

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

Form 10-Q

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

For the quarterly period ended March 31, 2021

OR

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

Commission File Number
001-36462

Heritage Insurance Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

45-5338504
(IRS Employer
Identification No.)

2600 McCormick Drive, Suite 300
Clearwater, Florida 33759
(Address, including zip code, of principal executive offices)

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

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

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

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

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

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

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

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

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

The aggregate number of shares of the Registrant's Common Stock outstanding on May 3, 2021 was 27,965,190

HERITAGE INSURANCE HOLDINGS, INC.
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FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q (“Form 10-Q”) or in documents incorporated by reference that are not historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements about (i) our ability to meet our investment objectives and to manage and mitigate market risk with respect to our investments; (ii) the adequacy of our reinsurance program and our ability to diversify risk and safeguard our financial position; (iii) our estimates with respect to tax and accounting matters including the impact on our financial statements; (iv) future dividends, if any; (v) our expectations related to our financing activities; (vi) the sufficiency of our liquidity to pay our insurance company affiliates’ claims and expenses, as well as to satisfy commitments in the event of unforeseen events; (vii) the sufficiency of our capital resources, together with cash provided from our operations, to meet currently anticipated working capital requirements; (viii) the potential effects of the seasonality of our business, including effects on our reinsurance business and financial results; (ix) our intentions with respect to our credit risk investments; and (x) the potential effects of our current legal proceedings.

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;
 - 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;
 - inherent uncertainty of our models and our reliance on such models as a tool to evaluate risk;
 - the fluctuation in our results of operations;
 - 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;
 - increased competition, competitive pressures, and market conditions;
 - our failure to accurately access and price the risks we underwrite;
 - our failure to identify suitable business acquisitions, 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;
 - low renewal rates and failure of such 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;
 - litigation or regulatory actions;
 - regulation limiting rate increases or that require us to participate in loss sharing or assessments;
 - the terms of our indebtedness;
 - our ability to maintain effective internal controls over financial reporting;
 - certain characteristics of our common stock;
 - the continued and potentially prolonged impact of COVID-19 on the economy, demand for our products and our operations, including measures taken by the governmental authorities to address COVID-19, which may precipitate or exacerbate other risks and/or uncertainties;
 - 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.
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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.

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us described in our filings with the Securities and Exchange Commission (the “SEC”). The forward-looking statements we make in our Form 10-Q are valid only as of the date of our Form 10-Q and may not occur in light of the risks, uncertainties and assumptions that we describe from time to time in our filings with the SEC. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our forward-looking statements is included in the section entitled “Risk Factors” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2020. Except as required by applicable law, we undertake no obligation and disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

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

	<i>March 31, 2021</i>	<i>December 31, 2020</i>
	<i>(unaudited)</i>	
ASSETS		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$625,773 and \$553,172)	\$ 622,923	\$ 561,011
Equity securities, at cost	1,415	1,599
Other investments	26,409	26,409
Total investments	650,747	589,019
Cash and cash equivalents	402,770	440,956
Restricted cash	5,427	5,427
Accrued investment income	2,872	2,737
Premiums receivable, net	84,336	77,471
Reinsurance recoverable on paid and unpaid claims, net of allowance for estimated uncollectible reinsurance of \$45	326,276	355,037
Prepaid reinsurance premiums	172,223	245,818
Income taxes receivable	29,896	32,224
Deferred policy acquisition costs, net	88,876	89,265
Property and equipment, net	18,674	18,685
Intangibles, net	60,689	62,277
Goodwill	152,459	152,459
Other assets	19,549	18,004
Total Assets	\$ 2,014,794	\$ 2,089,379
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	\$ 637,882	\$ 659,341
Unearned premiums	573,411	569,618
Reinsurance payable	144,206	161,918
Long-term debt, net	119,501	120,998
Deferred income tax, net	11,109	18,477
Advance premiums	21,497	18,268
Accrued compensation	8,112	9,325
Accounts payable and other liabilities	71,628	89,090
Total Liabilities	\$ 1,587,346	\$ 1,647,035
Commitments and contingencies (Note 17)		
Stockholders' Equity:		
Common stock, \$0.0001 par value, 50,000,000 shares authorized, 27,965,190 shares issued and 27,904,923 shares outstanding at March 31, 2021; 27,883,873 shares issued and 27,748,606 shares outstanding at December 31, 2020	3	3
Additional paid-in capital	332,000	331,867
Accumulated other comprehensive (loss) income	(2,145)	6,057
Treasury stock, at cost, 9,279,839 and 9,279,839 shares	(115,365)	(115,365)
Retained earnings	212,955	219,782
Total Stockholders' Equity	427,448	442,344
Total Liabilities and Stockholders' Equity	\$ 2,014,794	\$ 2,089,379

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<i>For the Three Months Ended</i>	
	<i>March 31,</i>	
	<u>2021</u>	<u>2020</u>
REVENUES:		
Gross premiums written	\$ 274,181	\$ 229,102
Change in gross unearned premiums	(3,770)	5,614
Gross premiums earned	270,411	234,716
Ceded premiums	(128,212)	(108,710)
Net premiums earned	142,199	126,006
Net investment income	1,293	3,670
Net realized gains	80	59
Other revenue	3,671	2,971
Total revenues	147,243	132,706
EXPENSES:		
Losses and loss adjustment expenses	97,909	68,181
Policy acquisition costs, net of ceding commission income (1)	35,366	30,047
General and administrative expenses, net of ceding commission income (2)	19,800	21,718
Total expenses	153,075	119,946
Operating (loss) income	(5,832)	12,760
Interest expense, net	1,878	1,966
(Loss) income before income taxes	(7,710)	10,794
(Benefit) provision for income taxes	(2,562)	3,174
Net (loss) income	\$ (5,148)	\$ 7,620
OTHER COMPREHENSIVE INCOME		
Change in net unrealized (losses) gains on investments	(10,597)	2,027
Reclassification adjustment for net realized investment gains	(80)	(59)
Income tax expense (benefit) related to items of other comprehensive income	2,475	(456)
Total comprehensive (loss) income	\$ (13,350)	\$ 9,132
Weighted average shares outstanding		
Basic	27,827,804	28,548,830
Diluted	27,827,804	28,549,012
(Loss) earnings per share		
Basic	\$ (0.19)	\$ 0.27
Diluted	\$ (0.19)	\$ 0.27

- (1) Policy acquisition costs includes \$11.3 million and \$10.4 million of ceding commission income for the three months ended March 31, 2021 and 2020, respectively.
- (2) General and administration includes \$3.7 million and \$3.5 million of ceding commission income for the three months ended March 31, 2021 and 2020, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<i>Common Shares</i>	<i>Par Value</i>	<i>Additional Paid-In Capital</i>	<i>Retained Earnings