.2 %)
Interest expense, net	11,210	8,809	2,402	27.3 %
Income (loss) before taxes	52,006	(166,170)	218,175	(131.3 %)
Provision (benefit) for income taxes	6,698	(11,807)	18,506	(156.7 %)
Net income (loss)	$ 45,308	$ (154,363)	$ 199,670	(129.4 %)
Basic net income (loss) per share	$ 1.73	$ (5.86)	$ 7.59	(129.5 %)
Diluted net income (loss) per share	$ 1.73	$ (5.86)	$ 7.59	(129.5 %)

Total revenue

Total revenue was $735.5 million for the year ended December 31, 2023, up 11.0% compared to $662.5 million in the prior year. The increase primarily stems from higher net premiums earned and net investment income as described below.

Gross premiums written

Gross premiums written were $1.34 billion, up 5.3% year-over-year from $1.28 billion, reflecting a strategic and substantial increase in Florida commercial residential lines business and a higher average premium per policy throughout the book of business, partly offset by intentional targeted exposure management resulting in premium reductions of personal lines business in most states. We experienced premiums written growth of 15.3% in Florida driven by growth of the commercial residential portfolio and rate actions and a premium written reduction of 12.1% outside Florida driven by intentional exposure management which was partly offset by rate actions.

Premiums-in-force were $1.4 billion as of December 31, 2023, representing a 5.6% increase from the prior year due to continued proactive underwriting action and rate increases across the entire portfolio and strategic growth in our commercial residential product, despite a policy count reduction of approximately 79,000, driven by an intentional reduction in our personal lines policy count. Concurrently, TIV decreased by 4.7%.

Gross premiums earned

Gross premiums earned were $1.3 billion for the year ended December 31, 2023, up 9.5% compared to $1.2 billion in the prior year, reflecting higher gross premiums written over the last twelve months driven by a higher average premium per policy, use of inflation guard, and organic growth of the commercial residential business.

Ceded premiums

Ceded premiums were $626.5 million for the year ended December 31, 2023, up 9.6% compared to $571.8 million in the prior year. The increase is primarily attributable to a higher cost of catastrophe excess of loss reinsurance.

Net premiums earned

Net premiums earned were $697.2 million for the year ended December 31, 2023, up 9.4% compared to $637.1 million in the prior year. The increase primarily stems from higher gross premiums earned outpacing higher ceded premiums as described above.

Net investment income

Net investment income, inclusive of realized investment gains (losses) and unrealized gains (losses) on equity securities, was $24.8 million for the year ended December 31, 2023, up 112.0% compared to $11.7 million in the prior year. The increase stems from a strategy to reinvest bond maturity proceeds into higher yielding short term instruments such as bank sweep accounts and treasury bills.

	Year Ended December 31,			
	2023	*2022*	*$ Change*	*% Change*
		(in thousands)		
OPERATING EXPENSES:				
Losses and loss adjustment expenses	$ 426,129	$ 501,162	$ (75,033)	(15.0%)
Policy acquisition costs	167,610	156,304	11,306	7.2%
General and administrative expenses	77,777	70,396	7,381	10.5%
Goodwill or intangible asset impairment	767	91,959	(91,193)	(99.2%)
Total operating expenses	$ 672,283	$ 819,821	$ (147,538)	(18.0%)

Total operating expenses

Total operating expenses were $672.3 million, down 18.0% from $819.8 million in the prior year. As described below, lower operating expenses were driven by a reduction in losses and loss adjustment expenses, partly offset by higher acquisition costs and general and administrative expenses, mostly associated with growth in gross premiums written. Additionally significant goodwill impairment was recorded during 2022, resulting in no remaining Goodwill as of December 31, 2022. During 2023, named intangibles associated with a construction division were impaired given management changes to its operations.

Losses and loss adjustment expenses (LAE)

Losses and LAE were $426.1 million for the year ended December 31, 2023, down 15.0% compared to $501.2 million in the prior year. The decrease was driven by lower weather losses and lower attritional losses compared to the prior year. Net current accident year weather losses were $109.2 million, down $84.0 million from $193.2 million in the prior year. Current year catastrophe losses were $48.3 million compared to catastrophe weather losses of $132.4 million in the prior year. Other weather losses were $60.9 million, relatively flat from $60.8 million in the prior year. Attritional losses were lower, primarily associated with the reduction in personal lines policy count and related underwriting criteria enhancements, which improved the book of business.

Additionally, we experienced $1.6 million of favorable prior year development compared to $3.7 million of adverse prior year development in 2022.

Policy acquisition costs

Policy acquisition costs were $167.6 million for the year ended December 31, 2023, up 7.2% compared to $156.3 million in the prior year. The increase is primarily attributable to acquisition costs associated with growth in gross premiums written and is partly offset by higher ceding commission income.

General and administrative expenses

General and administrative expenses were $77.8 million for the year ended December 31, 2023, up 10.5% compared to $70.4 million in the prior year. The increase is primarily attributable to amortization of software and other costs that can no longer be capitalized associated with the implementation of a new claims system. Additional costs were incurred in the current year associated with the installation of the new telephone system. The new claims and telephone systems are expected to drive future efficiencies. In addition, the company incurred higher human capital costs in the current year.

Goodwill or intangible asset impairment

We evaluate goodwill and other intangible assets for impairment at least on an annual basis or whenever events or changes in circumstances indicate that it is more likely than not that the carrying amount of goodwill and other intangible assets may exceed their implied fair value. Goodwill was evaluated at the reporting unit level, for which we have one reporting unit level. Any impairment is charged to operations in the period that the impairment is identified. The Goodwill impairment evaluation includes a review of a variety of factors as described below, which require considerable management judgment. Any adverse change in these factors could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements.

As a result of our analysis for goodwill impairment, we impaired $92.0 million of goodwill during the second quarter of 2022, reducing our carrying value of goodwill to $0 at December 31, 2022. Additionally, during 2023, we impaired named intangibles associated with our construction division due to management changes to its operations. See the section titled "*Goodwill Impairment Charge*" above and **Note 3 "***Intangible Assets, net***"** of the notes to our consolidated financial statements for more detail on our prior year impairment of our goodwill.

	Year Ended December 31,			
	2023	***2022***	***$ Change***	***% Change***
		(in thousands, expect per share amounts)		
Operating income (loss)	$ 63,216	$ (157,361)	$ 220,577	(140.2%)
Interest expense, net	11,210	8,809	2,402	27.3%
Income (loss) before taxes	52,006	(166,170)	218,175	(131.3%)
Provision (benefit) for income taxes	6,698	(11,807)	18,506	(156.7%)
Net income (loss)	$ 45,308	$ (154,363)	$ 199,670	(129.4%)
Basic net income (loss) per share	$ 1.73	$ (5.86)	$ 7.59	(129.5%)
Diluted net income (loss) per share	$ 1.73	$ (5.86)	$ 7.59	(129.5%)

Net income (loss)

Net income for the year ended December 31, 2023 was $45.3 million, up 129.4% from net loss of $154.4 million in the prior year. The increase was driven mostly by the positive impacts of rate actions, underwriting actions, and exposure management undertaken during 2022 and 2023, which resulted in higher net earned premium, significantly lower losses and loss adjustment expenses as described above and the benefit of a $6.4 million reduction in the valuation allowance associated with Osprey operations. The 2022 net loss stemmed from a $90.8 million, net of income tax, non-cash goodwill impairment charge contributing a $3.45 loss per share, combined with higher losses and loss adjustment expenses incurred for the year, driven largely by weather losses. In addition, during 2022 we recorded a $6.4 million valuation allowance against our net deferred tax asset resulting from the operation of certain tax elections made by Osprey, our captive reinsurer domiciled in Bermuda which reduced the income tax benefit for the year.

Interest expense, net

Interest expense was $11.2 million for the year ended December 31, 2023, above the prior year by 27.3% as a result of higher interest rates on our variable rate debt.

Provision (benefit) for income taxes

The provision for income taxes was $6.7 million for the year ended December 31, 2023 compared to a benefit for income taxes of $11.8 million for the year ended December 31, 2022. The effective tax rate for the year ended December 31, 2023 was 12.9% compared to 7.1% in the prior year. The effective tax rate for 2023 benefitted from a $6.4 million reduction in the valuation allowance against our Osprey net deferred tax assets that had been established in the prior year as operating income at Osprey for the year ended December 31, 2023 resulted in full use of Osprey operating losses. In contrast, for the year ended December 31, 2022 a $6.4 million valuation allowance was established against our Osprey net deferred tax assets whose utilization may be limited under the Internal Revenue Code. The effective tax rate for pre-tax loss experienced for the year ended December 31, 2022 was also significantly lower than the statutory rate due to a non-cash, mostly tax non-deductible goodwill impairment of $92.0 million recorded in the second quarter. The effective tax rate can also vary driven by the impact of permanent differences in relation to the pre-tax income or loss each year.

	Year Ended December 31,	
	2023	***2022***
Ceded premium ratio	47.3%	47.3%
Net loss and LAE ratio	61.1%	78.7%
Net expense ratio	35.2%	35.6%
Net combined ratio	96.3%	114.3%

Net combined ratio

The net combined ratio was 96.3% for the year ended December 31, 2023, an 18.7 point improvement from 114.3% in the prior year. The improvement stems primarily from a significantly lower net loss and LAE ratio, described below.

Ceded premium ratio

The ceded premium ratio was 47.3% for the year ended December 31, 2023, flat compared to the prior year. The increase in gross premiums earned year over year offset the increase in ceded premium.

Net loss and LAE ratio

The net loss and LAE ratio was 61.1% for the year ended December 31, 2023, a 17.6 point improvement from 78.7% in the prior year. The improvement primarily relates to significantly lower weather and attritional losses in the current year and higher net premiums earned as described above.

Net expense ratio

The net expense ratio was 35.2% for the year ended December 31, 2023, down 0.4 points from 35.6% in the prior year. The decrease primarily stems from the impact of higher net premiums earned which offset higher policy acquisition costs and G&A costs as described above.

Financial Condition – December 31, 2023 compared to December 31, 2022

Cash and Cash Equivalents

At December 31, 2023, cash and cash equivalents increased to $463.6 million from $280.9 million at December 31, 2022. The increase is primarily due to re-investment of proceeds from the maturity of fixed income securities into higher earning short duration investments. In addition, the Company benefitted from significant reinsurance recoveries from Hurricane Irma and Ian during 2023. This includes recoveries from the FHCF from the Hurricane Irma loss commutation as referenced in **Note 13**, "*Reserve for Unpaid Losses*". Finally, the Company received proceeds of approximately $24.7 million from the December 14, 2023 public and private offering of shares of its common stock as referenced in **Note 22**, "*Equity*".

Fixed Maturity Securities

At December 31, 2023, fixed income securities decreased by $74.9 million to $569.4 million from $653.6 million at December 31, 2022. The decrease is primarily due to re-investment of proceeds from maturity of fixed income securities into higher earning short duration investments as described above. Additionally, an insurance company affiliate liquidated approximately $27.0 million of investments in advance of maturity to generate cash for the payment of claims. This relates to claims for Maui wildfire catastrophic losses that occurred during the third quarter of 2023.

Reinsurance Recoverable on Paid and Unpaid Claims

At December 31, 2023, reinsurance recoverable on paid and unpaid claims decreased by $322.6 million to $482.4 million from $805.1 million at December 31, 2022. The decrease is primarily due to reinsurance reimbursements received during 2023 for claim payments related to Hurricanes Irma and Ian.

Unpaid Losses and Loss Adjustment Expenses

At December 31, 2023, unpaid losses and loss adjustment expenses decreased by $285.8 million to $846.0 million from $1.1 billion at December 31, 2022. The decrease is primarily due to payment of Hurricane Irma and Ian claims during 2023.

Total Shareholders' Equity

At December 31, 2023, total shareholders' equity increased by $89.2 million to $220.3 million from $131.0 million at December 31, 2022. The increase is primarily due to net income for the year ended December 31, 2023, coupled with a reduction in unrealized losses on fixed maturity investments and proceeds from the public and private offering of shares of our common stock. Rising interest rates during 2022 resulted in significant unrealized losses at December 31, 2022. As interest rates tempered during 2023 and certain investments matured at face value, unrealized losses declined from the prior year.

Liquidity and Capital Resources

Our principal sources of liquidity include cash flows generated from operations, our cash, cash equivalents, our marketable securities balances and borrowings available under our credit facilities. As of December 31, 2023, we held $463.6 million in cash and cash equivalents and $569.4 million in investments, compared to $280.9 million in cash and $653.6 million in investments as of December 31, 2022. The increase in cash and cash equivalents was primarily driven by proceeds from issuance of our common stock in the December 2023 underwritten public offering, higher cash levels at our captive reinsurer Osprey to provide collateral for affiliate reinsurance transactions, timing of receipt of reinsurance recoveries, a reinsurance commutation with the FHCF for which proceeds were received in advance of claim payments made by the Company, and reinvesting proceeds from investment maturities to short term instruments which provided a higher yield than fixed income securities, which was partly offset by costs associated with an enhanced policy, billing and claims system. The decrease in investments was driven by maturities which were not reinvested as described above which was partly offset by lower unrealized losses on our fixed income securities as interest rates stabilized.

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, 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 continue to pursue the acquisition of complementary businesses and make strategic investments. We may increase capital expenditures consistent with our investment plans and anticipated growth strategy. 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.

Statement of Cash Flows

The net increases (decreases) in cash and cash equivalents are summarized in the following table:

	For the Year Ended December 31,				
	2023	***2022***	***2021***	***2023 vs 2022 Change***	***2022 vs 2021 Change***
Net cash provided by (used in):			*(in thousands)*		
Operating activities	$ 70,415	$ (34,260)	$ 60,130	$ 104,675	$ (94,390)
Investing activities	100,806	(37,862)	(124,480)	138,668	86,618
Financing activities	14,546	(5,058)	(17,281)	19,604	12,223
Net change in cash, cash equivalents, and restricted cash	$ 185,767	$ (77,180)	$ (81,631)	$ 262,947	$ 4,451

Operating Activities

Net cash provided by operating activities for the year ended December 31, 2023 was $70.4 million compared to net cash used in operating activities of $34.3 million during the prior year. The increase in cash provided by operating activities was primarily driven by timing of receipt of reinsurance recoveries including a reinsurance commutation with the FHCF for which proceeds were received in advance of claim payments made by the Company, timing of cash flows associated with claim and reinsurance payments, and higher cash levels at our captive reinsurer Osprey to provide collateral for affiliate reinsurance transactions.

Investing Activities

Net cash provided by investing activities for the year ended December 31, 2023 was $100.8 million compared to net cash used of $37.9 million in the prior year. The change in cash used in investing activities primarily relates to our reinvestment of proceeds from maturities into short term investments which provided security and liquidity while achieving higher yields, which was partly offset by costs associated with an enhanced policy, billing and claims system.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2023 was $14.5 million, compared to net cash used of $5.1 million in the prior year. The increase in cash provided by financing activities was primarily driven by the December 2023 underwritten public offering and contemporaneous private placement of an aggregate of 3,919,169 shares of our common stock resulting in gross proceeds of approximately $26.5 million before deducting underwriting discounts, commissions and other offering expenses as referenced in **Note 22. "***Equity***"**, partly offset by principal payments on debt.

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”), Regions Bank, as Administrative Agent and Collateral Agent, BMO Harris Bank N.A., as Syndication Agent, Hancock Whitney Bank and Canadian Imperial Bank of Commerce, as Co-Documentation Agents, and Regions Capital Markets and BMO Capital Markets Corp., as Joint Lead Arrangers and Joint Bookrunners (as amended from time to time, the “Credit Agreement”).

Based on the Company’s results for the third quarter of 2022, management considered it likely at that time that the Company would be out of compliance with certain financial covenants in the Credit Agreement. In order to avoid a covenant violation, on November 7, 2022, the Company and its subsidiary guarantors entered into an amendment to the Credit Agreement to, among other things, (i) decrease the Revolving Credit Facility commitments from $75 million to $50 million, (ii) establish a new $25 million Term Loan Facility (defined below) to refinance loans outstanding under the existing Revolving Credit Facility and to pay fees, costs and expenses related thereto, (iii) reduce, from $50 million to $25 million, the aggregate amount of potential future increases to the Revolving Credit Facility commitments and/or Term Loan Facility commitments, (iii) modify the amortization of the existing term loan facility and new term loan facility to 10% per annum, paid quarterly, and (iv) increase the applicable margin for loans under the Credit Agreement to a range from 2.75% to 3.25% per annum for SOFR loans (plus a 0.10% credit adjustment spread) and based on a leverage ratio (an increase from the prior range of 2.50% to 3.00%). The amendment also modified certain financial covenants in the Credit Agreement which 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 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 November 7, 2022, 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 $73.9 million in aggregate principal outstanding under the Term Loan Facility. As of December 31, 2023, there was $79.6 million 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. As of September 30, 2022, we had $25.0 million in borrowings and a $22.6 million letters of credit outstanding under the Revolving Credit Facility. In connection with the incurrence of additional amounts under the Term Loan Facility pursuant to the amendment, the borrowings under the Revolving Credit Facility were repaid in full. On December 23, 2022, the Company borrowed $10.0 million under the Revolving Credit facility. At December 31, 2023, the outstanding balance under the Revolving Credit facility was $10.0 million. The Company secured additional letters of credit during 2023; however at December 31, 2023 all of the letters of credit were terminated and the Company had no outstanding letter of credits 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 December 31, 2023, the borrowings under the Term Loan Facility and Revolving Credit Facility accruing interest at a rate of 8.179% and 8.198% 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 Regions Bank, as 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 Note

On August 10, 2017 and September 6, 2017, the Company and Heritage MGA, LLC (the "Notes Guarantor") entered into a purchase agreement (the "Purchase Agreement") with Citigroup Global Markets Inc., as the initial purchaser (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 Purchase Agreement contained customary representations, warranties and agreements of the Company and the Notes Guarantor and customary conditions to closing, indemnification rights and obligations of the parties and termination provisions. 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 Wilmington Trust, National Association, as trustee (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.

The conversion rate for the Convertible Notes was initially 67.0264 shares of common stock per $1,000 principal amount of Convertible Notes (equivalent to an initial conversion price of approximately $14.92 per share of common stock). The conversion rate is subject to adjustment in certain circumstances and is subject to increase for holders that elect to convert their Convertible Notes in connection with certain corporate transactions (but not, at the Company's election, a public acquirer change of control (as defined in the Convertible Note Indenture)) that occur prior to August 5, 2022.

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.

In January 2022, the Company repurchased $11.7 million principal amount of outstanding Convertible Notes. As of 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.

As discussed above, holders of the Convertible Notes issued by the Company had an optional put right, pursuant to the indenture governing the Convertible Notes, to require the Company to repurchase the aggregate principal amount of Convertible Notes that are validly tendered. The Company received notice from the Depositary for the Convertible Notes that, on July 29, 2022, $10.9 million aggregate principal amount of the Convertible Notes has been validly tendered in accordance with the terms of the indenture and the Company's notice with respect to the optional put right of the Convertible Notes, and the Company has requested that the Trustee cancel the Convertible Notes tendered. The outstanding balance as of December 31, 2023 of non-affiliated Notes was $885,000. On August 1, 2022, the Company made payments for the principal amount of the Convertible Notes tendered and unpaid interest in the aggregate amounts of $10.9 million and $320,041, respectively. In November 2022, the Company drew $10.0 million from the Revolving Credit Facility to replenish the cash used to pay the $10.9 million for the purchase of the tendered Convertible Notes.

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 December 31, 2023, the common stock was valued at $1.4 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 2018.

Contractual Obligations and Commitments

The following table summarizes our material contractual obligations and commitments as of December 31, 2023:

Contractual Obligations and Commercial Commitments	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 - Years
			(in thousands)		
Term loans, notes and interest [1]	$ 106,057	$ 16,609	$ 89,448	$ —	$ —
Convertible debt [1]	39,029	1,190	2,379	2,379	33,080
Mortgage loan [1]	11,019	354	768	9,897	—
FHLB agreement [1]	19,534	97	19,437	—	—
Operating lease obligations	32,961	4,825	9,585	9,687	8,864
Total Contractual Obligations	$ 208,600	$ 23,075	$ 121,618	$ 21,963	$ 41,944

(1) Amounts represent principal and interest payments to debt obligations. Debt obligations are classified based on their stated maturity date. For further information on long-term debt, Refer to Note 14 "*Long Term Debt*" of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

The expected timing of payments of the obligations in the preceding table is estimated based on current information. Timing of payments and actual amounts paid may be different due to changes to agreed-upon amounts for some obligations.

Market Sensitive Instruments and Risk Management

Our investment results are subject to a variety of risks, including risks related to changes in the business, financial condition or results of operations of the entities in which we invest, as well as changes in general economic conditions and overall market conditions. We are also exposed to potential loss from various market risks, including changes in equity prices and interest rates.

In accordance with the SEC's Financial Reporting Release No 48, we performed sensitivity analysis, also referenced as the hypothetical analysis (refer to Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***) to determine the effects that market risk exposures could have on the Company's future portfolio's earnings, fair value or cash flow as of December 31, 2023. Market risk represents the risk of changes in the fair value of financial instrument and consists of several components, including liquidity, basis and price risks.

The sensitivity analysis performed as of December 31, 2023 presents hypothetical losses in cash flows, earnings and fair values of market sensitive instruments which were held by as of the year ended December 31, 2023 and are sensitive to changes in interest rates. This risk management discussion and the estimated amounts generated from the following sensitivity analysis represent forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from these projected results due to actual developments in the global financial markets. The analysis methods used by us to assess and mitigate risk should not be considered projections of future events of losses.

Exposure to market risk is managed and monitored by senior management of the parent company and its subsidiaries along with a nationally recognized asset manager. The investment committee, appointed by our board of directors approves the overall investment strategy and has responsibility to ensure that the investment positions are consistent with that strategy with an acceptable level of risk. Management of risk may include buying or selling instruments or entering into offsetting positions.

Fixed Income Securities

We invest in interest rate sensitive securities, primarily debt securities. We consider the effect of interest rate movements on the fair value of our fixed maturities, short-term investments and certain of our other investments, and investment funds accounted for using the equity method which invest in fixed income securities (collectively, "Fixed Income Securities") and the corresponding change in unrealized appreciation. As interest rates rise, the fair value of our Fixed Income Securities falls, and the converse is also true. Based on historical observations, there is a low probability that all interest rate yield curves would shift in the same direction at the same time.

The Company's invested assets at December 31, 2023 were $569.4 million, of which 98.5% was invested in fixed maturity and short-term investments, 0.3% in equity securities, and 1.2% in other investments. Because the primary purpose of the investment portfolio is to fund future claims payments, the Company employs a thoughtful investment philosophy that focuses on appropriate risk-adjusted returns. A significant majority of funds available for investment are deployed in a widely diversified portfolio of high quality, liquid, taxable U.S. government, tax-exempt and taxable U.S. municipal and taxable corporate and U.S. agency mortgage-backed bonds.

Effects of Inflation

General economic inflation has increased in recent quarters and may continue to remain at elevated levels for an extended period of time. The potential also exists, after a catastrophe loss or pandemic events like COVID-19, for the development of inflationary pressures in a local economy. This may have a material effect on the adequacy of our reserves for losses and loss adjustment expenses, especially in longer-tailed lines of business, and on the market value of our investment portfolio through rising interest rates. The anticipated effects of inflation are considered in our pricing models, reserving processes and exposure management, across all lines of business and types of loss including natural catastrophe events. The actual effects of inflation on our results cannot be accurately known until claims are ultimately settled and will vary by the specific type of inflation affecting our business.

The carrying value of the Company's fixed maturity portfolio at December 31, 2023 was $560.7 million. The Company closely monitors the duration of its fixed maturity investments, and investment purchases and sales are executed with the objective of having adequate funds available to satisfy the Company's insurance and debt obligations. The weighted average credit quality of the Company's fixed maturity portfolio, both including and excluding U.S. Treasury securities, was "A+" at both December 31, 2023 and 2022. Below investment grade securities represented 0.1% of the total fixed maturity investment portfolio at both December 31, 2023 and 2022. The weighted average effective duration of fixed maturities and short-term securities was 2.67 (3.14 excluding short-term securities) at December 31, 2023 and 3.18 (3.25 excluding short-term securities) at December 31, 2022.

Critical Accounting Policies and Estimates

The following discussion and analysis presents the more significant factors that affected our financial conditions as of December 31, 2023 and 2022 and results of operations for each of the years then ended. The preparation of financial statements in conformity with accounting principles of generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While we base estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

We consider accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain and (ii) different estimates that management reasonably could have used for the accounting estimates in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on our consolidated financial statements. 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.

Premiums. We recognize direct and assumed premiums written as revenue, net of ceded amounts, on a daily pro rata basis over the contract period of the related policies that are in force. For any portion of premiums not earned at the end of the reporting period, we record an unearned premium liability.

Premiums receivable represents amounts due from our policyholders for billed premiums and related policy fees. Our billing system is equity based such that policies are canceled if the unpaid premium exceeds the amount of premium earned. When we receive payments on amounts previously charged off, we credit bad debt expense in the period we receive the payment. Balances in premiums receivable and the associated allowance account are removed upon cancellation of the policy due to non-payment and returned agent commission. We recorded bad debt expense of approximately $855,750, $0 and $0 in 2023, 2022, and 2021, respectively.

When we receive premium payments from policyholders prior to the effective date of the related policy, we record an advance premium liability. On the policy effective date, we reduce the advance premium liability and record the premiums as described above.

Reserves for Unpaid Losses and Loss Adjustment Expenses. Reserves for unpaid losses and loss adjustment expenses, also referred to as loss reserves, represent the most significant accounting estimate inherent in the preparation of our financial statements. These reserves represent management's best estimate of the amount we will ultimately pay for losses and loss adjustment expenses and we base the amount upon the application of various actuarial reserve estimation techniques as well as considering other material facts and circumstances known at the balance sheet date. We establish two categories of loss reserves as follows: **Case reserves**—When a claim is reported, we establish an initial estimate of the losses that will ultimately be paid on the reported claim. Our initial estimate for each claim is based upon the judgment of our claims professionals who are familiar with property and liability losses associated with the coverage offered by our policies. Then, our claims personnel perform an evaluation of the type of claim involved, the circumstances surrounding each claim and the policy provisions relating to the loss and adjust the reserve, as necessary. As claims mature, we increase or decrease the reserve estimates as deemed necessary by our claims department based upon additional information we receive regarding the loss, the results of on-site reviews and any other information we gather while reviewing the claims. **IBNR reserves**—Our IBNR reserves include true IBNR reserves plus "bulk" reserves. True IBNR reserves represent amounts related to claims for which a loss occurred on or before the date of the financial statements, but which have not yet been reported to us. Bulk reserves represent additional amounts that cannot be allocated to particular claims, but which are necessary to estimate ultimate losses on known claims. We estimate our IBNR reserves by projecting our ultimate losses using industry accepted actuarial methods and then deducting actual loss payments and case reserves from the projected ultimate losses. We review and adjust our IBNR reserves on a quarterly basis based on information available to us at the balance sheet date.

When we establish our reserves, we analyze various factors such as the evolving historical loss experience of the insurance industry as well as our experience, claims frequency and severity, our business mix, our claims processing procedures, legislative enactments, judicial decisions and legal developments in imposition of damages, and general economic conditions, including inflation. A change in any of these factors from the assumptions implicit in our estimates will cause our ultimate loss experience to be better or worse than indicated by our reserves, and the difference could be material. Due to the interaction of the foregoing factors, there is no precise method for evaluating the impact of any one specific factor in isolation, and an element of judgment is ultimately required. Due to the uncertain nature of any future projections, the ultimate amount we will pay for losses will be different from the reserves we record.

We determine our ultimate loss reserves by selecting an estimate within a relevant range of indications that we calculate using generally accepted actuarial techniques. Our selection of the point estimate is influenced by the analysis of our paid losses and incurred losses since inception.

Our external reserving actuaries evaluated the adequacy of our reserves as of December 31, 2023 and concluded that our reported loss reserves would meet the requirements of the insurance laws of the states in which our insurance subsidiaries are domiciled, be consistent with reserves computed in accordance with accepted loss reserving standards and principles, and make a reasonable provision for all unpaid loss and loss adjustment expense obligations under the terms of our contracts and agreements. In addition to $292.1 million of recorded case reserves, we recorded $553.4 million of IBNR reserves as of December 31, 2023 to achieve overall gross reserves of $846.0 billion. At December 31, 2023, ceded IBNR and net IBNR were $277.2 million and $276.6 million, respectively.

The process of establishing our reserves is complex and inherently imprecise, as it involves using judgment that is affected by many variables. We believe a reasonably likely change in almost any of the factors we evaluate as part of our loss reserve analysis could have an impact on our reported results, financial position and liquidity.

The following table quantifies the pro forma impact of hypothetical changes in our net loss reserves on our net income and stockholders' equity as of and for the year ended December 31, 2023 (in thousands):

	Actual	Low Estimate	% Change from Actual	High Estimate	% Change from Actual
Net Loss Reserves	$ 424,157	$ 347,145	18.2 %	$ 461,208	(8.7)%
Impact on:					
Net income	$ 45,307	$ 101,911	124.9 %	$ 18,074	(60.1)%
Stockholders' equity	$ 220,280	$ 276,884	25.7 %	$ 193,047	(12.4)%
Cash, cash equivalents and investments[(1)]	$ 1,033,055	$ 1,089,659	5.5 %	$ 1,005,822	(2.6)%

(1) Estimated cash, cash equivalents and investments is intended to reflect the impact of loss reserves, net of taxes.

Policy Acquisition Costs. We incur policy acquisition costs that vary with, and are directly related to, the production of new business. Policy acquisition costs consist of the following four items: (i) commissions paid to outside agents at the time of policy issuance, (ii) policy administration fees paid to a third-party administrator at the time of policy issuance, (iii) premium taxes and (iv) inspection fees. We capitalize policy acquisition costs to the extent recoverable, then we amortize those costs over the contract period of the related policy. We also earn ceding commission on our quota share reinsurance contracts, which is presented as a reduction of policy acquisition costs with any unearned ceding commission recognized as a liability. Ceding commission income is deferred and earned over the contract period. The amount and rate of ceding commissions earned on the net quota share contract can slide within a prescribed minimum and maximum, depending on loss performance and how future losses develop.

Our accounting policy is to allocate ceding commission between policy acquisition costs and general and administrative expenses for financial reporting purposes based upon the proportion these costs bear to production of new business. For the years ended December 31, 2023, 2022 and 2021, we earned ceding commission income of $64.8 million, $62.7 million and $57.1 million of which $48.7 million, $47.1 million and $43.0 million was allocable to policy acquisition costs.

Deferred taxes. At December 31, 2023, we assessed our deferred tax position and hold no valuation against our net deferred tax assets as there is sufficient evidence to support the recorded net deferred tax asset.

Provision for Premium Deficiency. At each reporting date, we determine whether we have a premium deficiency. A premium deficiency would result if the sum of our expected losses, deferred policy acquisition costs and policy maintenance costs (such as costs to store records and costs incurred to collect premiums and pay commissions) exceeded our related unearned premiums plus investment income. Should we determine that a premium deficiency exists, we would write off the unrecoverable portion of deferred policy acquisition costs. No accruals for premium deficiency were considered necessary as of December 31, 2023 and 2022.

Reinsurance. We follow industry practice of reinsuring a portion of our risks. Reinsurance involves transferring, or "ceding", all or a portion of the risk exposure on policies we write to another insurer, known as a reinsurer. To the extent that our reinsurers are unable to meet the obligations they assume under our reinsurance agreements, we remain liable for the entire insured loss.

Our reinsurance agreements are prospective contracts. We record an asset, prepaid reinsurance premiums, and a liability, reinsurance payable, for the entire contract amount upon commencement of our new reinsurance agreements. We amortize our prepaid reinsurance premiums over the 12-month contract period.

In the event that we incur losses recoverable under our reinsurance program, we record amounts recoverable from our reinsurers on paid losses plus an estimate of amounts recoverable on unpaid losses. The estimate of amounts recoverable on unpaid losses is a function of our liability for unpaid losses associated with the reinsured policies; therefore, the amount changes in conjunction with any changes to our estimate of unpaid losses. In the event that we incur losses recoverable under the reinsurance program, the estimate of amounts recoverable from reinsurers on unpaid losses may change at any point in the future because of its relation to our reserves for unpaid losses.

We estimate uncollectible amounts receivable from reinsurers based on an assessment of factors including the creditworthiness of the reinsurers and the adequacy of collateral obtained, where applicable. We had no uncollectible amounts under our reinsurance program or bad debt expense related to reinsurance for the years ended December 31, 2023, 2022, and 2021.

Recent Accounting Pronouncements Not Yet Effective

The Company describes the recent pronouncements that have had or may have a significant effect on its financial statements or on its disclosures. The Company does not discuss recent pronouncements that a) are not anticipated to have an impact on, or b) are unrelated to its financial condition, results of operations, or related disclosures. For accounting pronouncements not yet adopted, Refer to Note 1 "*Basis of Presentation, Nature of Business and Significant Accounting Policies and Practices"* to our consolidated financial statements included in this Annual Report on Form 10-K, for further information.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our investment portfolios at December 31, 2023, include interest rate-sensitive securities, mainly fixed income securities. Our fixed income securities portfolio is comprised primarily of investment grade (investments receiving Standard & Poor's Global Ratings ("S&P") or an equivalent rating of BBB- or above) corporate securities, U.S. government and agency securities, municipal obligations, collateralized loan obligations ("CLO") and other asset-backed securities ("ABS"), and mortgage-backed securities ("MBS"). Our main objective is to maximize after-tax investment income and maintain sufficient liquidity to meet policyholder obligations while minimizing market risk, which is the potential economic loss from adverse fluctuations in securities' prices. We consider many factors when establishing our investment policy, including credit ratings, investment concentrations, regulatory requirements, anticipated fluctuation of interest rates, durations and market conditions in developing investment strategies. We classify our fixed-maturity securities as available-for-sale and report any unrealized gains or losses, net of deferred income taxes, as a component of other comprehensive income within our stockholders' equity. As such, any material temporary changes in their fair value can adversely impact the carrying value of our stockholders' equity. Unrealized gains and losses for any equity securities held are reported in our consolidated statement of operations as a component of net realized and unrealized gains and losses.

Interest Rate Risk

On November 7, 2022, the Company amended its Credit Agreement to replace LIBOR with an alternative benchmark rate. 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, eliminating any reference to LIBOR.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Our fixed income securities portfolio contains interest rate-sensitive instruments, and its performance could be adversely affected by changes in interest rates resulting from governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. All else being equal, a rise in interest rates will decrease the fair value of our existing fixed income investments, and a decline in interest rates will increase the fair value of our existing fixed income investments. However, new and reinvested money used to purchase fixed income securities would benefit from rising interest rates and would be negatively impacted by falling interest rates. We seek to mitigate our interest rate risk associated with holding fixed income investments by monitoring and managing the effective duration of our portfolio to maximize yield while managing interest rate risk at an acceptable level.

The duration of the financial instruments held in our portfolio that are subject to interest rate risk was 2.67 years at December 31, 2023 and 3.18 years at December 31, 2022. 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 December 31, 2023, the estimated weighted-average credit quality rating of the fixed maturity securities portfolio was A+, at fair value, consistent with our average credit quality rating at December 31, 2022.

The following table illustrates the impact of hypothetical changes in interest rates to the fair value of our fixed-maturity securities at December 31, 2023 (in thousands, except percentages):

Hypothetical Change in Interest rates		Estimated Fair Value After Change		Change In Estimated Fair Value	Percentage Increase (Decrease) in Estimated Fair Value
300 basis point increase	$	508,833	$	(51,849)	(9)%
200 basis point increase	$	526,107	$	(34,575)	(6)%
100 basis point increase	$	543,390	$	(17,291)	(3)%
100 basis point decrease	$	577,982	$	17,300	3%
200 basis point decrease	$	595,291	$	34,609	6%
300 basis point decrease	$	612,296	$	51,614	9%

Credit risk can expose us to potential losses arising principally from adverse changes in the financial condition of the issuer of our fixed-maturity securities. The Company's Investment Committee has the responsibility to create, oversee, implement and review investment policies. The Investment Committee is responsible for ensuring the policies mitigate this risk by investing in fixed-maturity securities that are generally investment grade and by diversifying our investment portfolio to avoid concentrations in any single issuer or market sector.

The following table presents the composition of our fixed-maturity portfolio by rating at December 31, 2023 (in thousands, except percentages):

Comparable Rating		Amortized Cost	% of Total Amortized Cost		Fair Value	% of Total Fair Value
AAA	$	44,737	7%	$	40,140	7%
AA+, AA, AA-	$	349,668	58%	$	320,805	58%
A+, A, A-1+	$	115,549	19%	$	108,162	19%
BBB+, BBB, BBB-	$	96,277	16%	$	91,192	16%
Not rated	$	415	0%	$	383	0%
	$	**606,646**	**100%**	**$**	**560,682**	**100%**

Below investment grade securities have different characteristics than investment grade corporate fixed-maturity securities. Risk of loss from default by the borrower is greater with below-investment grade securities. Typically, below investment grade securities are generally unsecured and are often subordinated to other creditors of the issuer. Also, issuers of below-grade securities usually have higher levels of debt and are more sensitive to adverse economic conditions, such as recession or increasing interest rates, than investment grade issuers.

Our equity investment portfolio at December 31, 2023 consisted of membership shares held of FHLB common stock which are carried at cost. The estimated fair value of the FHLB common stock was based on the amount we would receive if our memberships were canceled, as the membership cannot be sold.

The following table illustrates the composition of our equity portfolio at December 31, 2023 (in thousands):

		Estimated Fair Value	% of Total Estimated Fair value
Stocks by sector:			
Financial	$	—	0%
Energy		—	0%
Other		1,666	100%
Subtotal	$	1,666	100%
Mutual Funds and ETF by type:			
Equity	$	—	0%
Subtotal	$	—	0%
Total	$	1,666	100%

Foreign Currency Exchange Risk

At December 31, 2023, we did not have any material exposure to foreign currency related risk.

Item 8. Financial Statements and Supplementary Data

HERITAGE INSURANCE HOLDINGS, INC.

INDEX OF CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Heritage Insurance Holdings, Inc.

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Heritage Insurance Holdings, Inc. (the "Company") as of December 31, 2023 and 2022; the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2023; and the related notes and schedules (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in the COSO framework.

Basis for Opinion

The Company's management is responsible for these financial statements; maintaining effective internal control over financial reporting; and its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Liability for Unpaid Losses and Loss Adjustment Expenses - Refer to Notes 1 and 13 to the Financial Statements

Critical Audit Matter Description

The Company's estimated liability for unpaid losses and loss adjustment expense (LAE) totaled $846 million at December 31, 2023. The Company's reserve for unpaid losses and LAE represents the estimated ultimate cost of settling all claims incurred related to insured events that have occurred as of the reporting date. The Company determines the reserve for unpaid losses and LAE on an individual-case basis for those claims reported as of December 31, 2023, with bulk reserves for additional development, if any, on the reported claims and an estimate for unpaid losses and LAE for all claims incurred related to insured events that have occurred as of December 31, 2023 but have not yet been reported by the policyholders to the Company (collectively referred to as incurred but not reported or IBNR). The Company estimates IBNR reserves by projecting ultimate losses using industry-accepted actuarial methods. Management engages independent actuarial firms to prepare an actuarial analysis of unpaid losses and LAE and provides statements of actuarial opinion on management's estimate of unpaid losses and LAE.

Estimating the liability for unpaid losses and LAE requires significant judgment, relating to factors such as claim development patterns, severity, type and jurisdiction of loss, economic conditions, legislative developments, and a variety of actuarial assumptions. Estimating the liability for unpaid losses and LAE is inherently uncertain, dependent on management's judgment, and significantly impacted by claim and actuarial factors and conditions that may change over time. The ultimate settlement of unpaid losses and LAE may vary materially from the recorded liability, and such variance may adversely affect the Company's financial results. For these reasons, we identified the estimate of unpaid losses and LAE as a critical audit matter, as it involved especially subjective auditor judgment.

How the Critical Audit Matter was Addressed in the Audit

Our audit procedures related to the unpaid losses and LAE reserve included the following, among others:

- We obtained an understanding, evaluated the design, and tested the operating effectiveness of key controls over the process and data used by management to estimate the liability for unpaid losses and LAE, including those controls related to the estimation of and management's review of the estimated liability of unpaid losses and LAE.
- We tested the completeness, integrity, and accuracy of the underlying data used by the Company's actuaries, such as paid loss data, case reserve data, loss adjustment expense data, and loss development tables.
- We verified the consistency of the estimation process between the current year and those used in prior years and assessed the reasonableness of management's selection of its estimate for unpaid losses and LAE, including the key factors considered by management in arriving at such estimates. With assistance from our engaged actuarial specialist, we reviewed the reasonableness of the methods and assumptions used by the Company and its engaged actuaries to develop their unpaid losses and LAE reserve estimate.
- We evaluated management's prior year estimate for unpaid losses and LAE and the factors leading to changes in the estimate recognized in the current year. With the assistance of our engaged actuarial specialist, we assessed the reasonableness of management's revisions to the estimate for unpaid losses and LAE.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2018.
Chicago, Illinois
March 13, 2024

HERITAGE INSURANCE HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	December 31, 2023	December 31, 2022
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost of $606,646 and $705,548)	$ 560,682	$ 635,572
Equity securities, at fair value, (cost $1,666 and $1,514)	1,666	1,514
Other investments, net	7,067	16,484
Total investments	569,415	653,570
Cash and cash equivalents	463,640	280,881
Restricted cash	9,699	6,691
Accrued investment income	4,068	3,817
Premiums receivable, net	89,490	92,749
Reinsurance recoverable on paid and unpaid claims, net of allowance for credit losses of $197 and $45	482,429	805,059
Prepaid reinsurance premiums	294,222	306,977
Income taxes receivable	13,354	12,118
Deferred income tax asset, net	11,111	16,841
Deferred policy acquisition costs, net	102,884	99,617
Property and equipment, net	33,218	25,729
Right-of-use lease asset, finance	17,606	20,132
Right-of-use lease asset, operating	6,835	7,335
Intangibles, net	42,555	49,575
Other assets	12,674	11,509
Total Assets	$ 2,153,200	$ 2,392,600
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	$ 845,955	$ 1,131,807
Unearned premiums	675,921	656,641
Reinsurance payable	159,823	199,803
Long-term debt, net	119,732	128,943
Advance premiums	23,900	26,516
Accrued compensation	9,461	6,594
Lease liability, finance	20,386	22,557
Lease liability, operating	8,076	8,690
Accounts payable and other liabilities	69,666	80,010
Total Liabilities	$ 1,932,920	$ 2,261,561
Commitments and contingencies (Note 17)		
Stockholders' Equity:		
Common stock, $0.0001 par value, 50,000,000 shares authorized, 42,450,612 shares issued and 30,218,938 outstanding at December 31, 2023 and 37,796,107 shares issued and 25,539,433 outstanding at December 31, 2022	3	3
Additional paid-in capital	360,310	334,711
Accumulated other comprehensive income, net of taxes	(35,250)	(53,585)
Treasury stock, at cost, 12,231,674 shares at December 31, 2023 and 2022	(130,900)	(130,900)
Retained earnings (deficit)	26,117	(19,190)
Total Stockholders' Equity	220,280	131,039
Total Liabilities and Stockholders' Equity	$ 2,153,200	$ 2,392,600

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except share and per share data)

	For the Year Ended December 31, 2023	2022	2021
REVENUES:			
Gross premiums written	$ 1,343,101	$ 1,275,031	$ 1,164,879
Change in gross unearned premiums	(19,458)	(66,207)	(20,717)
Gross premiums earned	1,323,643	1,208,824	1,144,162
Ceded premiums earned	(626,458)	(571,759)	(533,091)
Net premiums earned	697,185	637,065	611,071
Net investment income	25,756	11,977	5,652
Net realized losses and impairment losses	(972)	(258)	(16)
Other revenue	13,529	13,676	14,854
Total revenues	735,498	662,460	631,561
EXPENSES:			
Losses and loss adjustment expenses	426,129	501,162	427,370
Policy acquisition costs, net of ceding commission income [1]	167,610	156,304	145,968
General and administrative expenses, net of ceding commission income[2]	77,777	70,396	65,787
Goodwill or intangible asset impairment	767	91,959	60,500
Total expenses	672,283	819,821	699,625
Operating income (loss)	63,215	(157,361)	(68,064)
Interest expense, net	11,210	8,809	7,970
Income (loss) before income taxes	52,005	(166,170)	(76,034)
Provision (benefit) for income taxes	6,698	(11,807)	(1,307)
Net income (loss)	$ 45,307	$ (154,363)	$ (74,727)
OTHER COMPREHENSIVE INCOME (LOSS)			
Change in net unrealized gains (losses) on investments	23,388	(64,335)	(13,661)
Reclassification adjustment for net realized investment losses (gains)	636	258	(64)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(5,690)	15,065	3,095
Total comprehensive income (loss)	$ 63,641	$ (203,375)	$ (85,357)
Weighted average shares outstanding			
Basic	26,193,065	26,343,826	27,804,355
Diluted	26,252,328	26,343,826	27,804,355
Earnings (loss) per share			
Basic	$ 1.73	$ (5.86)	$ (2.69)
Diluted	$ 1.73	$ (5.86)	$ (2.69)

(1) *Policy acquisition costs includes $48.7 million, $46.5 million and $47.1 million of ceding commission income for the reporting years 2023, 2022 and 2021, respectively.*

(2) *General and administration includes $16.1 million, $15.4 million and $15.6 million of ceding commission income for the reporting years 2023, 2022 and 2021, respectively.*

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except share and per share data)

	Common Shares	*Common Shares Amount*	*Additional Paid-in-Capital*	*Retained Earnings (Deficit)*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Total Stockholders' Equity*
Balance at December 31, 2020	27,748,606	$ 3	$ 331,867	$ 219,782	$ (115,365)	$ 6,057	$ 442,344
Net unrealized change in investments, net of tax						(10,630)	(10,630)
Surrendered shares for tax withholding	(28,257)	—	(231)	—	—	—	(231)
Restricted stock vested	35,267	—	—	—	—	—	—
Issued restricted stock	254,793	—	—	—	—	—	—
Stock buy-back	(1,256,898)	—	—	—	(8,192)	—	(8,192)
Stock-based compensation on restricted stock	—	—	1,161	—	—	—	1,161
Cash dividends declared ($0.24 per share of common stock)	—	—	—	(6,674)	—	—	(6,674)
Net loss	—	—	—	(74,727)	—	—	(74,727)
Balance at December 31, 2021	26,753,511	$ 3	$ 332,797	$ 138,381	$ (123,557)	$ (4,573)	$ 343,051
Net unrealized change in investments, net of tax						(49,012)	(49,012)
Surrendered shares for tax withholding	(28,271)	—	(94)	—	—	—	(94)
Restricted stock vested	25,000	—	—	—	—	—	—
Issued restricted stock	496,552	—	—	—	—	—	—
Forfeiture on restricted stock	(12,422)	—	—	—	—	—	—
Stock buy-back	(1,694,937)	—	—	—	(7,343)	—	(7,343)
Stock-based compensation on restricted stock	—	—	2,008	—	—	—	2,008
Cash dividends declared ($0.12 per share of common stock)	—	—	—	(3,208)	—	—	(3,208)
Net loss	—	—	—	(154,363)	—	—	(154,363)
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						18,335	18,335
Surrendered shares for tax withholding	(68,865)	—	(429)	—	—	—	(429)
Restricted stock vested	25,000	—	—	—	—	—	—
Issued restricted stock	1,286,855	—	—	—	—	—	—
Forfeiture on restricted stock	(483,454)	—	(1,750)	—	—	—	(1,750)
Stock-based compensation on restricted stock	—		3,112	—	—	—	3,112
Issuance of common stock through public and private offering, net	3,919,969	—	24,666				24,666
Net income	—	—	—	45,307	—	—	45,307
Balance at December 31, 2023	30,218,938	$ 3	$ 360,310	$ 26,117	$ (130,900)	$ (35,250)	$ 220,280

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Year Ended December 31,		
	2023	2022	2021
OPERATING ACTIVITIES			
Net income (loss)	$ 45,307	$ (154,363)	$ (74,727)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Stock-based compensation	1,362	2,008	1,161
Bond amortization and accretion	(3,488)	3,121	4,054
Amortization of original issuance discount on debt	469	1,037	1,784
Depreciation and amortization	8,689	8,359	8,449
Allowance for bad debt	856	(1)	—
Net realized losses and impairment losses	972	258	16
Net (gain) loss from sale of asset	(35)	(399)	168
Deferred income taxes	40	(11,202)	(5,956)
Goodwill or intangible asset impairment	767	91,959	60,500
Changes in operating assets and liabilities:			
Accrued investment income	(251)	(650)	(430)
Premiums receivable, net	2,403	(20,823)	5,547
Prepaid reinsurance premiums	12,755	(41,104)	(20,055)
Reinsurance premiums receivable and recoverable	322,630	(535,668)	85,646
Income taxes receivable	(1,236)	(379)	20,485
Deferred policy acquisition costs, net	(3,267)	(5,736)	(4,616)
Right-of-use asset, net	3,026	286	(21,292)
Other assets	(1,165)	763	(729)
Unpaid losses and loss adjustment expenses	(285,852)	541,641	(69,175)
Unearned premiums	19,280	66,222	20,801
Reinsurance payable	(39,980)	8,075	29,810
Accrued interest	(410)	(3)	26
Leasehold incentives	—	1,622	—
Advance premiums	(2,616)	2,012	6,236
Accrued compensation	2,867	(1,420)	(1,311)
Lease liability, net	(2,785)	75	23,017
Other liabilities	(9,923)	10,050	(9,278)
Net cash provided by (used in) operating activities	70,415	(34,260)	60,130
INVESTING ACTIVITIES			
Fixed maturity securities sales, maturities and paydowns	332,511	93,726	208,527
Fixed maturity securities purchases	(230,743)	(127,400)	(334,584)
Equity securities sales	—	—	184
Equity securities reinvestments of dividends	(152)	—	—
Return on other investments	1,080	14,945	2,400
Other investment sales	8,000	—	—
Other investment purchases	—	(7,599)	—
Leasehold improvements	—	(3,825)	—
Proceeds from other investments sold	—	848	—
Cost of property and equipment acquired	(9,890)	(8,557)	(1,007)
Net cash provided by (used in) investing activities	100,806	(37,862)	(124,480)
FINANCING ACTIVITIES			
Proceeds from term loan facility	—	35,000	2,782
Issuance of common stock, net of offering costs	24,666	—	—
Repurchase of convertible notes	—	(22,529)	—
Mortgage loan payments	(180)	(322)	(306)
Principal payments on term loan facility	(9,500)	(5,000)	(4,625)
Tax withholding on share-based compensation awards	(429)	(94)	(231)
Purchase of treasury stock	—	(7,343)	(8,192)
Dividends paid	(11)	(4,770)	(6,709)
Net cash provided by (used in) financing activities	14,546	(5,058)	(17,281)
Increase (decrease) in cash, cash equivalents, and restricted cash	185,767	(77,180)	(81,631)
Cash, cash equivalents and restricted cash, beginning of period	287,572	364,752	446,383
Cash, cash equivalents and restricted cash, end of period	$ 473,339	$ 287,572	$ 364,752

	For the Year Ended December 31,		
	2023	2022	2021
Supplemental Cash Flows Information:			
Income taxes (refunded) paid, net	$ 8,565	$ (285)	$ 528
Interest paid	$ 9,312	$ 7,837	$ 5,282

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

	December 31, 2023	December 31, 2022
	(in thousands)	
Cash and cash equivalents	$ 463,640	$ 280,881
Restricted cash	9,699	6,691
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 473,339	$ 287,572

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation, Nature of Business and Significant Accounting Policies and Practices

Business Description

Heritage Insurance Holdings, Inc. is an insurance holding company. Our insurance subsidiaries are Heritage Property & Casualty Insurance Company (“Heritage P&C”), Zephyr Insurance Company (“Zephyr”), Narragansett Bay Insurance Company (“NBIC”) and Pawtucket Insurance Company (“PIC”). PIC is currently inactive and has no policies in force or outstanding claims. Our other subsidiaries include: Heritage MGA, LLC (“MGA”), the managing general agent that manages substantially all aspects of our insurance subsidiaries’ business; Contractors’ Alliance Network, LLC, our vendor network manager; Skye Lane Properties, LLC, our property management subsidiary; Osprey Re Ltd., our reinsurance subsidiary that may provide a portion of the reinsurance protection purchased by our insurance subsidiaries; Heritage Insurance Claims, LLC, an inactive subsidiary reserved for future development; Zephyr Acquisition Company (“ZAC”); NBIC Holdings, Inc., and NBIC Service Company which provides services to NBIC.

Our primary products are personal and commercial residential insurance, which we currently offer in Alabama, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Rhode Island, South Carolina, and Virginia. We conduct our operations under a single reporting segment.

Basis of Presentation

The consolidated financial statements include the accounts of Heritage Insurance Holdings, Inc. and its wholly-owned subsidiaries. The accompanying consolidated financial statements include the accounts of the Company and all other entities in which the Company has a controlling financial interest (none of which are variable interest entities). All intercompany accounts and transactions have been eliminated in consolidation.

Reclassification

We reclassified certain amounts in the 2021 consolidated statement of cash flows to conform to the 2023 presentation, relating to the presentation of "Net realized losses and impairment losses".

Use of Estimates

The preparation of consolidated financial statements in conformity with United States Generally Accepted Accounting Principles (“U.S. GAAP”) requires us to make estimates and assumptions about future events that affect the amounts reported in our consolidated financial statements and accompanying notes. We evaluate our estimates on an ongoing basis when updated information related to such estimates becomes available. We base our estimates on historical experience and information available to us at the time these estimates are made. Actual results could differ materially from these estimates.

Cash and Cash Equivalents

The Company’s cash and cash equivalents include demand deposits with financial institutions and short-term, highly-liquid financial instruments with original maturities of three months or less when purchased. The carrying amounts reported in the consolidated balance sheets for interest bearing deposits approximate their fair value because of the short maturity of these financial instruments.

To the extent there are negative cash balances with any individual financial institution, the Company excludes the negative amount from cash and cash equivalents negative cash balances and reports as accounts payable and other liabilities.

Restricted Cash

Restricted cash related to individual state regulatory deposits of $9.7 million and $6.7 million as of December 31, 2023 and 2022, respectively. The Company earned interest income of $26,052 and $12,612 on its restricted cash deposits.

Investments

Fixed-Maturity Securities

The Company classifies all of its investments in debt securities as available-for-sale and reports them at fair value. Subsequent to its acquisition of debt securities available-for-sale, the Company records changes in value through the date of disposition as unrealized holding gains and losses, net of tax effects, and includes them as a component of other comprehensive income. Refer to Note 2 *"Investments"* to these consolidated financial statements for further information.

Short-term Securities

Short-terms securities have an original maturity of less than one year and are carried at amortized cost, which approximates fair value.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists solely of unrealized gains and losses on debt securities available-for-sale, net of tax.

Investment Gains and Losses

Net realized investment gains and losses are included as a component of pre-tax revenues based upon specific identification of the investments sold on the trade date. Included in net realized and unrealized gains (losses) are credit impairment losses on invested assets other than those investments accounted for using the equity method of accounting described in the "Allowance for Credit Losses" and "Impairment of Other Investments" section discussed below.

Allowance for Credit Losses (Available-for-Sale-Debt Securities)

The impairment model for available-for-sale ("AFS") debt securities differs from the current expected credit loss ("CECL") methodology applied for held to maturity debt securities because AFS debt securities are measured at fair value rather than amortized cost. For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities where neither of the criteria are met, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the credit rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited to the amount that the fair value is less than the amortized cost basis. Under the guidance, an entity may no longer consider the length of time fair value has been less than amortized cost. As of December 31, 2023 and 2022, management evaluated and determined a credit allowance was not significant to the financial statements.

Other Investments

Non-Consolidating Variable Interest Entities ("VIEs")

Company holds certain passive investments as described in Note 2 "*Investments*" to these financial statements. The Company determines at the inception of each arrangement whether an entity in which it has made an investment or in which it has other variable interests is considered a variable interest entity ("VIE"). The Company consolidates VIEs when it is determined to be the primary beneficiary. The Company is the primary beneficiary of a VIE when it has the power to direct activities that most significantly affect the economic performance of the VIE and has the obligation to absorb the majority of their losses or entitled to benefits. If the Company is not the primary beneficiary in a VIE, it will account for the investment or other variable interests in a VIE in accordance with applicable GAAP. For the year ended December 31, 2023 and 2022, the Company was not the primary beneficiary to any of its other investments and therefore considered the other investments as non-consolidated VIEs.

Equity securities that do not result in consolidation and are not accounted for under the equity method, are measured at fair value. Equity securities without a readily determinable fair value are reported at cost, less impairment, unless we identify observable price changes in orderly transactions for the identical or a similar investment of the same issuer (measurement alternative). Changes in fair value are reflected in the Company's consolidated statements of operations. Certain other investments provide the Company with monthly or quarterly return on capital on a regular schedule.

Impairment of Other Investments

The Company maintains various interests in other investments without a readily determinable fair value that are evaluated for impairment at each reporting period. When such events or changes occur, the Company evaluates the estimated present value of future cash flows compared to its cost basis in the investment to evaluate whether there may be an impairment. For the year ended December 31, 2023, the Company recorded $2.2 million impairment charges on its other investments. For the year ended December 31, 2022, the Company recorded no impairment charges on its other investments.

Fair Value

Major categories of financial assets and liabilities are measured at fair value on a recurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis when impaired, which include long-lived assets, and other investments that the Company cannot significantly influence.

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the principal or most advantageous market in which we would transact is analyzed. Assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance, are considered.

The Company estimates the fair value of its investments using the closing prices on the last business day of the reporting period, obtained from active markets such as the NYSE and NASDAQ. For securities for which quoted prices in active markets are unavailable, the Company uses observable inputs such as quoted prices in inactive markets, quoted prices in active markets for similar instruments, benchmark interest rates, broker quotes and other relevant inputs. The Company does not have any investments in its portfolio which require the use of unobservable inputs. The Company's estimate of fair value reflects the interest rate environment that existed as of the close of business on December 31, 2023. Changes in interest rates after December 31, 2023 may affect the fair value of the Company's investments.

The Company's non-financial assets, such as intangible assets, are carried at cost until there are indicators of impairment and are recorded at fair value only when an impairment charge is recognized. Refer to **Note 3** "*Intangible Assets, net*" to these consolidated financial statements for further information on our 2021 and 2022 goodwill impairment charges. At December 31, 2022, all goodwill had been written off. Long term debt is recorded at carrying value, Refer to **Note 14** "*Long-Term Debt"* to these consolidated financial statements for further information.

Premiums

The Company records direct and assumed premiums written as revenue on a daily pro rata basis over the contract period of the related in force policies or reinsurance contract. For any portion of premiums not earned at the end of the reporting period, the Company records an unearned premium liability.

Premiums receivable represents amounts due from our policyholders for billed premiums and related policy fees. We perform a policy-level evaluation to determine the extent to which the balance of premiums receivable exceeds the balance of unearned premiums. When we receive payments on amounts previously charged off, we reduce bad debt expense in the period we receive the payment. Balances in premiums receivable and the associated allowance account are removed upon cancellation of the policy due to non-payment. An allowance of $1.3 million and $451,600 was recorded as of December 31, 2023 and 2022, respectively. Bad debt expense related to uncollectible premiums and agent commission due back to the Company for cancelled policies was $855,750, $0 and $0 for the years ended December 31, 2023, 2022 and 2021, respectively.

When the Company receives premium payments from policyholders prior to the effective date of the related policy, the Company records an advance premiums liability. On the policy effective date, the Company reduces the advance premium liability and records the premiums as described above.

Policy Acquisition Costs

The Company incurs policy acquisition costs that vary with, and are directly related to, the production of new business. Policy acquisition costs consist of the following four items: (i) commissions paid to outside agents at the time of policy issuance; (ii) policy administration fees paid to a third-party administrator at the time of policy issuance; (iii) premium taxes; and (iv) inspection fees. The Company capitalizes policy acquisition costs to the extent recoverable, then the Company amortizes those costs over the contract period of the related policy.

We earn ceding commission on our quota share reinsurance contracts. Our accounting policy is to allocate ceding commission between policy acquisition costs and general and administrative expenses for financial reporting purposes. Ceding commission is allocated between policy acquisition costs and general and administrative expenses based upon the proportion these costs bear to production of new business. For the years ended December 31, 2023, 2022, and 2021, we earned ceding commission income of $64.8 million, $61.9 million and $62.7 million of which $48.7 million, $46.5 million and $47.1 million was allocable to policy acquisition costs.

Ceding commission income is deferred and recognized over the quota share contract period. The amount and rate of ceding reinsurance commissions earned on the net quota share contract can slide within a prescribed minimum and maximum, depending on loss performance and how future losses develop.

Premium Deficiency Reserve

At each reporting date, the Company determines whether it has a premium deficiency. A premium deficiency would result if the sum of the Company's expected losses, deferred policy acquisition costs, and policy maintenance costs (such as costs to store records and costs incurred to collect premiums and pay commissions) exceeded the Company's related unearned premiums plus investment income. Should the Company determine that a premium deficiency exists, the Company would write off the unrecoverable portion of deferred policy acquisition cost. At December 31, 2023 and 2022, the Company has recorded no premium deficiency reserve.

Reinsurance

The Company follows industry practice of reinsuring a portion of our risks. Reinsurance involves transferring, or "ceding", all or 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. As a result, a reasonable possibility exists that an estimated recovery may change significantly in the near term from the amounts included in the Company's consolidated financial statements.

The Company's reinsurance agreements are generally short-term, prospective contracts. The Company records an asset, prepaid reinsurance premiums, and a liability, reinsurance payable, for the entire contract amount upon commencement of new reinsurance agreements. The Company amortizes its prepaid reinsurance premiums over the 12-month contract period.

When the Company incurs losses recoverable under its reinsurance program, the Company records amounts recoverable from its reinsurers on paid losses plus an estimate of amounts recoverable on unpaid losses. The estimate of amounts recoverable on unpaid losses is a function of the Company's liability for unpaid losses associated with the reinsured policies; therefore, the amount changes in conjunction with any changes to the estimate of unpaid losses. Given that an estimate of amounts recoverable from reinsurers on unpaid losses may change at any point in the future because of its relation to the Company's reserves for unpaid losses, a reasonable possibility exists that an estimated recovery may change significantly from initial estimates.

The Company remains liable for claims payments if any reinsurer is unable to meet its obligations under the reinsurance agreements. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from similar geographic regions, activities or economics characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company contracts with a diverse population of reinsurers to secure its annual reinsurance coverage, for which the excess of loss treaties generally become effective June 1st each year.

Allowance for Credit Losses for Reinsurance Recoverables

The allowance for credit losses for reinsurance recoverable is evaluated based on historical loss experience adjusted for current events and reasonable and supportable forecasts from both internal and external sources.

The Company monitors the credit quality of its reinsurance recoverables through the use of A.M. Best's Financial Strength rating ("FSR"), or in the absence of an FSR consideration of credit ratings issued by approved rating agencies such as S&P, Moody's, or Fitch. At December 31, 2023, the determination of the allowance for credit losses on reinsurance recoverables included analysis of (i) reinsurance recoverable balances by reinsurer FSR, (ii) estimated payment patterns associated with the claims underlying the reinsurance balances and (iii) historical default rates by reinsurer FSR as published by A.M. Best. In addition to the quantitative analysis, qualitative factors considered include but are not limited to (i) global reinsurer capital level, (ii) reinsurance market trends, (iii) the interest rate environment and (iv) the stressed global economy. Reinsurance recoverables are reported on the consolidated balance sheets net of the CECL allowance, if any.

Long-Lived Assets—Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives as follows: building—40 years; computer hardware and software 3-years; office and furniture equipment—3 to 7 years. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life. Expenditures for improvements are capitalized to the property accounts. Replacements and maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred.

Capitalized Software

Costs associated with the implementation of certain internal systems are capitalized and carried at the amount capitalized less accumulated amortization once placed in service and are included as a component of fixed assets on the Company's consolidated balance sheet. Costs capitalized include internal personnel costs, external developer costs, and interest. The implementation costs relate to systems built on software which the Company purchased or licensed and developed both internally and with third party vendors. As such, capitalized costs will be amortized over the term of the useful life of the software.

Leases

We lease office space under finance and operating leases with expiration dates through 2031. We determine whether an arrangement constitutes a lease and record lease liabilities and right-of-use assets on our consolidated balance sheets at lease commencement. We primarily use our incremental borrowing rates for our operating leases (rates are not readily determinable) and implicit rates for our financing leases in determining the present value of lease payments. We measure right-of-use assets based on the corresponding lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs we incur and (iii) tenant incentives under the lease. We begin recognizing rent expense when the lessor makes the underlying asset available to us, we do not assume renewals or early terminations unless we are reasonably certain to exercise these options at commencement, and we do not allocate consideration between lease and non-lease components.

For short-term leases, we record rent expense in our consolidated statements of operations on a straight-line basis over the lease term and record variable lease payments as incurred.

Goodwill and Intangible Assets

When the Company acquires a subsidiary or other business where it exerts significant influence, the fair value of the net tangible and intangible assets acquired is determined and compared to the amount paid for the subsidiary or business acquired. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill. Any excess of carrying value over fair value is written down as an impairment. This evaluation is performed annually, during the fourth quarter or more frequently if facts and circumstances warrant. An impairment loss would be recognized if, and to the extent that, the carrying value of goodwill exceeded the implied value. The remaining balance of goodwill was written off during the second quarter of 2022.

Acquired intangible assets are amortized over their useful lives on a straight-line basis over the period of expected benefit, generally up to 15 years. Intangible assets are assessed for impairment generally when events or circumstances indicate a potential impairment. If it is determined that the carrying amount of the asset is not recoverable, the asset is written down to fair value and an impairment loss is recognized. The Company recorded an impairment of $767,000 associated with our construction affiliate resulting from changes to its operations. The Company did not identify any impairment indicators during the year ended December 31, 2022 and 2021.

Unpaid Losses and Loss Adjustment Expenses

The Company's reserves for unpaid losses and loss adjustment expenses represent the estimated ultimate cost of settling all reported claims plus all claims we incurred related to insured events that have occurred as of the reporting date, but that policyholders have not yet reported to the Company (incurred but not reported, or "IBNR").

The reserve for unpaid losses is the estimate of amounts necessary to settle all reported and unreported incurred claims for the ultimate cost of insured losses, based upon the facts of each case and the Company's experience with similar cases. Salvage and subrogation are deducted from the reserve for claims and claims expense on a cash basis. The establishment of appropriate reserves, including reserves for catastrophe losses, is an inherently uncertain and complex process. Reserve estimates are primarily derived using an actuarial estimation process in which historical loss patterns are applied to actual paid losses and reported losses (paid losses plus individual case reserves established by claim adjusters) for an accident or report year to create an estimate of how losses are likely to develop over time. Development factors are calculated quarterly and periodically throughout the year for data elements such as claims reported and settled, paid losses, and paid losses combined with case reserves. The historical development patterns for these data elements are used as the assumptions to calculate reserve estimates, including the reserves for reported and unreported claims. Reserve estimates are regularly reviewed and updated, using the most current information available. Any resulting re-estimates are reflected in current results of operations.

The Company reports its reserves for unpaid losses and loss adjustment expenses gross of the amounts related to unpaid losses recoverable from reinsurers and reports loss and loss adjustment expenses net of amounts ceded to reinsurers. The Company does not discount its loss reserves for financial statement purposes.

Other Revenue

Our insurance affiliates may charge policyholders a policy fee on each policy written. The Company recognizes the income immediately when collected, which coincide with related service obligations. The Company also charges pay-plan fees to policyholders that pay its premiums in more than one installment and records the fees as income when collected. Other income also includes rental income due under non-cancelable leases for space at the Company's commercial property.

Assessments

Guaranty fund and other insurance-related assessments imposed upon the Company's insurance company affiliates are recorded as policy acquisition costs in the period the regulatory agency imposes the assessment. To recover assessments which are paid in advance to the guaranty fund or other insurance-related entity, the Company recoups such assessments from our policyholders in the form of a policy surcharge. Once the recoupment period begins, the entire recoupment amount is recorded as an asset on our balance sheet. There were no such assessments during the periods presented.

The Company collects pass through assessments imposed upon policyholders as a policy surcharge and records the amounts collected as a liability until the Company remits the amounts to the regulatory agency that imposed the assessment.

Convertible Notes

In August 2017 and September 2017, the Company issued collectively $136.8 million of 5.875% Convertible Senior Notes (the "Convertible Notes") due August 1, 2037. As of December 31, 2023, the Company has approximately $885,000 of the Convertible Notes outstanding. This amount is net of $21.1 million of Convertible Notes reacquired and held by an insurance company subsidiary. Refer to **Note 14** "*Long-Term Debt"* to these consolidated financial statements for further information**.**

Stock-Based Compensation

The Company measures stock-based compensation at the grant date based on the fair value of the award and recognizes stock-based compensation expense over the requisite vesting period in accordance with ASC Topic 718, *Compensation—Stock Compensation*. For awards with performance-based vesting conditions expense is not recognized until it is determined that it is probable the performance-based conditions will be met. When achievement of a performance-based condition is probable, a catch-up of expense will be recorded as if the award had been vesting on a straight line basis from the award date. The award will continue to be expensed on a straight-line basis until probability of achieving the performance-based conditions changes, if applicable.

Earnings Per Share

Basic net earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the reporting period. Diluted net earnings per share is computed by dividing net income by the weighted average number of common and common equivalent shares outstanding during the reported period. Common equivalent shares include incremental shares from diluted vested and unvested shares of restricted common stock and convertible notes outstanding during the period based on the "if converted" method under the guidance of ASU 2020-06, adopted by the Company on January 1, 2022.

Income tax

Income taxes are accounted for under the asset and liability method, that recognizes the amount of income taxes payable or refundable for the current year and recognizes deferred tax assets and liabilities based on the tax rates expected to be in effect during the periods in which the temporary differences reverse. Temporary differences arise when income or expenses are recognized in different periods in the consolidated financial statements than on the tax returns. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. Income taxes includes both estimated federal and state income taxes.

Accounting Pronouncements Adopted

In March 2022, the FASB issued ASU 2022-02, "2022-02 Financial Instruments-Credit Losses" (Topic 326): Troubled Debt Restructurings and Vintage Disclosures ("ASU 2022-02"). ASU 2022-02 requires that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. ASU 2022-02 is effective for annual periods beginning after December 15, 2022, including interim periods within those periods. Early adoption is permitted. The Company adopted ASU 2022-02 during the first quarter of 2023 with no impact to its financial statements.

Accounting Pronouncements Not Yet Adopted

The Company describes below recent pronouncements that may have a significant effect on its consolidated financial statements or on its disclosures upon future adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on, or are unrelated to, its financial condition, results of operations, or related disclosures

In June 2022, the FASB issued ASU 2022-03 , Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (“ASU 2022-03”). ASU 2022-03 clarifies that a contractual sales restriction on an equity security is not considered when determining the security's fair value. This ASU was issued to eliminate diversity in practice by clarifying that contractual arrangements restricting an entity's ability to sell the security for a certain period of time is a characteristic of the reporting entity and should not be contemplated when determining the security's fair value. ASU 2022-03 requires new disclosures that provide investors with information about the restriction, including the nature and remaining duration of the restriction. The ASU is effective for annual periods beginning after December 15, 2023, including interim periods within those annual periods. Early adoption is permitted. The Company does not hold any equity securities that are subject to this new guidance.

In November 2023, the FASB issued ASU 2023-07, Improvements to Reportable Segment Disclosures ("ASU 2023-07"). ASU 2023-07 amends disclosure requirements for segment reporting by modifying and adding disclosure requirements. The additional disclosure requirements include the following on both an interim and annual basis: (i) significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"); (ii) amounts for "other segment items" by reportable segment and a description of its composition; and (iii) the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. In addition, ASU 2023-07 requires all annual disclosures about a reportable segment’s profit or loss and assets currently required by Topic 280, Segment Reporting, to now be disclosed in interim periods. ASU 2023-07 is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. As it requires disclosure only, ASU 2023-07 will not have an impact on our financial condition or results of operations.

In December of 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” The updated accounting guidance requires expanded income tax disclosures, including the disaggregation of existing disclosures related to the effective tax rate reconciliation and income taxes paid. The guidance is effective for fiscal years beginning after December 15, 2024. Prospective application is required, with retrospective application permitted. The Company is currently evaluating the effect the updated guidance will have on its financial statement disclosures.

Although there are several other new accounting pronouncements issued by the FASB, the Company does not believe any of these accounting pronouncements have or will have a material impact on its consolidated financial statements.

Note 2. Investments

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

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)	$ 82,376	$ 417	$ 1,353	$ 81,440
States, municipalities and political subdivisions	92,739	12	8,958	83,793
Special revenue	250,891	92	24,660	226,323
Corporate and miscellaneous	180,640	475	11,989	169,126
Total	$ 606,646	$ 996	$ 46,960	$ 560,682

(1) Includes securities at December 31, 2023 with a carrying amount of $26.3 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.

The Company evaluated the available for sale investments that were in an unrealized loss position at December 31, 2023 and determined that the decline in fair value was caused by rising interest rates, resulting in no credit loss allowance recorded for the year ended December 31, 2023.

December 31, 2022	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)]	$ 121,811	$ 24	$ 4,093	$ 117,742
States, municipalities and political subdivisions	104,361	—	12,734	91,627
Special revenue	284,946	1	34,817	250,130
Corporate and miscellaneous	194,430	90	18,447	176,073
Total	$ 705,548	$ 115	$ 70,091	$ 635,572

(1) Includes securities at December 31, 2022 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.

The table below summarizes the Company's fixed maturity securities at December 31, 2023 and 2022 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.

	December 31, 2023			
	Cost or Amortized Cost	Percent of Total	Fair Value	Percent of Total
Debt Securities Available-for-sale	(in thousands)		(in thousands)	
Due in one year or less	$ 90,919	15 %	$ 89,529	16 %
Due after one year through five years	344,368	57 %	322,394	57 %
Due after five years through ten years	141,647	23 %	122,333	22 %
Due after ten years	29,712	5 %	26,426	5 %
Total	$ 606,646	100 %	$ 560,682	100 %

	December 31, 2022			
	Cost or Amortized Cost	Percent of Total	Fair Value	Percent of Total
Debt Securities Available-for-sale	(in thousands)		(in thousands)	
Due in one year or less	$ 115,959	16 %	$ 113,683	18 %
Due after one year through five years	344,554	49 %	314,420	49 %
Due after five years through ten years	182,793	26 %	150,905	24 %
Due after ten years	62,242	9 %	56,564	9 %
Total	$ 705,548	100 %	$ 635,572	100 %

Actual maturities may differ from the contractual maturities because borrowers may have certain prepayment conditions.

Net Realized Loss and Impairment Losses

The proceeds from the sale of debt securities were $76.9 million, $27.1 million and $30.4 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The following table presents net realized (losses) gains on the Company's debt securities available-for-sale for the years ended December 31, 2023, 2022 and 2021, respectively:

	For the Years ended December 31,					
	2023		2022		2021	
	Realized Gains (Losses)	Fair Value at Sale	Realized Gains (Losses)	Fair Value at Sale	Realized Gains (Losses)	Fair Value at Sale
	(in thousands)					
Debt Securities Available-for-sale						
Realized gains	$ 2	$ 22,220	$ 37	$ 4,836	$ 716	$ 26,029
Realized losses	(638)	54,672	(295)	22,245	(652)	4,359
Net realized (losses) gains	$ (636)	$ 76,892	$ (258)	$ 27,081	$ 64	$ 30,388

The following table presents the reconciliation of net realized losses and impairment losses on the Company's investments reported for the years ended December 31, 2023, 2022 and 2021, respectively:

	For the Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Gross realized gains on sales of available-for-sale securities	$ 2	$ 64	$ 716
Gross realized losses on sales of available-for-sale securities	(638)	(322)	(652)
Gross realized gains on sales of other investments	1,900	—	2,100
Impairment charge in other investments	(2,236)	—	(2,180)
Net realized losses and impairment losses	$ (972)	$ (258)	$ (16)

Equity Investments

For the years ended December 31, 2023, 2022 and 2021, the Company had no net holding realized and unrealized gains or (losses) reported.

The following table presents the Company's equity investments as of December 31, 2023 and 2022, respectively.

For the Year Ended December 31,	2023	2022
Common stock	$ —	$ —
Membership Shares	1,666	1,514
Total equity investments	$ 1,666	$ 1,514

Net Investment Income

The following table summarizes the Company's net investment income by major investment category for the years ended December 31, 2023, 2022 and 2021, respectively:

	For the Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Debt securities available-for-sale	$ 16,848	$ 11,037	$ 7,220
Equity securities	222	50	—
Cash and cash equivalents	8,398	2,257	71
Other investments	2,309	693	1,435
Net investment income	27,777	14,037	8,726
Investment expenses	2,021	2,060	3,074
Net investment income, less investment expenses	$ 25,756	$ 11,977	$ 5,652

Unrealized Losses on Debt Securities

The following tables present, for all debt securities available-for-sale in an unrealized loss position, for which no allowance for credit loss is established (including securities pledged), the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	Less Than Twelve Months			Twelve Months or More		
December 31, 2023	Number of Securities	Gross Unrealized Losses	Fair Value	Number of Securities	Gross Unrealized Losses	Fair Value
			(in thousands)			
Debt Securities Available-for-sale						
U.S. government and agency securities	3	$ 14	$ 2,962	43	$ 1,339	$ 43,083
States, municipalities and political subdivisions	1	8	992	108	8,950	79,894
Special revenue	15	13	2,890	412	24,647	212,054
Corporate and miscellaneous	10	24	6,398	201	11,965	131,104
Total	29	$ 59	$ 13,242	764	$ 46,901	$ 466,135

December 31, 2022	Less Than Twelve Months Number of Securities	Gross Unrealized Losses	Fair Value	Twelve Months or More Number of Securities	Gross Unrealized Losses	Fair Value
			(in thousands)			
Debt Securities Available-for-sale						
U.S. government and agency securities	61	$ 2,040	$ 56,389	36	$ 2,053	$ 56,389
States, municipalities and political subdivisions	28	1,967	17,730	95	10,767	68,852
Special revenue	273	5,832	57,881	259	28,985	167,384
Corporate and miscellaneous	95	1,535	32,387	197	16,912	134,462
Total	457	$ 11,374	$ 164,387	587	$ 58,717	$ 427,087

The Company's unrealized losses on corporate bonds have not been recognized because the bonds 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.

Other Investments

Non-Consolidated Variable Interest Entities ("VIEs")

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

The following table summarizes the Company's non-consolidated VIEs by category at December 31, 2023 and 2022 (in thousands):

For the Year Ended December 31,	Balance Sheet	Method	Carrying Value 2023	2022
Other Real Estate LLC	Other Investments	Equity Method	$ 1,066	$ 1,508
Real Estate Corporation(1)	Other Investments	Measure Alternative	758	2,377
Preferred Membership/Interest (2)	Other Investments	Measure Alternative	4,490	8,490
Non-real estate related (3)	Other Investments	Equity Method	753	2,009
Insurtech Stock (4)	Other Investments	Measure Alternative	—	2,100
Total non-consolidated VIEs			$ 7,067	$ 16,484

(1) For the years ended December 31, 2023 and 2022, a $676,000, and $0 impairment was recognized in Net realized losses and impairment losses on the Statement of Operations.

(2) The preferred interest agreement dated June 2022 in aggregate of $8.5 million is subject to fixed principal and interest schedules with a maturity date of July 1, 2027. In December 2023, the Company sold 47% of its preferred interest for $4.0 million to a nonaffiliated third party.

(3) Certain underlying assets of the funds are expected to be liquidated over the period of approximately 3 to 5 years. In addition, the Company does not have the ability to redeem or withdraw from the funds, or to sell, assign, or transfer its investment, without the consent of the General Partner or Managers of each fund, but will receive distributions based on the liquidation of the underlying assets and interest processed from the underlying assets. For the year ended December 31, 2023, a $1.2 million impairment was recognized in net realized losses and impairment losses on the statement of operations.

(4) During the first quarter of 2023, the Company sold its investment in an Insurtech company for $4.0 million, resulting in a $1.9 million realized gain on the investment.

The following table summarizes the carrying value and maximum loss exposure of the Company's non-consolidated VIEs at December 31, 2023 and 2022:

	As of December 31, 2023		*As of December 31, 2022*	
	Carrying Value	***Maximum Loss Exposure***	***Carrying Value***	***Maximum Loss Exposure***
Investments in non-consolidated VIEs - Equity method	$ 1,819	$ 1,819	$ 3,517	$ 3,517
Investments in non-consolidated VIEs - Measurement alternative	$ 5,248	$ 5,248	$ 12,967	$ 12,967
Total non-consolidated VIEs	$ 7,067	$ 7,067	$ 16,484	$ 16,484

The Company's maximum exposure to loss with respect to these investments is limited to the investment carrying amounts reported as "other investments" in the Company's consolidated balance sheet. 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. Intangible Assets, net

For the years ended December 31, 2023 and 2022, other intangible assets were $42.6 million and $49.6 million, respectively. These amounts include $1.3 million relating to insurance licenses classified as an indefinite lived intangible.

The Company utilizes a combination of approaches to value the Company's single reporting unit. The estimate of fair value was derived from the weighting of the income approach (discounted cash flow model) in conjunction with the market approach (guideline public company method and guideline transaction method) to determine the fair value of the single reporting unit.

Management reviewed intangibles and concluded no circumstances or events occurred that would indicate the carrying value of the intangible assets may not be recoverable other than what was recorded during the second quarter of 2023. During the second quarter of 2023, management impaired certain named intangible assets with a carrying value of $767,000 associated with our construction affiliate resulting from changes to its operations.

During the second quarter of 2022, management determined a triggering event occurred for which it deemed an interim evaluation of goodwill was appropriate and concluded the remaining balance of its goodwill was fully impaired. The carrying value of $92.0 million was written off based on the following factors: (i) disruptions in the equity markets, specifically for property and casualty insurance companies, largely due to recent weather-related catastrophe events; (ii) elevated loss ratios for property insurers in the Company's markets; and (iii) the Company's market cap was below book value. These factors reduced the Company's previously modeled fair value of the Company and resulted in a $92.0 million goodwill impairment charge, as of the second quarter of 2022, most of which was not tax deductible. During the fourth quarter of 2021, the Company recognized $60.5 million for a goodwill impairment charge.

Intangible Assets, net

Our intangible assets resulted primarily from the acquisitions of Zephyr Acquisition Company and NBIC Holdings, Inc. and consist of brand, agent relationships, renewal rights, customer relations, trade names, non-competes and insurance licenses. Finite-lived intangibles assets are amortized over their useful lives from one to fifteen years.

The tables below detail the finite-lived intangible assets, net as of December 31, 2023 and 2022, respectively (amounts in thousands):

	For the Year Ended December 31,	
	2023	**2022**
Amortizing intangible assets	(in thousands)	
Brand	$ 1,210	$ 1,210
Agent relationships	15,500	15,500
Renewal rights	57,200	57,200
Customer relations	870	870
Trade names	9,000	9,000
Non-compete	4,790	4,790
	88,570	88,570
Accumulated amortization	(47,330)	(40,310)
Total infinite-lived intangible assets, net	41,240	48,260
Indefinite-lived intangible assets:		
License acquired	1,315	1,315
Total intangible assets, net	$ 42,555	$ 49,575

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

Year	Amount
2024	$ 6,183
2025	$ 6,183
2026	$ 6,033
2027	$ 5,836
2028	$ 3,913
Thereafter	$ 13,091
	$ 41,240

Amortization expense of intangible assets was $6.3 million, $6.4 million and $6.4 million for the years ending December 31, 2023, 2022 and 2021, respectively.

Note 4. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted net (loss) income per share for the periods indicated:

	For the Year Ended December 31,		
	2023	*2022*	*2021*
Basic earnings (loss) per share:			
Net income (loss) attributable to common stockholders (000's)	$ 45,307	$ (154,363)	$ (74,727)
Weighted average shares outstanding	26,193,065	26,343,826	27,804,355
Basic earnings (loss) per share:	**$ 1.73**	**$ (5.86)**	**$ (2.69)**
Diluted earnings (loss) per share:			
Net income (loss) attributable to common stockholders (000's)	$ 45,307	$ (154,363)	$ (74,727)
Weighted average shares outstanding	26,193,065	26,343,826	27,804,355
Add: Effect of dilutive securities			
5.875% Convertible Notes	59,263	—	—
Diluted weighted average common shares outstanding	26,252,328	26,343,826	27,804,355
Diluted earnings (loss) per share:	**$ 1.73**	**$ (5.86)**	**$ (2.69)**

The Company had 84,263 and 1,569,236 anti-dilutive shares for the years ended December 31, 2022 and 2021, respectively. The convertible notes were excluded from the computations because the conversion price on these notes was greater than the average market price of our common shares during each of the respective periods, and therefore, would be anti-dilutive to earnings per share under the "if converted" method under the guidance of ASU 2020-06, adopted by the Company on January 1, 2022.

Note 5. Fair Value Measurements

Certain of the Company's assets are carried at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Accordingly, when market observable data are not readily available, the Company's own assumptions are set to reflect those that market participants would be presumed to use in pricing the asset or liability at the measurement date. Assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on the level of judgment associated with inputs used to measure their fair value and the level of market price observability, 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 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.

For the Company's investments in U.S. government securities that do not have prices in active markets, agency securities, state and municipal governments, and corporate bonds, the Company obtains the fair values from its third-party valuation service and evaluates the relevant inputs, assumptions, methodologies and conclusions associated with such valuations. The valuation service calculates prices for the Company's investments in the aforementioned security types on a month-end basis by using several matrix-pricing methodologies that incorporate inputs from various sources. The model the valuation service uses to price U.S. government securities and securities of states and municipalities incorporates inputs from active market makers and inter-dealer brokers. To price corporate bonds and agency securities, the valuation service calculates non-call yield spreads on all issuers, uses option-adjusted yield spreads to account for any early redemption features, then adds final spreads to the U.S. Treasury curve as of quarter end. The inputs the valuation service uses in their calculations are not quoted prices in active markets, but are observable inputs, and therefore represent Level 2 inputs.

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.

For the years ended December 31, 2023 and 2022, there were no transfers in or out of Level 1, 2, and 3.

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)***
Invested Assets:		***(in thousands)***		
Debt Securities Available-for-sale				
U.S. government and agency securities	$ 81,440	$ —	$ 81,440	$ —
States, municipalities and political subdivisions	83,793	—	83,793	—
Special revenue	226,323	—	226,323	—
Corporate and miscellaneous	169,126	—	169,126	—
Total debt securities	$ 560,682	$ —	$ 560,682	$ —
Equity Securities				
Common stock	1,666	1,666	—	—
Total equity securities	1,666	1,666	—	—
Total debt securities and equity securities	$ 562,348	$ 1,666	$ 560,682	$ —

December 31, 2022	***Total***	***Quoted Prices in Active Markets for Identical Assets (Level 1)***	***Significant Other Observable Inputs (Level 2)***	***Significant Unobservable Inputs (Level 3)***
Invested Assets:		***(in thousands)***		
Debt Securities Available-for-sale				
U.S. government and agency securities	$ 117,742	$ —	$ 117,742	$ —
States, municipalities and political subdivisions	91,627	—	91,627	—
Special revenue	250,130	—	250,130	—
Corporate and miscellaneous	176,073	—	176,073	—
Total debt securities	635,572	—	635,572	—
Equity Securities				
Common stock	1,514	1,514	—	—
Total equity securities	1,514	1,514	—	—
Total debt securities and equity securities	$ 637,086	$ 1,514	$ 635,572	$ —

Non-recurring fair value measurements

Assets and liabilities that are measured at fair value on a non-recurring basis include intangible assets and goodwill 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. To evaluate such assets for a potential impairment, we determine the fair value of the goodwill and intangible assets using a combination of a discounted cash flow approach and market approaches, which contain significant unobservable inputs and therefore are considered a Level 3 fair value measurement. The unobservable inputs in the analysis generally include future cash flow projections and a discount rate.

Certain of our investments in accordance with GAAP for the type of investment, are measured using methodologies other than fair value. The following table presents information for assets measured at an estimated fair value on a nonrecurring basis as of December 31, 2022:

	Carrying Value Balance, January 1, 2022	Amounts impaired	Carrying Value Balance, December 31, 2022
	(in thousands)		
Goodwill [(1)]	$ 91,959	$ (91,959)	$ —
Total	$ 91,959	$ (91,959)	$ —

(1) Non-cash impairment charge recorded in operating expenses in the consolidated statement of operations by the legal entity or related holding companies acquired. Goodwill that is impaired and subject to nonrecurring fair value measurements is a Level 3 valuation.

During the second quarter of 2023, the Company recorded an impairment of $767,000 of named intangible assets associated with a construction division given management changes to its operations. During the second quarter of 2022, the Company recorded a goodwill impairment of approximately $92.0 million. Management concluded there was a goodwill impairment based on the following factors: (i) disruptions in the equity markets, specifically for property and casualty insurance companies, largely due to weather-related catastrophe events; (ii) elevated loss ratios for property insurers in the Company's markets; and (iii) the Company's market cap was below book value.

Note 6. Other Comprehensive Income

The following table is a summary of other comprehensive income (loss) and discloses the tax impact of each component of other comprehensive income (loss) for the years ended December 31, 2023, 2022 and 2021, respectively:

	For the Year Ended December 31,								
	2023			2022			2021		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
	(in thousands)								
Other comprehensive income (loss)									
Change in unrealized gains (losses) on investments, net	$ 23,388	(5,539)	$ 17,850	$ (64,335)	15,126	$ (49,209)	$ (13,661)	$ 3,081	$ (10,580)
Reclassification adjustment of realized losses (gains) included in net income (loss)	636	(151)	484	258	(61)	197	(64)	14	$ (50)
Effect on other comprehensive income (loss)	$ 24,024	$ (5,690)	$ 18,335	$ (64,077)	$ 15,065	$ (49,012)	$ (13,725)	$ 3,095	$ (10,630)

Note 7. Other Assets

The following table summarizes the Company's other assets for the years ended December 31, 2023 and 2022:

Description	December 31, 2023	December 31, 2022
	(in thousands)	
Other amounts receivable	$ 1,508	$ 1,363
State underwriting pooling & assoc.	$ 5,320	4,697
Prepaid expense	$ 4,967	4,694
Unallocated Remittances	$ 879	755
Total other assets	$ 12,674	$ 11,509

Note 8. 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 our right-of-use assets and lease obligations. Our 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.

The components of lease costs were as follows (in thousands) for the respective years:

	December 31, 2023	December 31, 2022
Operating lease cost, included in General & Administrative expenses on the Consolidated Statements of Operations	$ 1,578	$ 1,449
Finance lease cost:		
Amortization of assets, included in General & Administrative expenses on the Consolidated Statements of Operations	2,569	2,591
Interest on lease liabilities, included in Interest expense on the Consolidated Statements of Operations	890	977
Total finance lease cost	$ 3,459	$ 3,568
Variable lease cost, included in General & Administrative expenses on the Consolidated Statements of Operations	$ 1,526	$ 952
Short-term lease cost, included in General & Administrative expenses on the Consolidated Statements of Operations	$ 142	$ 188

Right-of-use lease asset and Lease Liability was as follows (in thousands):

Operating Leases	December 31, 2023	December 31, 2022
Right of use assets	$ 6,835	$ 7,335
Lease liability	$ 8,076	$ 8,690
Finance Leases		
Right of use assets	$ 17,606	$ 20,132
Lease liability	$ 20,386	$ 22,557

Supplemental cash flow information related to our operating and financial leases as follows (in thousands):

Operating Leases	December 31, 2023	December 31, 2022
Right of use assets	$ 500	$ (2,300)
Lease liability	$ (614)	$ 2,139
Finance Leases		
Right of use assets	$ 2,526	$ 2,586
Lease liability	$ (2,171)	$ (2,064)

Weighted-average remaining lease term and discount rate for our operating and financing leases was as follows:

Weighted-average remaining lease term	December 31, 2023	December 31, 2022
Operating lease	5.57 yrs.	6.49 yrs.
Finance lease	7.16 yrs.	8.13 yrs.
Weighted-average discount rate		
Operating lease	5.17 %	5.14 %
Finance lease	4.15 %	4.16 %

Maturities of lease liabilities for financing and operating leases were as follows as of December 31, 2023 (in thousands):

	Financing Lease	Operating Lease
2024	$ 3,109	$ 1,716
2025	3,173	1,609
2026	3,216	1,587
2027	3,190	1,595
2028	3,269	1,633
2029 and thereafter	7,651	1,213
Total lease payments	23,608	9,353
Less: imputed interest	3,222	1,277
Present value of lease liabilities	$ 20,386	$ 8,076

Note 9. Property and Equipment

Property and equipment, net consists of the following at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
	(in thousands)	
Land	$ 2,582	$ 2,582
Building	9,599	9,599
Software in progress	14,450	6,884
Computer hardware and software	10,717	8,851
Office furniture and equipment	1,484	1,381
Tenant and leasehold improvements	10,876	10,485
Vehicle fleet	515	594
Total, at cost	50,223	40,376
Less: accumulated depreciation and amortization	(17,005)	(14,647)
Property and equipment, net	$ 33,218	$ 25,729

The Company has capitalized certain costs related to a new policy, billing and claims system for which one component with a capitalized cost of $2.1 million was completed and placed into service during the second quarter of 2023. The remaining components are anticipated to be placed into service in early 2025.

Depreciation expense for the years ended December 31, 2023, 2022 and 2021 was $2.4 million, $2.0 million, $2.1 million, respectively. The Company's own real estate consists 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 $12.2 million with accumulated depreciation of approximately $2.5 million at December 31, 2023.

Expected annual rental income due under non-cancellable operating leases for our real estate properties is as follows (in thousands):

Year	Amount
2024	$ 2,414
2025	2,466
2026	2,518
2027	2,569
2028	2,621
2029 and Thereafter	34,074
Total	$ 46,662

Note 10. Deferred Reinsurance Ceding Commission

The Company defers certain income in connection with its quota share treaties, the ceded reinsurance commissions income, called deferred reinsurance ceding commissions ("DRCC"), which are deferred and earned over the terms of the reinsurance agreements. Ceding commission on quota share agreements call for provisional ceding rate, subject sliding scale adjustments based on the loss experience of the reinsurers. Adjustments are reflected in current operations. The Company allocates 75% of total ceding commission income to policy acquisition costs and 25% of total ceding commission income to general and administrative expense.

The Company defers reinsurance ceding commission income, which is amortized over the effective period of the related insurance policies. For the year ended December 31, 2023, 2022 and 2021 the Company allocated ceding commission income of $48.7 million, $46.5 million and $47.1 million to policy acquisition costs and $16.1 million, $15.4 million and $15.6 million to general and administrative expense, respectively.

The table below depicts the activity with regard to deferred reinsurance ceding commission during the years ended December 31, 2023, 2022 and 2021.

	For the Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Beginning balance of deferred ceding commission income	$ 42,758	$ 40,405	$ 39,995
Ceding commission deferred	$ 55,639	64,201	63,131
Less: ceding commission earned	$ (64,770)	(61,848)	(62,721)
Ending balance of deferred ceding commission income	$ 33,627	$ 42,758	$ 40,405

Deferred ceding commission income is included in Other Liabilities in the Company's consolidated financial statements.

Note 11. 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 costs will be fully recoverable in the near term. The table below depicts the activity with regard to DPAC for the years ended December 31, 2023, 2022 and 2021:

	For the Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Beginning Balance	$ 99,617	$ 93,881	$ 89,265
Policy acquisition costs deferred	$ 216,295	202,793	193,106
Amortization	$ (213,028)	(197,057)	(188,490)
Ending Balance	$ 102,884	$ 99,617	$ 93,881

Note 12. Reinsurance

Overview

Reinsurance

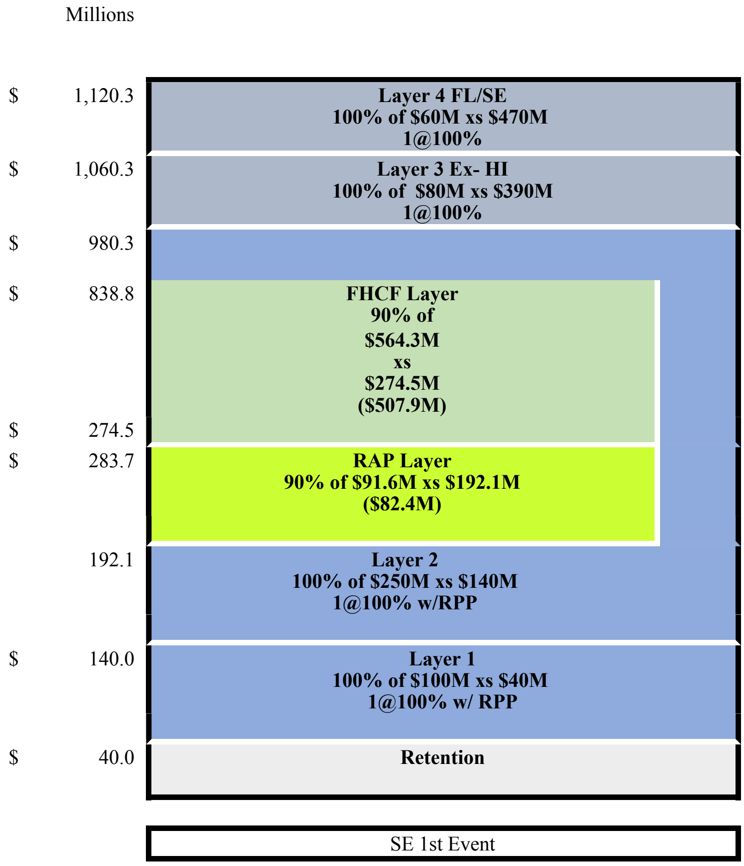
In order to limit the Company’s potential exposure to individual risks and catastrophic events, the Company purchases significant reinsurance from third party reinsurers. Purchasing reinsurance is an important part of the Company’s risk strategy, and premiums ceded to reinsurers is one of the Company’s 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, 2023 and 2022, the Company purchased reinsurance from the following sources: (i) the Florida Hurricane Catastrophe Fund, a state-mandated catastrophe fund (“FHCF”) which provide 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”). We also sponsored catastrophe bonds in 2023 and 2022 through Citrus Re Ltd. For the 2023 hurricane season, we also obtained reinsurance from the Florida State Board of Administration’s Reinsurance to assist Policyholders (“RAP”) program which provide reinsurance for Florida admitted policies only. The RAP component of our 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 a severe non-catastrophe loss 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 we write 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.

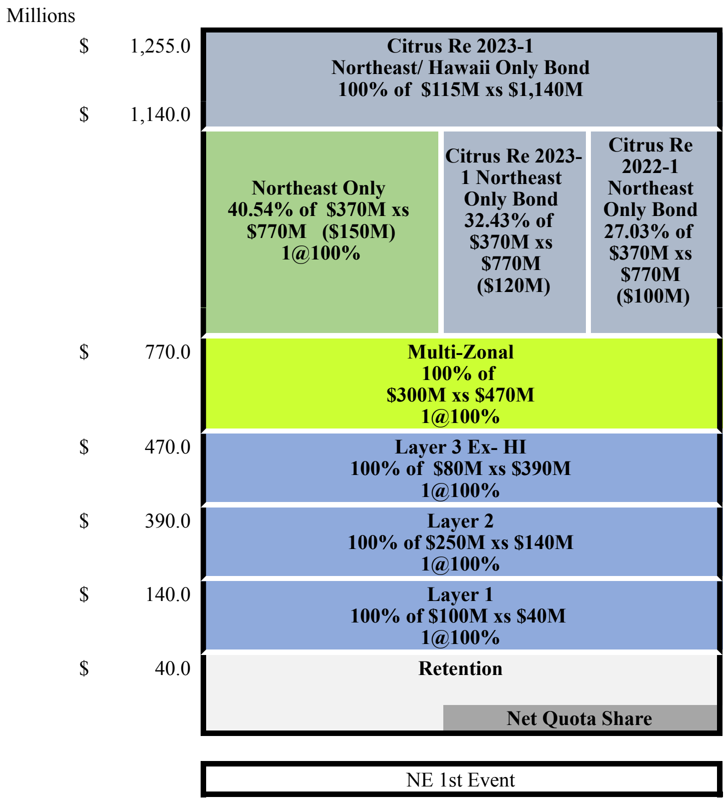
The Company’s insurance regulators require all insurance companies, like us, to have a certain amount of capital and reinsurance coverage in order to cover losses and loss adjustment expenses upon the occurrence of a catastrophic event. The Company’s reinsurance program provides reinsurance in excess of its state regulator requirements, which are 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.

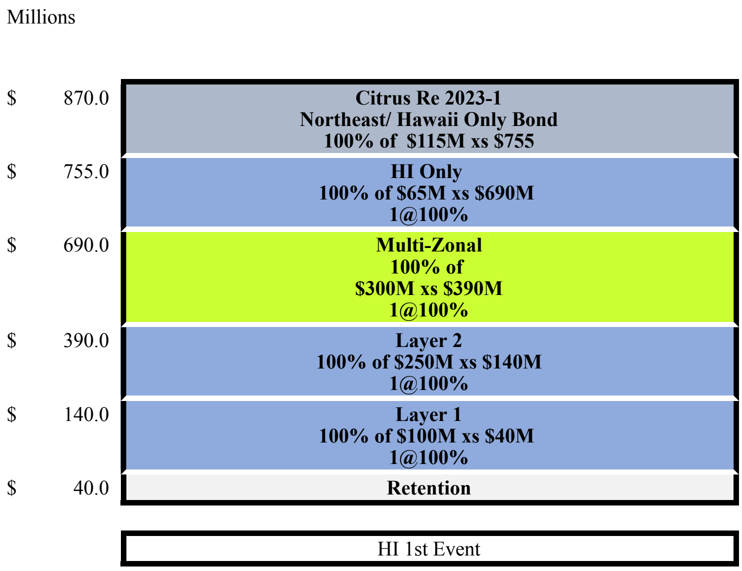
2023-2024 Reinsurance Towers by Region

The following graphics depict our reinsurance program structure for the 2023-2024 hurricane season by region.



Millions
$ 1,120.3
$ 1,060.3
$ 980.3
$ 838.8
$ 274.5
$ 283.7
192.1
$ 140.0
$ 40.0
Layer 4 FL/SE
100% of $60M xs $470M
1@100%
Layer 3 Ex- HI
100% of $80M xs $390M
1@100%
FHCF Layer
90% of
$564.3M
xs
$274.5M
($507.9M)
RAP Layer
90% of $91.6M xs $192.1M
($82.4M)
Layer 2
100% of $250M xs $140M
1@100% w/RPP
Layer 1
100% of $100M xs $40M
1@100% w/ RPP
Retention
SE 1st Event





* xs = in excess

2023 - 2024 Reinsurance Program

Catastrophe Excess of Loss Reinsurance

Effective June 1, 2023, 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. The FHCF covers Florida admitted market risks only and the Company elected to participate at 90% for the 2023 hurricane season. Additionally, for Florida admitted market risks, the Company also has reinsurance from the Reinsurance to Assist Policyholders (“RAP”) program created by the Florida legislature, which provides reinsurance at no cost to the Company. Osprey 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 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 2023-2024 reinsurance program provides first event coverage up to $1.1 billion for Heritage P&C, first event coverage up to $1.3 billion for NBIC, and first event coverage up to $870.0 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 $40.0 million would be ceded to Osprey; NBIC – $30.0 million of which $30 million would be ceded to Osprey in a shared contract with Zephyr; and Zephyr – $40 million, of which $30 million would be ceded to Osprey in a shared contract with NBIC.

The Company is responsible for all losses and loss adjustment expenses in excess of our 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 $2.9 billion of limit purchased in 2023 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 an occurrence contract for business underwritten by NBIC which covers all catastrophe losses excluding named storms, on December 31, 2023, expiring December 31, 2024. The contract is 60% placed with a $15.0 million limit in excess of a retention of $25.0 million, with the remaining 40% placed with a $20.0 million limit in excess of a retention of $20.0 million, with 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 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, as well a limit of $1.0 million per risk. 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 $1.0 million per claim. The limit recoverable for an individual loss is $9.0 million and total limit for all losses is $27.0 million. There are two reinstatements available with additional premium due based on the amount of the layer exhausted. This coverage is 100% placed for the contract period of June 15, 2022 through June 14, 2023, and 90% placed for the contract period from June 15, 2023 through June 14, 2024. For losses arising from personal residential business underwritten by NBIC, the Company also purchased property per risk coverage for losses and loss adjustments expenses in excess of $750,000 per claim. The limit recovered for an individual loss is $250,000 and total limit for all losses is $750,000. There are two reinstatements available with additional premium due based on the amount of the layer exhausted.

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. 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, 2022 through June 30, 2023, the coverage is $2.75 million excess $750,000 for property losses and $1.25 million excess $750,000 for casualty losses, and is 67.5% placed. 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 a detailed discussion of the Company's ***2022-2023 Reinsurance Program*** *Refer to Part I, "Business", Part II, Item 8, "Financial Statements and Supplementary Data" and "****Note 12. Reinsurance****" in the Company's 2022 Form 10-K.*

Effect of Reinsurance

The Company's reinsurance arrangements had the following effect on certain items in the Consolidated Statement of Income for the year ended December 31, 2023, 2022 and 2021:

	For the Year Ended December 31, 2023		
	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
		(in thousands)	
Direct	$ 1,343,101	$ 1,323,643	$ 875,475
Ceded	(613,739)	(626,458)	(449,346)
Net	$ 729,362	$ 697,185	$ 426,129

	For the Year Ended December 31, 2022		
	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
		(in thousands)	
Direct	$ 1,275,031	$ 1,208,824	$ 1,318,001
Ceded	(612,863)	(571,759)	(816,839)
Net	$ 662,168	$ 637,065	$ 501,162

	For the Year Ended December 31, 2021		
	Premiums Written	Premiums Earned	Losses and Loss Adjustment Expenses
		(in thousands)	
Direct	$ 1,164,879	$ 1,144,162	$ 625,748
Ceded	(553,147)	(533,091)	(198,378)
Net	$ 611,732	$ 611,071	$ 427,370

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. We estimate our IBNR reserves by projecting our ultimate losses using industry accepted actuarial methods and then deducting actual loss payments and case reserves from the projected ultimate losses.

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

	For the Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Balance, beginning of period	$ 1,131,807	$ 590,166	$ 659,341
Less: reinsurance recoverable on unpaid losses	759,681	301,757	397,688
Net balance, beginning of period	372,126	288,409	261,653
Incurred related to:			
Current year	427,702	497,428	430,907
Prior years	(1,573)	3,734	(3,537)
Total incurred	426,129	501,162	427,370
Paid related to:			
Current year	232,827	267,319	247,903
Prior years	141,270	150,126	152,711
Total paid	374,097	417,445	400,614
Net balance, end of period	424,158	372,126	288,409
Plus: reinsurance recoverable on unpaid losses	421,797	759,681	301,757
Balance, end of period	$ 845,955	$ 1,131,807	$ 590,166

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 December 31, 2023, the Company reported $424.2 million in unpaid losses and loss adjustment expenses, net of reinsurance which included $276.6 million attributable to IBNR net of reinsurance recoverable, or 65.2% of net reserves for unpaid losses and loss adjustment expenses. The Company's losses incurred for the year ended December 31, 2023, reflect favorable development of $1.6 million and for the years ended December 31, 2022 and 2021 reflect prior year adverse development of $3.7 million and prior year favorable development of $3.5 million, respectively, associated with management's best estimate of actuarial loss and LAE reserves with consideration given to Company specific historical loss experience.

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.

In the fourth quarter of 2022 we re-estimated our ultimate losses for Hurricane Irma, which struck Florida in 2017. As a result of that re-estimation, Heritage exhausted the private layers of reinsurance specific to Hurricane Irma but had a 45% participation in the FHCF limit remaining. As further described in Note 17, Commitments and Contingencies, to these consolidated financial statements, the Company's 2017 reinsurance agreement with the FHCF required a commutation no later than 60 months after the end of the contract year. As part of this process, Heritage and the FHCF terminated the 2017 reinsurance agreement and agreed on the amount that the FHCF would pay to the Company to settle all outstanding losses owed under the agreement related to losses from Hurricane Irma. As such, this commutation process resulted in a final determination of and payment for known, unknown or unreported claims relating to Hurricane Irma. Social inflation and the litigated claims environment in the State of Florida, which affected Hurricane Irma claims, could result in future adverse development of these claims, which creates uncertainty as to the ultimate cost to settle all of the remaining Hurricane Irma claims. Accordingly, the final amount paid by the FHCF could vary from the Company's future estimation of losses to have been recovered from the FHCF. Accordingly, should future re-estimations to Hurricane Irma losses increase the Company's expected loss reserves, all of the increase will be retained by the Company.

The following is information about incurred and paid claims development as of December 31, 2023, net of reinsurance, as well as cumulative claim payments and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

The information by accident year for years prior to 2023 is presented as required supplementary information and is unaudited.

Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
(in thousands, except number of claims)

	Unaudited											
Accident year	**2014 & prior**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**Net IBNR Reserves**	**Reported Claims**
2014 & prior	$ 288,316	$ 284,361	$ 282,344	$ 283,992	$ 284,662	$ 284,426	$ 284,675	$ 285,026	$ 285,114	$ 285,015	$ 35	84,987
2015		179,255	197,744	203,792	205,164	206,011	205,437	204,961	204,944	206,077	523	26,130
2016			237,207	242,611	250,990	250,235	250,067	250,482	249,315	250,707	559	27,635
2017				189,163	195,240	192,749	194,618	195,602	211,386	220,944	27,021	73,360
2018					199,565	193,672	192,474	198,064	207,569	210,310	1,031	34,493
2019						258,876	231,545	230,691	237,250	239,936	3,024	26,371
2021							370,058	362,108	372,212	374,606	15,701	39,844
2022								388,949	357,677	355,722	13,193	33,121
2022									447,817	429,315	69,843	41,861
2023										388,245	133,534	19,041
									Total	$ 2,960,877	$ 264,464	

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

	Unaudited									
Accident year	**2014 & prior**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
2014 & prior	$ 222,198	$ 254,758	$ 263,465	$ 272,957	$ 278,974	$ 281,275	$ 282,899	$ 283,982	$ 284,631	$ 284,965
2015		103,918	162,654	181,672	192,967	197,524	199,600	201,495	202,848	204,149
2016			132,679	211,512	233,540	238,868	241,875	244,820	246,826	249,901
2017				103,148	169,743	178,622	184,313	188,928	194,079	163,068
2018					84,552	152,592	170,301	187,386	199,007	206,965
2019						124,664	185,667	207,714	222,246	232,805
2021							210,548	311,539	336,574	346,651
2022								213,830	300,731	327,719
2022									220,141	328,881
2023										197,392
									Total	$ 2,542,496

Reconciliation of Reserve Balances to Liability
for Unpaid Loss and Loss Adjustment Expenses

Unpaid Loss and Allocated Loss Adjustment Expense, Net of Reinsurance	$	412,020
Reinsurance recoverable on unpaid losses		421,797
Unpaid Unallocated Loss Adjustment Expense		12,138
Unpaid losses and loss adjustment expenses	$	845,955

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance as of December 31, 2023 (Unaudited)

	Year - 1	**Year - 2**	**Year - 3**	**Year - 4**	**Year - 5**	**Thereafter**
Percentage	55%	28%	8%	3%	3%	3%

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.

Holders of the Convertible Notes had an optional put right, pursuant to the indenture governing the Convertible Notes, to require the Company to repurchase the aggregate principal amount of Convertible Notes that are validly tendered. The Company received notice from the Depositary for the Convertible Notes that, on July 29, 2022, $10.9 million aggregate principal amount of the Convertible Notes has been validly tendered in accordance with the terms of the indenture and the Company’s notice with respect to the optional put right of the Convertible Notes, and the Company directed the trustee to cancel the Convertible Notes tendered. Prior to this transaction, the outstanding balance as of July 31, 2022 of non-affiliated Convertible Notes was $11.8 million. On August 1, 2022, the Company made payments for the principal amount of the Convertible Notes tendered and unpaid interest in the aggregate amounts of $10.9 million and $320,041, respectively. In November 2022, the Company used $10.0 million from its revolving credit facility to replenish the cash used to pay the $10.9 million for the purchase of the tendered Convertible Notes.

In January 2022, the Company reacquired and retired $11.7 million of its outstanding Convertible 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 represents the proportionate amount of the unamortized issuance and debt discount costs associated with this repurchase.

As of December 31, 2023, 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 years ended December 31, 2023 and 2022, the Company made interest payments, net of affiliated Convertible Notes of approximately $104,000, on the outstanding Convertible Notes.

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 years ended December 31, 2023 and 2022, the Company made principal and interest payments of $975,532 and $892,850 on the mortgage loan, 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.

On November 7, 2022, the Company and its subsidiary guarantors entered into an amendment to the Credit Agreement (the “Seventh Amendment”) to, among other things, (1) decrease the Revolving Credit Facility (defined below) commitments from $75 million to $50 million, (2) establish a new $25 million Term Loan Facility (defined below) to refinance loans outstanding under the existing Revolving Credit Facility and to pay fees, costs and expenses related thereto, (3) reduce, from $50 million to $25 million, the aggregate amount of potential future increases to the Revolving Credit Facility commitments and/or Term Loan Facility commitments, (4) modify the amortization of the existing term loan facility and new term loan facility to 10% per annum, paid quarterly, and (5) increase the applicable margin for loans under the Credit Agreement to a range from 2.75% to 3.25% per annum for SOFR loans (plus a 0.10% credit adjustment spread) and based on a leverage ratio (an increase from the prior range of 2.50% to 3.00%).

The Seventh Amendment also modified certain financial covenants in the Credit Agreement which 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. Specifically, starting in the first quarter of 2023, the Seventh Amendment amended certain financial covenants as follows: (1) require additional leverage ratios under the Consolidated Leverage Ratio covenant (as defined in the Credit Agreement) after the initial step down to 2.50x in the second quarter of 2023 not to exceed 2.25x as of the second quarter of 2024 and 2.00x as of the second quarter of 2025, (2) apply all (A) Restricted Payments (as defined in the Credit Agreement) and (B) fee forgiveness & other capital contributions to the Company’s regulated insurance companies that are not a party to the Credit Agreement that exceed $38 million, when calculating (i) Consolidated Tangible Net Worth (as defined in the Credit Agreement) 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 and (ii) Consolidated Fixed Charge Ratio (as defined in the Credit Agreement) which is required to be 1.20x. The Seventh Amendment also (A) eliminated the current $10 million basket available to the Company to pay dividends to its shareholders or to repurchase its securities, (B) provides for a dividend of up to $2 million in the fourth quarter of 2024 under certain conditions and (C) restricts future dividends based on maintenance of certain financial ratios, including Consolidated Tangible Net Worth. As a result, going forward, dividends and stock repurchases may be limited or restricted entirely and the Company’s ability to contribute capital to its insurance subsidiaries that are not parties to the Credit Agreement may be limited.

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. As amended by the Seventh Amendment, 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 2022, there was $79.6 million and $89.1 million in aggregate principal outstanding under the Term Loan Facility and as of December 31, 2023 and 2022, 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 $10.0 million in aggregate principal outstanding under the Revolving Credit Facility.

For the year ended December 31, 2023, the Company made principal and interest payments of approximately $9.5 million and $7.0 million, respectively and for the comparable year of 2022, the Company made principal and interest payments of approximately $5.0 million and $2.3 million on the Term Loan Facility, respectively.

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. As of December 31, 2022, we had $10.0 million in borrowings and $32.6 million letters of credit outstanding under the Revolving Credit Facility. In connection with the incurrence of additional amounts under the Term Loan Facility pursuant to a November 2022 amendment to the Credit Agreement, the borrowings under the Revolving Credit Facility were repaid in full. On December 23, 2022, the Company drew $10 million from the amended

Revolving Credit Facility, resulting in an outstanding principal balance under the Revolving Credit Facility in the amount of $10 million. At December 31, 2022, the Company had multiple letters of credit that totaled $32.6 million outstanding under the Revolving Credit Facility. The Company secured additional letters credit during 2023; however at December 31, 2023 all of the letters of credit were terminated and the Company had no outstanding letter of credits issued from the Revolving Credit Facility. For the year ended December 31, 2023, the Company made interest payments in aggregate of approximately $752,441 on the Revolving Credit Facility and $707,850 relating to letters of credit and 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.

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.

At December 31, 2023, the effective interest rate for the Term Loan Facility and Revolving Credit Facility was 8.179% and 8.198%, 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.

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 December 31, 2023, the fair value of the collateralized securities was $26.3 million and the equity investment in FHLB common stock was $1.4 million. As of December 31, 2023 and 2022, the Company made quarterly interest payments of approximately $723,770 and $601,000 per the terms of the agreement, respectively. As of December 31, 2023 and December 31, 2022, the Company also holds other common stock from FHLB Des Moines, and FHLB Boston carried at $72,500; $177,197, and $145,200; $173,900, respectively.

The following table summarizes the Company's long-term debt:

	December 31, 2023	***December 31, 2022***
	(in thousands)	
Convertible debt	$ 885	$ 885
Mortgage loan	11,019	11,199
Credit loan facility	79,625	89,125
Revolving credit facility	10,000	10,000
FHLB loan agreement	19,200	19,200
Total principal amount	$ 120,729	$ 130,409
Deferred finance costs	$ 997	$ 1,466
Total long-term debt	$ 119,732	$ 128,943

As of the date of this report, we were in compliance with the applicable terms of all our covenants and other requirements under the Credit Agreement, Convertible Notes, cash borrowings and other loans. Our ability to secure future debt financing depend, in part, on our 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 covenants and other requirements under the revolving agreement represent the most restrictive provisions that we are subject to with respect to our long-term debt.

The schedule of principal payments on long-term debt is as follows:

December 31,		Amount
2024	$	9,855
2025		29,074
2026		71,018
2027		9,897
2028		—
Thereafter		885
Total principal payments	$	120,729

Note 15. Income Taxes

The following table summarizes the provision for income taxes:

	For the Year Ended December 31, 2023	2022	2021
		(in thousands)	
Federal:			
Current	$ 5,572	$ (1,196)	$ 3,015
Deferred	70	(9,714)	(5,872)
Provision (Benefit) for Federal income tax	5,642	(10,910)	(2,857)
State:			
Current	1,086	592	1,634
Deferred	(30)	(1,489)	(84)
Provision/(Benefit) for State income tax expense	1,056	(897)	1,550
Provision/(Benefit) for income taxes	$ 6,698	$ (11,807)	$ (1,307)

The income tax provision (benefit) expense differs from the amounts computed by applying the U.S. federal income tax rate of as indicated below to pretax income as a result of the following (in thousands):

	For the Year Ended December 31, 2023	2022	2021
Expected income tax expense at federal rate	21.0%	21.0%	21.0%
State tax expense	4.2%	1.0%	(1.0)%
Permanent items	0.5%	(0.3)%	(0.5)%
Goodwill impairment	0.0%	(10.6)%	(16.7)%
Non-deductible stock compensation	0.2%	(0.1)%	(0.2)%
Tax exempt interest	(0.2)%	0.1%	0.1%
Executive compensation 162(m)	0.6%	(0.2)%	(0.2)%
Political contributions	0.1%	0.0%	(0.2)%
Tax rate change	(1.0)%	0.0%	(0.5)%
Valuation allowance	(12.3)%	(3.8)%	0.0%
Other	(0.2)%	0.0%	0.0%
Reported income tax expense	12.9%	7.1%	1.7%

The effective tax rate for 2023 benefitted from a reduction of a $6.4 million valuation allowance related to a portion of its deferred tax inventory associated with its foreign domiciled captive reinsurer, Osprey. The effective tax rates for 2022 and 2021 were impacted by non-deductible goodwill impairment of $92.0 million recognized during the second quarter of 2022 and $60.5 million during fourth quarter of 2021. Furthermore, the 2022 effective tax rate was impacted by the recognition of a $6.4 million valuation allowance related to a portion of its deferred tax inventory associated with its foreign domiciled captive reinsurer, Osprey. The Company may only realize those net deferred tax assets to the extent Osprey generates future taxable income; Osprey's 2023 results generated taxable income which resulted in the reversal of the valuation allowance in 2023.

The significant components of deferred tax assets and liabilities included in the consolidated balance sheets as of December 31, 2023 and 2022 were as follows:

	For the Year Ended December 31,	
	2023	2022
Deferred tax assets:	(in thousands)	
Unearned premiums	$ 18,507	$ 17,060
Unearned commission	7,964	10,053
Net operating loss	436	1,189
Tax-related discount on loss reserve	5,162	4,902
Stock-based compensation	331	297
Accrued expenses	1,677	1,016
Leases	940	885
Unrealized losses	11,655	16,987
Dual Consolidated loss limitation	—	9,740
Other	473	238
Total deferred tax asset	47,145	62,367
Valuation allowance	—	(6,376)
Adjusted deferred tax asset	47,145	55,991
Deferred tax liabilities:		
Deferred acquisition costs	$ 24,366	$ 23,420
Prepaid expenses	189	180
Property and equipment	359	2,200
Note discount	152	290
Basis in purchased investments	8	28
Basis in purchased intangibles	9,327	11,178
Other	1,633	1,854
Total deferred tax liabilities	36,034	39,150
Net deferred tax assets	$ 11,111	$ 16,841

The Company had no capital loss carryforward as of December 31, 2023.

In assessing the net carrying amount of deferred tax assets, we consider whether it is more likely than not that we will not realize some portion or all of the deferred tax assets. The ultimate realization of deferred tax assets depends upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. During 2022, the Company recorded a $6.4 million valuation allowance related to a portion of its deferred tax inventory related to a portion of its deferred tax inventory associated with its foreign domiciled captive reinsurer, Osprey. The Company may only realize those net deferred tax assets to the extent Osprey generates future taxable income. During 2023 the entire valuation allowance was removed due to operating income at Osprey resulting in full use of Osprey operating losses.

As of December 31, 2023 and 2022, the Company has a gross operating loss carryforward for state income tax purposes of $10.0 million (FL State only) and $27.4 million, respectively, which will expire between 2040 and 2042. The statute of limitations related to our federal and state income tax returns remains open from our filings for 2020 through 2022. There are currently no tax years under examination.

Our reinsurance affiliate, Osprey, which is based in Bermuda, made an irrevocable election under section 953(d) of the U.S. Internal Revenue Code of 1986, as amended, to be treated as a domestic insurance company for U.S. Federal income tax purposes. As a result of this election, our reinsurance subsidiary is subject to United States income tax as if it were a U.S. corporation.

On December 27, 2023, the Government of Bermuda enacted the Corporate Income Tax Act 2023 (Bermuda CIT), which will apply a 15% corporate income tax to certain Bermuda businesses in fiscal years beginning on or after January 1, 2025. The Company does not believe the Bermuda CIT would have a material impact to the Company. Prior to December 27, 2023, the Company had an undertaking from Bermuda that exempted it from any local profits, income or capital gains taxes until the year 2035.

The Organization for Economic Co-operation and Development has issued Pillar Two model rules introducing a new global minimum tax of 15% intended to be effective on January 1, 2024. While the US has not yet adopted the Pillar Two rules, various other governments around the world are enacting legislation. As currently designed, Pillar Two will ultimately apply to the Company's worldwide operations. Considering the Company does not have material operations in jurisdictions with tax rates lower than the Pillar Two minimum, these rules are not expected to materially impact the Company's global tax costs. There remains uncertainty as to the final Pillar Two model rules. Management will continue to monitor US and global legislative action related to Pillar Two for potential impacts.

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 our 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 are required to file with state insurance regulatory authorities an "Annual Statement" which report under the statutory-basis of accounting which differs from GAAP, among other items, net income and surplus as regards policyholders, which is called stockholder's equity under GAAP. Combined results of the Company's insurance subsidiaries reported statutory-basis net loss of $55.9 million and $33.3 million for the years ended December 31, 2023 and 2022, respectively. The Company's insurance subsidiaries 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 statutory-basis capital and surplus equal to the greater of $15 million or 10% of their respective liabilities. Zephyr is required to maintain a deposit of $750,000 in a federally insured financial institution. NBIC is required to maintain statutory-basis capital and surplus of $3.0 million. The combined statutory surplus for Heritage P&C, NBIC, and Zephyr was $251.6 million at December 31, 2023. The combined statutory-basis surplus for Heritage P&C, NBIC, and Zephyr was $276.3 million at December 31, 2022. State laws also require the Company's insurance subsidiaries to adhere to prescribed premium-to-capital surplus ratios, with which the Company's insurance affiliates are complying. At December 31, 2023, our insurance subsidiaries met the financial and regulatory requirements of the states in which they do business.

The legislatures of the states of domicile of our insurance affiliates have adopted the National Association of Insurance Commissioners ("NAIC") recommendations with regard to expansion of the regulation of insurers to include non-insurance entity affiliates. Specifically, the law permits the state insurance regulators to examine affiliated entities within an insurance holding company system in order to ascertain the financial condition of the insurer. The law also provides for certain disclosures regarding enterprise risk, which are satisfied by the provision of related information filed with the SEC.

The NAIC published risk-based capital guidelines for insurance companies that are designed to assess capital adequacy and to raise the level of protection that statutory-basis surplus provides for policy holders. Most states, including Florida, Hawaii, and Rhode Island, have enacted the NAIC guidelines as statutory requirements, and insurers having less statutory-basis surplus than required will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. State insurance regulatory authorities could require an insurer to cease operations in the event the insurer fails to maintain the required statutory capital.

State laws for Florida, Hawaii, and Rhode Island permit an insurer to pay dividends or make distributions out of that part of statutory surplus derived from net operating profit and net realized capital gains. The applicable laws pertain to the state of domicile of each insurance company affiliate and provide calculations to determine the amount of dividends or distributions that can be made without the prior approval of the insurance regulatory authority and the amount of dividends or distributions that would require prior approval of the insurance regulatory authority. In the state of Florida, a dividend may be taken without regulatory approval if the dividend is equal to or less than the greater of 10% of the insurer's surplus or the insurer's net income. In the state of Rhode Island, a dividend may be taken without regulatory approval if the dividend is equal to or less than the lesser of 10% of the insurer's surplus or the insurer's net income excluding realized capital gains. The state of Hawaii restricts dividends without regulatory approval to the smaller of prior years' net income or 10% of prior year's surplus. Heritage P&C and NBIC have not paid dividends in any of the last three years. Zephyr paid dividends of $3.9 million and $4.3 million for the years ended December 31, 2023 and 2022.

Statutory risk-based capital requirements may further restrict our insurance subsidiaries ability to pay dividends or make distributions if the amount of the intended dividend or distribution would cause statutory-basis surplus to fall below minimum risk-based capital requirements.

State insurance laws limits an insurer's investment in equity instruments and also restricts investments in medium to low quality debt instruments. The Company's insurance affiliates were in compliance with all investment restrictions at December 31, 2023 and 2022.

Governmental agencies or certain quasi-governmental entities can levy assessments upon the Company in the states in which the Company writes policies. Refer to Note 1 "*Basis of Presentation, Nature of Business and Significant Accounting Policies and Practices"* to these consolidated financial statements for further information for a description of how the Company recovers assessments imposed upon it. Governmental agencies or certain quasi-governmental entities can also levy assessments upon policyholders, and the Company collects the amount of the assessments from policyholders as surcharges for the benefit of the assessing agency. There are currently assessments being collected from policyholders and remitted to governmental or quasi-governmental entities. If an assessment becomes levied the Company would multiply the premium written on each policy by these assessment percentages to determine the additional amount that it will collect from the policyholder and remit to the assessing agencies.

The Company reported its insurance subsidiaries' assets, liabilities and results of operations in accordance with GAAP, which varies from statutory-basis accounting principles prescribed or permitted by state laws and regulations, as well as by general industry practices.

The Company's reinsurance subsidiary, Osprey, which was incorporated on April 23, 2013, is licensed as a Class 3A Insurer under The Bermuda Insurance Act 1978 and related regulations. Osprey is required to meet and maintain certain minimum levels of solvency and liquidity. Each year Osprey is required to file with the Bermuda Monetary Authority (the "Authority") a Capital and Solvency Return, Statutory Financial Return and Audited Financial Statements within four months of its relevant financial year end. Osprey maintains sufficient collateral to comply with regulatory requirements as of December 31, 2023. Bermuda's standard for financial statement reporting is U.S. GAAP.

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.

The Company's Florida insurance company affiliate is required to enter into a reinsurance contract with the FHCF for a portion of its catastrophe risk transfer each year. Since the Company's inception in 2012, few catastrophic events have resulted in losses which pierced the FHCF layer and resulted in reimbursements from the FHCF. To date, losses from only Hurricane Irma, which struck in 2017, and Hurricane Ian, which struck in 2022, have triggered the Company's FHCF coverage. The Company's 2017 reinsurance agreement with the FHCF is consistent among Florida insurance companies and requires a commutation no later than 60 months after the end of the contract year, which the commutation process began in June 2023. This commutation represents an agreement between Heritage and the FHCF to terminate the 2017 reinsurance agreement and agree on the conditions under which all obligations for both parties are discharged and therefore a final determination of and payment for any claims related to Hurricane Irma. The terms of the 2017 reinsurance agreement with the FHCF provide for the commutation process as well as the process to settle any disagreements as to the present value of outstanding losses that served as the basis for determining the amount payable by FHCF upon termination of the reinsurance agreement. During the third quarter of 2023, the commutation process was completed and a final payment by the FHCF was received by the Company. Social inflation and the litigated claims environment in the State of Florida, which affected Hurricane Irma claims could result in adverse development of these claims, which creates uncertainty as to the ultimate cost to settle the remaining Hurricane Irma claims. Accordingly, the final amount paid by the FHCF could vary from the Company's current or future estimation of losses to be recovered from the FHCF.

Note 18. Accounts Payable and Other Liabilities

Other liabilities consist of the following as of December 31, 2023 and 2022:

Description		*December 31, 2023*		*December 31, 2022*
		(in thousands)		
Deferred ceding commission		33,627	$	42,758
Accounts payable and other payables		16,185		17,660
Accrued dividends		54		72
Accrued interest and issuance costs		325		733
Other liabilities		275		229
Premium tax		1,486		1,001
Commission payables		17,714		17,558
Total other liabilities	$	69,666	$	80,010

Note 19. Accrued Bonus Compensation

For the year ended December 31, 2023, the Company recognized bonus expense of $5.3 million. At December 31, 2023, the Company has accrued bonus of $5.4 million, which is expected to be paid in the first quarter of 2024. For the year ended December 31, 2022, the Company recognized employee bonus compensation expense in aggregate of $2.1 million, of which $2.0 million was unpaid until 2023.

Note 20. Related Party Transactions

In July 2020, 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 years ended December 31, 2023, 2022 and 2021, the Company paid agency commission to Comegys of approximately $195,830, $572,600 and $843,180, respectively.

Note 21. Employee Benefit Plan.

The Company provides a 401(k) plan for substantially all 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 each of the years ended December 31, 2023, 2022 and 2021, the contributions made to the plan on behalf of the participating employees were approximately $1.3 million.

Since September 1, 2021, the Company has been enrolled in a flex healthcare plan which allows employees the choice of three medical plans with a range of coverage levels and costs. For the years ended December 31, 2023, 2022 and 2021, the Company's medical costs were $5.0 million, $4.9 million and $3.5 million, respectively. As of December 31, 2023 and 2022, the Company had $0 and $221,386 of liability from the Company’s legacy self-insured healthcare plan. The current healthcare plan is fully insured.

Note 22. 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 December 31, 2023, the Company had 30,218,938 shares of common stock outstanding, 12,231,674 treasury shares of common stock and 1,161,811 shares of unvested shares of restricted common stock issued reflecting total paid-in capital of $360.3 million as of such date.

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 its 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 nonassessable.

Stock Repurchase Program

On August 1, 2019, the Company announced that its Board of Directors ratified a stock repurchase program authorizing the Company to repurchase up to $50.0 million of its common stock which had expired on December 31, 2020. As of December 31, 2020, the Company repurchased in aggregate 2,065,042 shares of its common stock since authorizing the stock repurchase program for $26.2 million. On November 2, 2020, the Board of Directors extended the Company’s existing share repurchase program from December 31, 2020 to December 31, 2021 and increased the authorization under the program from the $23.8 million remaining to $50.0 million, which repurchases may be made under the Company’s current Rule 10b5-1 trading plan, which allows the Company to purchase shares below a predetermined price per share, or otherwise. For the year ended December 31, 2021, the Company repurchased in aggregate 1,256,898 shares of its common stock under its repurchase program for $8.2 million. For the year ended December 31, 2022, the Company repurchased in aggregate 1,694,937 shares of its common stock under its repurchase program for $7.3 million. The stock purchase program expired on December 31, 2022.

On December 15, 2022, the Board of Directors established a new share repurchase program plan to commence upon 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 "New Share Repurchase Plan"). There were no shares repurchased for the year ended December 31, 2023.

Public and Private Offering of shares of Common Stock

On December 14, 2023, the Company completed a primary offering of 3,703,703 shares of its common stock at a public offer price of $6.75 per share. In a concurrent private placement, the Company issued 148,148 shares of its common stock to an investor at the public offering price. Additionally, the Company completed the purchase by one of its independent Directors and the Company's Director and CEO, of 40,871 and 27,247, shares of common stock, respectively, at $7.34, the closing price of common stock on December 14, 2023.

The gross proceeds to Heritage from the public offering and private placement, before deducting underwriting discounts, commissions and other offering expenses, were approximately $26.5 million. The Company intends to use the net proceeds from the public offering and the private placement for general corporate and operations purposes and to provide capital for anticipated growth and expansion efforts.

Dividends

On March 4, 2022, the Company announced that its Board of Directors declared a $0.06 per share quarterly dividend payable on April 6, 2022 to stockholders of record as of March 17, 2022.

On May 5, 2022, the Company announced that its Board of Directors declared a $0.06 per share quarterly dividend payable on July 5, 2022 to stockholders of record as of June 14, 2022.

On August 3, 2022, the Board of Directors elected to allocate the $0.06 per share typically used to pay a quarterly dividend to shareholders to repurchase common stock totaling $1.7 million. The Board of Directors re-evaluates dividend distribution on a quarterly basis and will make a determination, in part, based on the current stock trading price as compared to book value, overall capital and liquidity of the company and other factors to determine cash payment or buybacks.

The Board of Directors elected not to declare any dividends during the 2023 calendar year.

Note 23. 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 December 31, 2023, there were 1,320,117 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 November 2023, the Compensation Committee approved the cancelation 420,225 performance-based unvested awards. The Company determined the performance criteria for certain performance-based unvested awards would not be met and accordingly, reversed previously recorded stock based compensation of approximately $1.7 million associated with those awards.

On July 11, 2023, the Company awarded 351,716 time-based restricted stock and 857,843 performance-based restricted stock, with a fair value at the time of grant of $4.08 per share under the Company's 2023 Omnibus Incentive 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.

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. In August 2023, the awards were amended which resulted in an adjustment to the number of shares of restricted stock awarded from 63,744 to 77,296 shares of restricted stock. The restricted stock shall vest on the earlier of (i) the one-year anniversary of the date of issuance and (ii) the day immediately prior to the date of the following year's annual meeting of stockholders, provided the member remains on the Board until such date.

In June 2022, the Company awarded to non-employee directors in aggregate 99,376 shares of restricted stock with a fair value at the time of grant of $3.22 per share. In August 2022, an award of 12,422 were forfeited due to the departure of a Board member. The awards vested on the next annual meeting of the Company's stockholders that occurred after the award date, provided the member remains on the Board until such date. The Company's annual shareholders meeting was held on June 7, 2023, at which time 86,954 shares of restricted stock were effectively vested.

During the first quarter of 2022, the Company awarded 3,636 shares and 115,327 shares of time-based restricted stock with at the time of grant a fair value of $5.50 and $6.72 per share, respectively to certain employees. The time-based restricted stock will vest in two and three year equal installments on December 27, 2022, 2023 and 2024, respectively. In addition, during the first quarter of 2022, the Company awarded 10,909 shares and 245,536 shares of performance-based restricted stock with at the time grant a fair value of $5.50 and $6.72 per share, respectively. The performance-based restricted stock has a three-year performance period beginning on January 1, 2022 and ending on December 31, 2024 and will vest following the end of the performance period but no later than March 5, 2025.

For the performance-based restricted stock 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.

The 2023 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. The Company has not granted any stock options since 2015 and all unexercised stock options have since been forfeited.

Restricted stock activity for the three years ended December 31, 2023, 2022 and 2021 is as follows:

	Number of shares	Weighted-Average Grant-Date Fair Value per Share
Non-vested, at December 31, 2020	100,267	$ 15.37
Granted - Performance-based restricted stock	174,689	9.45
Granted - Time-based restricted stock	80,104	9.68
Vested	(43,711)	9.61
Canceled and surrendered	(28,257)	10.69
Non-vested, at December 31, 2021	283,092	$ 9.32
Granted - Performance-based restricted stock	256,445	6.67
Granted - Time-based restricted stock	240,107	5.18
Vested	(90,458)	4.81
Canceled and surrendered	(40,693)	4.40
Non-vested, at December 31, 2022	648,493	$ 7.38
Granted - Performance-based restricted stock	857,843	4.08
Granted - Time-based restricted stock	429,012	4.08
Vested	(221,218)	3.51
Canceled and surrendered	(552,319)	7.26
Non-vested, at December 31, 2023	1,161,811	$ 4.25

Awards are being amortized to expense over a one to three year vesting period. The Company recognized $1.3 million, $1.2 million and $4.7 million of compensation expense for the years ended December 31, 2023, 2022 and 2021, respectively.

During the year ended December 31, 2023, the Company granted in aggregate 803,401 net of 483,454 canceled shares of time-based and performance-based restricted stock. During the year ended December 31, 2023, 221,218 shares of restricted stock were vested and released. Of the stock released to employees, 68,865 shares were withheld to cover withholding taxes of $429,000.

During the year ended December 31, 2022, the Company granted in aggregate 484,130, net of 12,422 canceled shares of time-based and performance-based restricted stock. During the year ended December 31, 2022, 96,961 shares of restricted stock were vested and released. Of the stock released to employees, 28,271 shares were withheld to cover withholding taxes of $94,000.

During the year ended December 31, 2021, the Company granted in aggregate 254,793 shares of time-based and performance-based restricted stock. During the year ended December 31, 2021, 71,968 shares of restricted stock were vested and released. Of the stock released to employees, 28,257 shares were withheld to cover withholding taxes of $231,000.

At December 31, 2023, there was approximately $1.1 million unrecognized expense related to time-based unvested restricted stock and an additional $2.4 million for performance-based restricted stock, which is expected to be recognized over the remaining restriction periods as described in the table below. For the comparable period in 2022, there was $2.0 million of unrecognized expense.

Additional information regarding the Company's outstanding non-vested time-based restricted stock and performance-based restricted stock at December 31, 2023 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	1.0
June 19, 2023	77,296	4.14	0.5
July 11, 2023	1,046,568	4.08	2.0
Total	1,161,811		

Note 24. Selected Quarterly Financial Data (unaudited)

The following table provides a summary of unaudited quarterly results for the periods presented (in thousands, except per share data):

For the year ended December 31, 2023	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net premiums earned	$ 166,029	$ 176,804	$ 176,641	$ 177,711
Investment income	$ 5,582	$ 6,599	$ 6,867	$ 6,708
Total revenues	$ 176,921	$ 185,313	$ 186,300	$ 186,964
Total operating expenses	$ 156,830	$ 168,922	$ 195,735	$ 150,796
Operating income (loss)	$ 20,091	$ 16,391	$ (9,435)	$ 36,168
Net income (loss)	$ 14,008	$ 7,779	$ (7,424)	$ 30,944
Basic net income (loss) per share	$ 0.55	$ 0.30	$ (0.28)	$ 1.15
Diluted net income (loss) per share	$ 0.55	$ 0.30	$ (0.28)	$ 1.15

For the year ended December 31, 2022	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net premiums earned	$ 152,929	$ 158,271	$ 159,693	$ 166,171
Investment income	$ 2,000	$ 2,163	$ 2,887	$ 4,927
Total revenues	$ 158,608	$ 163,770	$ 165,493	$ 174,589
Total operating expenses(1)	$ 198,019	$ 249,322	$ 212,801	$ 159,679
Operating (loss) income	$ (39,411)	$ (85,552)	$ (47,308)	$ 14,908
Net (loss) income	$ (30,759)	$ (87,866)	$ (48,240)	$ 12,501
Basic net (loss) income per share	$ (1.15)	$ (3.32)	$ (1.83)	$ 0.49
Diluted net (loss) income per share	$ (1.15)	$ (3.32)	$ (1.83)	$ 0.48

The sum of quarterly amounts, including per share amounts, may not equal amounts reported for year-to-date periods. This is due to the effects of rounding and changes in the number of weighted-average shares outstanding for each period.

(1) The second quarter of 2022 and the fourth quarter results include a $92.0 million impairment of goodwill, respectively. Refer to **Note 3** "*Intangible Assets, net*" to these consolidated financial statements for further information on our 2022 goodwill impairment charge.

Note 25. Subsequent Events

In January 2024, an affiliated subsidiary pledged approximately $17.8 million of fixed securities to FHLB DM Bank as a requirement to withdrawal $5.5 million for a long term, 4.23% fixed rate loan, with an initial maturity date of January 19, 2024. On January 19, 2024, the maturity was amended to be January 19, 2029.

On March 11, 2024, the Board of Directors established a new share repurchase program plan to commence upon 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").

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. 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 Annual 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 December 31, 2023.

Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management's override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2023, our management assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework, or 2013 Framework. Based on this assessment, our management concluded that, as of December 31, 2023, our internal control over financial reporting was effective based on those criteria.

Plante & Moran, PLLC, the independent registered public accounting firm who also audited the Company's consolidated financial statements included in this Form 10-K, has issued their attestation report on the Company's internal control over financial reporting presented in Part IV, Item 15 of this report under "Report of Independent Registered Public Accounting Firm."

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.

Item 9B. Other Information

Not applicable

Item 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections

Not applicable

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The items required by Part III, Item 10 are incorporated herein by reference from the Registrant’s Proxy Statement for its 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2023.

Item 11. Executive Compensation

The items required by Part III, Item 11 are incorporated herein by reference from the Registrant’s Proxy Statement for its 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2023.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The items required by Part III, Item 12 are incorporated herein by reference from the Registrant’s Proxy Statement for its 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2023.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The items required by Part III, Item 13 are incorporated herein by reference from the Registrant’s Proxy Statement for its 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2023.

Item 14. Principal Accountant Fees and Services

The items required by Part III, Item 14 are incorporated herein by reference from the Registrant’s Proxy Statement for its 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2023.

PART IV

Item 15. Exhibits, Financial Statements Schedules

(a) The following documents are filed as part of this report.

(1) Financial Statements

The following consolidated financial statements of the Company and the reports of independent auditors thereon are filed with this report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations and Comprehensive Income
Consolidated Statements of Changes in Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(2) *Financial Statement Schedules*

The following additional financial schedules are furnished herewith pursuant to requirements of Form 10-K.

Schedules required to be filed under the provisions of Regulations S-X Article 7:

(3) List of Exhibits

The following is a list of exhibits filed or incorporated by reference as part of this Annual Report on Form 10-K

Exhibit Number	Description (File No. 001-36462)
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)
4.1	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)
4.2	Form of 5.875% Convertible Senior Notes due 2037 (included in Exhibit 4.1), incorporated by reference to 1.1 to our Form 8-K filed on August 16, 2017)
4.3	Indenture, date as of August 16, 2017, by and among the Company. Heritage MGA, LLC as guarantor, and Wilmington Trust, National Association, as trustee, (incorporated by reference to Exhibit 4.1 to our Form 8-K filed on August 16, 2017)
4.4	Description of Capital Stock dated December 31, 2019 (incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-K filed on March 10, 2020)
10.1†	Heritage Insurance Holdings, Inc. Omnibus Incentive Plan (incorporated by reference to Exhibit 10.28 of the Registration Statement filed on Form S-1 (File No. 333-195409) filed on April 21, 2014)

10.8	Credit Agreement, dated December 14, 2018, among Heritage Insurance Holdings, Inc., certain subsidiaries of Heritage Insurance Holdings, Inc. from time to time party thereto as guarantors, the lenders from time to time party thereto, Regions Bank, as Administrative Agent and Collateral Agent, BMO Harris Bank N.A., as Syndication Agent, Hancock Whitney Bank and Canadian Imperial Bank of Commerce, as Co-Documentation Agents, and Regions Capital Markets and BMO Capital Markets Corp., as Joint Lead Arrangers and Joint Bookrunners (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K, filed on March 12, 2019)
10.9	First Amendment to Credit Agreement, dated as of May 17, 2019, by and between Heritage Insurance Holdings, Inc. and the Lenders party, the Guarantors and Regions Bank (incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2020)
10.10	Second Amendment to Credit Agreement, dated April 27, 2020, among Heritage Insurance Holdings, Inc., certain subsidiaries of Heritage Insurance Holdings, Inc. from time to time party as guarantors, the lenders from time to time party, and Regions Bank, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 30, 2020)
10.11	Third Amendment to Credit Agreement, dated June 1, 2020, among Heritage Insurance Holdings, Inc., certain subsidiaries of Heritage Insurance Holdings, Inc. from time to time party as guarantors, the lenders from time to time party, and Regions Bank, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2020)
10.12	Fourth Amendment of Credit Agreement, data March 24, 2021, among Heritage Insurance Holdings, Inc., certain subsidiaries of Heritage Insurance Holdings, Inc., from time to time party as guarantors, the lenders from time to time party, and Regions Bank, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.23 to our Form 10-Q filed on, May 7, 2021)
10.13	Fifth Amendment to Credit Agreement, dated July 28, 2021, among Heritage Insurance Holdings, Inc., certain subsidiaries of Heritage Insurance Holdings, Inc. from time to time party as guarantors, the lenders from time to time party and Regions Bank, as Administrative Agent and Collateral Agent (incorporated by reference to our Form 8-K filed on August 3, 2021).
10.16†	Restricted Stock Award Agreement, dated November 4, 2015, by and between Heritage Insurance Holdings, Inc. and Ernie Garateix (incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2020)
10.17†	Restricted Stock Award Agreement, dated February 12, 2018, by and between Heritage Insurance Holdings, Inc. and Kirk Lusk (incorporated by reference to Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2020)
10.18†	Restricted Stock Award Agreement, dated November 4, 2015, by and between Heritage Insurance Holdings, Inc. and Rich Widdicombe (incorporated by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2020)
10.19†	Restricted Stock Award Agreement, dated February 12, 2018, by and between Heritage Insurance Holdings, Inc. and Timothy Moura (incorporated by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q filed on May 8, 2020)
10.21†	Employment Agreement dated January 1, 2024 between Heritage Insurance Holdings, Inc., and Kirk Lusk (incorporated by reference to Exhibit 10.2 to our Form 8-K filed on January 11, 2024)
10.22†	Employee Agreement dated January 1, 2024 between Heritage Insurance Holdings, Inc. and Sharon Binnun (incorporated by reference to Exhibit 10.4 to our Form 8-K filed on January 11, 2024)
10.23†	Employment Agreement dated April 2, 2018 between Zephyr Insurance Company, Inc., and Tim Johns (incorporated by reference to Exhibit 10.21 to our Form 10-Q filed on May 7, 2021)
10.24	Form of Restricted Stock Award Agreement (Time-Based and Performance-Based Vesting) (incorporated by reference to Exhibit 10.22 to our Form 10-Q filed on May 7, 2021)
10.25†	Employment Agreement dated January 1, 2024 between Heritage Insurance Holdings, Inc., and Ernie Garateix (incorporated by reference to Exhibit 10.1 to our Form 8-K filed on January 11, 2024)
10.26†	Employment Agreement dated January 1, 2024 between Heritage Insurance Holdings, Inc., and Tim Moura (incorporated by reference to Exhibit 10.3 to our Form 8-K filed on January 11, 2024)

10.27	Sixth Amendment to Credit Agreement, dated May 4, 2022, among Heritage Insurance Holdings, Inc., certain subsidiaries of Heritage Insurance Holdings, Inc. from time to time party as guarantors, the lenders from time to time party and Regions Bank, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to our Form 10-Q filed on May 9, 2022)
10.28	Seventh Amendment to Credit Agreement, dated November 7, 2022, among Heritage Insurance Holdings, Inc., certain subsidiaries of Heritage Insurance Holdings, Inc. from time to time party as guarantors, the lenders from time to time party and Regions Bank, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.1 to our Form 10-Q filed on November 9, 2022)
10.29	Eighth Amendment to Credit Agreement, dated February 8, 2023, among Heritage Insurance Holdings, Inc., certain subsidiaries of Heritage Insurance Holdings, Inc. from time to time party as guarantors, the lenders from time to time party and Regions Bank, as Administrative Agent and Collateral Agent (incorporated by reference to Exhibit 10.29 to our Form 10-K on March 13, 2023)
21*	Subsidiaries of the Registrant *
23.1*	Consent of Plante Moran, PLLC *
24.1	Power of Attorney (included on signature page)
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 and Chief Financial Officer pursuant to 18 U.SC. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
97.1*	Heritage Insurance Holdings, Inc. Executive Officers Clawback Policy*
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 Annual Report on Form 10-K for the fiscal year ended December 31, 2023, formatted in Inline XBRL (included in Exhibit 101)

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

Item 16. FORM 10-K SUMMARY

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERITAGE INSURANCE HOLDINGS, INC. (Registrant)

Date: March 13, 2024

By: /s/ ERNESTO GARATEIX
Chief Executive Officer
(on behalf of the Registrant and as Principal Executive Officer)

By: /s/ KIRK LUSK
Chief Financial Officer
(on behalf of the Registrant and as Principal Financial Officer)

POWERS OF ATTORNEY

KNOW ALL BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Ernesto Garateix or Kirk Lusk as his true and lawful attorney-in-fact and agent, he with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RICHARD WIDDICOMBE Richard Widdicombe	Chairman	March 13, 2024
/s/ ERNESTO GARATEIX Ernesto Garateix	Chief Executive Officer (Principal Executive Officer)	March 13, 2024
/s/ KIRK LUSK Kirk Lusk	Chief Financial Officer/Treasurer (Principal Financial Officer)	March 13, 2024
/s/ PANAGIOTIS APOSTOLOU Panagiotis Apostolou	Director	March 13, 2024
/s/ IRINI BARLAS Irini Barlas	Director	March 13, 2024
/s/ MARK BERSET Mark Berset	Director	March 13, 2024
/s/ NICHOLAS PAPPAS Nicholas Pappas	Director	March 13, 2024
/s/ JOSEPH VATTAMATTAM Joseph Vattamattam	Director	March 13, 2024
/s/ PAUL WHITING Paul Whiting	Director	March 13, 2024
/s/ VIJAY WALVEKAR Vijay Walvekar	Director	March 13, 2024

SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Condensed Balance Sheet

The following summarizes the major categorizes of Heritage Insurance Holdings, Inc.'s financial statements (in thousands):

	As of December 31,	
	2023	2022
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 26,807	$ 1,109
Investment in and advances to subsidiaries	334,788	269,325
Other assets	1,678	7,207
Total Assets	$ 363,273	$ 277,641
LIABILITIES		
Other liabilities	$ 142,993	$ 146,602
Total Liabilities	$ 142,993	$ 146,602
STOCKHOLDERS' EQUITY		
Common stock	$ 3	$ 3
Paid-in-capital	360,310	334,711
Treasury	(130,900)	(130,900)
Accumulated other comprehensive income	(35,250)	(53,585)
Retained earnings (deficit)	26,117	(19,190)
Total Stockholders' Equity	$ 220,280	$ 131,039
Total Liabilities and Stockholders' Equity	$ 363,273	$ 277,641

Condensed Statement of Operations

	For the Years Ended December 31,		
	2023	2022	2021
	(In thousands, except share and per share amounts)		
Revenue:			
Other revenue	$ 17,208	$ 589	$ 1,511
Total revenue	17,208	589	1,511
Expenses:			
General and administrative expense	1,841	6,671	10,498
Amortization of debt issuance cost	469	1,449	2,500
Interest expense, net	10,238	7,471	5,895
Total expenses	$ 12,548	$ 15,591	$ 18,893
Income (loss) before income taxes and equity in net income of subsidiaries	4,660	(15,002)	(17,382)
Provision (benefit) from income taxes	1,905	(3,147)	(3,526)
Income (loss) before equity in net income of subsidiaries	2,755	(11,855)	(13,856)
Equity in net income (loss) of subsidiaries	42,552	(142,508)	(60,871)
Consolidated net income (loss)	$ 45,307	$ (154,363)	$ (74,727)

See notes to condensed financial statements.

SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT
Condensed Statement of Cash Flows

	For the Years Ended December 31,		
Cash flows from operating activities:	2023	2022	2021
		(in thousands)	
Net income (loss)	$ 2,754	$ (11,854)	$ (13,856)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Stock-based compensation	1,362	2,008	1,161
Net realized gains	—	—	—
Amortization of debt issuance cost	469	1,448	1,657
Impairment on other investments	—	—	1,157
Deferred income taxes	39	474	(69)
Changes in operating assets and liabilities			
Prepaid	137	8	1,160
Income taxes payable	9,415	(14,674)	10,764
Accrued interest on debt	(425)	—	306
Other assets	2,572	332	(2,100)
Dividends payable	(19)	(1,562)	(36)
Other liabilities	(588)	170	(416)
Net cash provided by (used in) operating activities	$ 15,716	$ (23,651)	$ (271)
Investing Activities:			
Dividends received from subsidiaries	—	32,200	41,138
Investments and advances to subsidiaries	(38,475)	(8,948)	(22,189)
Net cash (used in) provided by investing activities	(38,475)	23,252	18,949
Financing Activities:			
Mortgage loan payments	(180)	(322)	(613)
Draw from credit facility	—	35,000	—
Repurchase convertible notes	—	(22,529)	
Issuance of common stock, net	24,666	—	—
Repayment of long-term debt	(9,500)	(6,400)	(2,430)
Shares tendered for income tax withholdings	(429)	(94)	(231)
Purchase of treasury stock	—	(7,343)	(8,192)
Dividends paid	33,900	(3,208)	(6,673)
Net cash provided by (used in) financing activities	48,457	(4,896)	(18,139)
Increase (decrease) in cash and cash equivalents	25,698	(5,295)	539
Cash and cash equivalents, beginning of period	1,109	6,404	5,865
Cash and cash equivalents, end of year	$ 26,807	$ 1,109	$ 6,404

See notes to condensed financial statements.

SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Notes to Condensed Financial Statements

(1) Organization and Basis of Presentation

Heritage Insurance Holdings, Inc., (“we”, “our”, “us” and “Heritage”), established in 2012 and incorporated in the state of Delaware in 2014, is a property and casualty insurance holding company that provides personal and commercial residential property insurance. We are headquartered in Tampa, Florida and, through our insurance company subsidiaries, Heritage Property & Casualty Insurance Company (“Heritage P&C”), Narragansett Bay Insurance Company (“NBIC”) and Zephyr Insurance Company (“Zephyr”), we write personal residential property insurance in the states of Alabama, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Maryland, Massachusetts, Mississippi, New Jersey, New York, North Carolina, Rhode Island, South Carolina, and Virginia. We also provide commercial residential insurance for properties in Florida, New Jersey, and New York and are also licensed in the state of Pennsylvania, but have not written business in that state. In order to limit our potential exposure to catastrophic events, we purchase significant reinsurance from third party reinsurers and may sponsor catastrophe bonds issued by Citrus Re Ltd.

The accompanying condensed financial statements included the activity of Heritage and the equity basis of its consolidated subsidiaries. Accordingly, these condensed financial statements have been presented for the parent company only. These condensed financial statements should be read in conjunction with the consolidated financial statements and related notes of Heritage Insurance and subsidiaries set forth in Part II, Item 8 Financial Statements and Supplemental Data of this Annual Report.

In applying the equity method to our consolidated subsidiaries, we record the investment at cost and subsequently adjust for additional capital contributions, distributions and proportionate share of earnings or losses.

SCHEDULE V – VALUATION ALLOWANCES AND QUALIFYING ACCOUNTS

The following table summarizes activity in the Company's allowance for doubtful accounts for the year ended December 31, 2023 and 2022.

Description	Beginning balance	Charges in earnings	Charges to other accounts	Deductions	Ending balance
			(in thousands)		
Year ended December 31, 2023					
Allowance for doubtful accounts	$ 451	80	776	—	$ 1,307
Year ended December 31, 2022					
Allowance for doubtful accounts	$ 451	—	—	—	$ 451

SCHEDULE VI – SUPPLEMENTAL INFORMATION CONCERNING CONSOLIDATED PROPERTY AND CASUALTY INSURANCE OPERATIONS

The following table provides certain information related to the Company's property and casualty operations as of, and for the periods presented (in thousands):

Year	As of December 31,	For the Year Ended December 31,			
	Reserves for Unpaid Losses and LAE	Incurred Losses and LAE Current Year	Incurred Losses and LAE Prior Years	Paid losses and LAE	Net Investment Income
			(in thousands)		
2023	$ 845,955	$ 427,702	$ (1,573)	$ 374,097	$ 25,756
2022	$ 1,131,807	$ 497,428	$ 3,734	$ 417,445	$ 11,977
2021	$ 590,166	$ 430,907	$ (3,537)	$ 400,614	$ 5,652

Year	As of December 31,	For the Year Ended December 31,			
	Deferred Policy Acquisition Costs ("DPAC")	Amortization of DPAC, Net	Net Premiums Written	Net Premiums Earned	Unearned Premiums
			(in thousands)		
2023	$ 102,884	$ 213,028	$ 729,362	$ 697,185	$ 675,921
2022	$ 99,617	$ 197,057	$ 662,168	$ 637,065	$ 656,641
2021	$ 93,881	$ 188,490	$ 611,732	$ 611,071	$ 590,419

**Report of Independent Registered Public Accounting Firm
on Supplemental Information**

To the Board of Directors and Stockholders
Heritage Insurance Holdings, Inc.

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of Heritage Insurance Holdings, Inc. (the "Company") as of and for the year ended December 31, 2023 and issued our report thereon dated March 13, 2024, which expressed an unqualified opinion on those consolidated financial statements and is included at Item 8 in this Form 10-K. The supplemental information contained in the consolidated financial statement schedules of the Company in the accompanying index at Item 15 in this Form 10-K has been subjected to audit procedures performed in conjunction with the audit of the Company's consolidated financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the consolidated financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

/s/ Plante & Moran, PLLC

Chicago, Illinois
March 13, 2024

Exhibit 21

HERITAGE INSURANCE HOLDINGS, INC.
Subsidiaries

As of December 31, 2023, the Company had the following active subsidiaries:

Wholly-owned subsidiaries of Heritage Insurance Holdings, Inc.	***State of Incorporation***
Heritage Property & Casualty Insurance Company, Inc	Florida
Heritage MGA, LLC	Florida
Contractors' Alliance Network	Florida
Skye Lane Properties, LLC	Florida
Osprey Re Ltd	Bermuda
Zephyr Acquisition Company	Delaware
NBIC Holdings, Inc.	Delaware
Wholly-owned subsidiaries of NBIC Holdings, Inc.	
Narragansett Bay Insurance Company	Rhode Island
NBIC Financial Holdings, Inc	Rhode Island
NBIC Service Company, Inc	Rhode Island
Pawtucket Insurance Company	Rhode Island
Wholly-owned subsidiaries of Zephyr Acquisition Company	
HI Holdings, Inc	Hawaii
Zephyr Insurance Company, Inc.	Hawaii

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements of Heritage Insurance Holdings, Inc. on Form S-3 (333-2540941) and Form S-8 (333-197906 and 333-272474) of our report dated March 13, 2024 with respect to the consolidated financial statements, which appear in Heritage Insurance Holdings, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the U.S. Securities and Exchange Commission.

/s/ Plante & Moran, PLLC

Chicago, Illinois
March 13, 2024

Exhibit 31.1

CERTIFICATION

I, Ernesto Garateix, certify that:

1. I have reviewed this Annual Report on Form 10-K of Heritage Insurance Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading, with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2024

/s/ ERNESTO GARATEIX

Ernesto Garateix
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Kirk Lusk, certify that:

1. I have reviewed this Annual Report on Form 10-K of Heritage Insurance Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading, with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2024

/s/ KIRK LUSK

Kirk Lusk

Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Annual Report of Heritage Insurance Holdings, Inc. (the "Company") on Form 10-K for the period ending December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Ernesto Garateix, Chief Executive Officer of the Company and Kirk Lusk, Chief Financial officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to our knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ ERNESTO GARATEIX
Ernesto Garateix
Chief Executive Officer (Principal Executive Officer)

By: /s/ KIRK LUSK
Kirk Lusk
Co-Chief Financial Officer (Principal Financial Officer)

Date: March 13, 2024

Exhibit 97.1

Heritage Insurance Holdings, Inc.
Executive Officer Clawback Policy

Approved by the Compensation Committee and the Board of Directors on November 2, 2023 (the "Adoption Date")

I. Purpose

This Executive Officer Clawback Policy describes the circumstances under which Covered Persons of Heritage Insurance Holdings, Inc. and any of its direct or indirect subsidiaries (the "Company") will be required to repay or return Erroneously-Awarded Compensation (as defined herein) to the Company.

This Policy and any terms used in this Policy shall be construed in accordance with all applicable SEC regulations promulgated to comply with Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, including, without limitation, Rule 10D-1 promulgated under the Securities Exchange Act of 1934, as amended, and the rules adopted by the NYSE.

Each Covered Person of the Company shall sign an Acknowledgement and Agreement to the Executive Officer Clawback Policy in the form attached hereto as Exhibit A as a condition to his or her participation in any of the Company's incentive-based compensation programs; provided, that, this Policy shall apply to each Covered Person, irrespective of whether such Covered Person shall have failed, for any reason, to have executed such acknowledgment and agreement.

II. Definitions

For purposes of this Policy, the following capitalized terms shall have the meaning set forth below:

(a) "**Accounting Restatement**" shall mean an accounting restatement (i) due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or (ii) that corrects an error that is not material to previously issued financial statements, but would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little r" restatement). Notwithstanding the foregoing, none of the following changes to the Company's financial statements represent error corrections and shall not be deemed an Accounting Restatement: (a) retrospective application of a change in accounting principle; (b) retrospective revision to reportable segment information due to a change in the structure of the Company's internal organization; (c) retrospective reclassification due to a discontinued operation; (d) retrospective application of a change in reporting entity, such as from a reorganization of entities under common control; and (e) retrospective revision for stock splits, reverse stock splits, stock dividends or other changes in capital structure.

(b) "**Board**" shall mean the Board of Directors of the Company.

(c) "**Clawback-Eligible Incentive Compensation**" shall mean, in connection with an Accounting Restatement, any Incentive-Based Compensation Received by a Covered Person (regardless of whether such Covered Person was serving at the time that Erroneously-Awarded Compensation is required to be repaid) (i) on or after October 2, 2023, (ii) after beginning service as a Covered Person, (iii) while the Company has a class of securities listed on a national securities exchange or national securities association and (iv) during the Clawback Period.

(d) "**Clawback Period**" shall mean, with respect to any Accounting Restatement, the three completed fiscal years immediately preceding the Restatement Date and any transition period (that results from a change in the Company's fiscal year) of less than nine months within or immediately following those three completed fiscal years.

(e) "**Committee**" shall mean the Compensation Committee of the Board.

(f) "**Covered Person**" shall mean any person who is, or was at any time, during the Clawback Period, an Executive Officer of the Company. For the avoidance of doubt, the term Covered Person may include a former Executive Officer who left the Company, retired or transitioned to a non- Executive Officer role (including after serving as an Executive Officer in an interim capacity) during the Clawback Period.

(g) "**Erroneously-Awarded Compensation**" shall mean the amount of Clawback-Eligible Incentive Compensation that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received had it been determined based on the restated amounts set forth in the Accounting Restatement. This amount must be computed without regard to any taxes paid.

(h) "**Executive Officer**" shall mean the Company's president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person (including an officer of the Company's parent(s) or subsidiaries) who performs similar policy-making functions for the Company. For the sake of clarity, at a minimum, all persons who would be executive officers pursuant to Item 401(b) of Regulation S-K shall be deemed "Executive Officers".

(i) "**Financial Reporting Measures**" shall mean measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and all other measures that are derived wholly or in part from such measures. For purposes of this Policy, Financial Reporting Measures shall include stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return). A Financial Reporting Measure need not be presented within the Company's financial statements or included in a Company filing with the SEC.

(j) "**Incentive-Based Compensation**" shall have the meaning set forth in Section III below.

(k) "**NYSE**" shall mean the New York Stock Exchange.

(l) "**Policy**" shall mean this Executive Officer Clawback Policy, as the same may be amended and/or restated from time to time.

(m) "**Received**" shall mean Incentive-Based Compensation received, or deemed to be received, in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation is attained, even if the payment or grant occurs after the fiscal period.

(n) "**Repayment Agreement**" shall have the meaning set forth in Section V below.

(o) "**Restatement Date**" shall mean the earlier of (i) the date the Board, a committee of the Board or the officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, and (ii) the date that a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

(p) "**SARs**" shall mean stock appreciation rights.

(q) "**SEC**" shall mean the U.S. Securities and Exchange Commission.

III. Incentive-Based Compensation

"Incentive-Based Compensation" shall mean any compensation that is granted, earned or vested wholly or in part upon the attainment of a Financial Reporting Measure.

For purposes of this Policy, specific examples of Incentive-Based Compensation include, but are not limited to:

- Non-equity incentive plan awards that are earned based, wholly or in part, on satisfaction of a Financial Reporting Measure performance goal;
- Bonuses paid from a "bonus pool," the size of which is determined, wholly or in part, based on satisfaction of a Financial Reporting Measure performance goal;
- Other cash awards based on satisfaction of a Financial Reporting Measure performance goal;
- Restricted stock, restricted stock units ("**RSUs**"), performance-based stock units ("**PSUs**"), stock options and SARs that are granted or become vested, wholly or in part, on satisfaction of a Financial Reporting Measure performance goal; and
- Proceeds received upon the sale of shares acquired through an incentive plan that were granted or vested based, wholly or in part, on satisfaction of a Financial Reporting Measure performance goal.

For purposes of this Policy, Incentive-Based Compensation excludes:

- Base salaries (except with respect to any salary increases earned, wholly or in part, based on satisfaction of a Financial Reporting Measure performance goal);
- Bonuses paid solely at the discretion of the Committee or Board that are not paid from a "bonus pool" that is determined by satisfying a Financial Reporting Measure performance goal;
- Bonuses paid solely upon satisfying one or more subjective standards and/or completion of a specified employment period;
- Non-equity incentive plan awards earned solely upon satisfying one or more strategic measures or operational measures; and
- Equity awards that vest solely based on the passage of time and/or satisfaction of one or more non-Financial Reporting Measures.

IV. Determination and Calculation of Erroneously-Awarded Compensation

In the event of an Accounting Restatement, the Committee shall promptly determine the amount of any Erroneously-Awarded Compensation for each Covered Person in connection with such Accounting Restatement and shall promptly thereafter provide each Covered Person with a written notice containing the amount of Erroneously-Awarded Compensation and a demand for repayment, return or forfeiture thereof, as applicable (the "**Notice**").

(a) **Cash Awards**. With respect to cash awards, the Erroneously-Awarded Compensation is the difference between the amount of the cash award (whether payable as a lump sum or over time) that was Received and the amount that should have been received applying the restated Financial Reporting Measure.

(b) **Cash Awards Paid From Bonus Pools**. With respect to cash awards paid from bonus pools, the Erroneously-Awarded Compensation is the pro rata portion of any deficiency that results from the aggregate bonus pool that is reduced based on applying the restated Financial Reporting Measure.

(c) **Equity Awards**. With respect to equity awards, if the shares, RSUs, PSUs, options or SARs are still held at the time of recovery, the Erroneously-Awarded Compensation is the number of such securities Received in excess of the number that should have been received applying the restated Financial Reporting Measure (or the value in excess of that number). If the RSUs, PSUs, options or SARs have vested or been exercised, as the case may be, but the underlying shares have not been sold, the Erroneously-Awarded Compensation is the number of shares underlying the excess RSUs, PSUs, options or SARs (or the value thereof). If the underlying shares have already been sold, then the Committee shall determine the amount which most reasonably estimates the Erroneously-Awarded Compensation.

(d) **Compensation Based on Stock Price or Total Shareholder Return**. For Incentive-Based Compensation based on (or derived from) stock price or total shareholder return, where the amount of Erroneously-Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, the amount shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received (in which case, the Committee shall maintain documentation of such determination of that reasonable estimate and provide such documentation to the NYSE in accordance with applicable listing standards).

V. Recovery of Erroneously-Awarded Compensation

Once the Committee has determined the amount of Erroneously-Awarded Compensation recoverable from the applicable Covered Person, the Committee shall take all necessary actions to recover the Erroneously-Awarded Compensation reasonably promptly following delivery of the Notice to the Covered Person. Unless otherwise determined by the Committee, the Committee shall pursue the recovery of Erroneously-Awarded Compensation in accordance with the below:

(a) **Cash Awards**. With respect to cash awards, the Committee shall either (i) require the Covered Person to repay the Erroneously-Awarded Compensation in a lump sum in cash (or such property as the Committee agrees to accept with a value equal to such Erroneously-Awarded Compensation) or (ii) if approved by the Committee, enter into a Repayment Agreement in accordance with subsection (d) below.

(b) **Unvested Equity Awards**. With respect to those equity awards that have not yet vested or been exercised, the Committee shall take such action as is necessary to cancel, or otherwise cause to be forfeited, the awards in the amount of the Erroneously-Awarded Compensation.

(c) **Vested Equity Awards**. With respect to those equity awards that have vested or been exercised and the underlying shares have not been sold, the Committee shall take such action as is necessary to cause the Covered Person to deliver and surrender the underlying shares in the amount of the Erroneously-Awarded Compensation.

In the event that the Covered Person has sold any underlying shares, the Committee shall either (i) require the Covered Person to repay the Erroneously-Awarded Compensation in a lump sum in cash (or such property as the Committee agrees to accept with a value equal to such Erroneously-Awarded

Compensation) or (ii) if approved by the Committee, enter into a Repayment Agreement in accordance with subsection (d) below.

(d) **Repayment Agreement**. To the extent approved by the Committee, the Company shall enter into a written agreement (in a form reasonably acceptable to the Committee) with the Covered Person that provides for the Covered Person's repayment of the Erroneously-Awarded Compensation as promptly as possible without unreasonable economic hardship to the Covered Person based upon the particular facts and circumstances (a "**Repayment Agreement**").

(e) **Effect of Non-Repayment**. To the extent that a Covered Person fails to repay all Erroneously-Awarded Compensation to the Company when due (as determined in accordance with this Policy), the Company shall take all actions reasonable and appropriate to recover such outstanding Erroneously-Awarded Compensation from the applicable Covered Person. The applicable Covered Person shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously-Awarded Compensation in accordance with the immediately preceding sentence.

The Committee shall have broad discretion to determine the appropriate means of recovery of Erroneously-Awarded Compensation based on all applicable facts and circumstances and taking into account the time value of money and the cost to stockholders of delaying recovery. However, in no event may the Company accept an amount that is less than the amount of Erroneously-Awarded Compensation in satisfaction of a Covered Person's obligations hereunder.

VI. Discretionary Recovery

Notwithstanding anything herein to the contrary, the Company shall not be required to take action to recover Erroneously-Awarded Compensation if any one of the following conditions are met and the Committee determines that recovery would be impracticable:

(i) The direct expenses paid to a third party to assist in enforcing this Policy against a Covered Person would exceed the amount to be recovered, after the Company has made a reasonable attempt to recover the applicable Erroneously-Awarded Compensation, documented such attempts and provided such documentation to the NYSE;

(ii) Recovery would violate home country law where that law was adopted prior to November 28, 2022, provided that, before determining that it would be impracticable to recover any amount of Erroneously-Awarded Compensation based on violation of home country law, the Company has obtained an opinion of home country counsel, acceptable to the NYSE, that recovery would result in such a violation and a copy of the opinion is provided to the NYSE; or

(iii) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

VII. Reporting and Disclosure Requirements

The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the federal securities laws, including the disclosure required by the applicable filings required to be made with the SEC.

VIII. Effective Date

This Policy shall apply to all Incentive-Based Compensation Received on or after October 2, 2023.

IX. No Indemnification

The Company shall not indemnify any Covered Person against the loss of Erroneously-Awarded Compensation and shall not pay, or reimburse any Covered Person for premiums, for any insurance policy to fund such Covered Person's potential recovery obligations.

X. Administration

The Committee has the sole discretion to administer this Policy and ensure compliance with NYSE Rules and any other applicable law, regulation, rule or interpretation of the SEC or the NYSE promulgated or issued in connection therewith. The Committee shall, subject to the provisions of this Policy, make such determinations and interpretations and take such actions as it deems necessary, appropriate or advisable. All determinations and interpretations made by the Committee shall be final, binding and conclusive.

XI. Amendment; Termination

The Committee may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary, including as and when it determines that it is legally required by any federal securities laws, SEC rule or the rules of any national securities exchange or national securities association on which the Company's securities are then listed. The Committee may terminate this Policy at any time. Notwithstanding anything in this Section XI to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule, or the rules of any national securities exchange or national securities association on which the Company's securities are then listed.

XII. Other Recoupment Rights; No Additional Payments

The Committee intends that this Policy will be applied to the fullest extent of the law. The Committee may require that any employment agreement, equity award agreement or any other agreement entered into on or after the Adoption Date shall, as a condition to the grant of any benefit thereunder, require a Covered Person to agree to abide by the terms of this Policy; provided, that, this Policy shall apply to all Covered Persons irrespective of any such explicit agreement. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other rights under applicable law, regulation or rule or pursuant to the terms of any similar policy in any employment agreement, equity plan, equity award agreement or similar arrangement and any other legal remedies available to the Company. However, this Policy shall not provide for recovery of Incentive-Based Compensation that the Company has already recovered pursuant to Section 304 of the Sarbanes-Oxley Act or other recovery obligations.

XIII. Successors

This Policy shall be binding and enforceable against all Covered Persons and their beneficiaries, heirs, executors, administrators or other legal representatives.

Exhibit A

ACKNOWLEDGEMENT AND AGREEMENT
TO THE
EXECUTIVE OFFICER CLAWBACK POLICY
OF
HERITAGE INSURANCE HOLDINGS, INC.

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Heritage Insurance Holdings, Inc. Executive Officer Clawback Policy (the "Policy"). Capitalized terms used but not otherwise defined in this Acknowledgement Form (this "Acknowledgement Form") shall have the meanings ascribed to such terms in the Policy.

By signing this Acknowledgement Form, the undersigned acknowledges and agrees that the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned's employment with the Company. Further, by signing below, the undersigned agrees to abide by the terms of the Policy, including, without limitation, by returning any Erroneously-Awarded Compensation (as defined in the Policy) to the Company to the extent required by, and in a manner permitted by, the Policy.

____
Signature

____
Name

____
Date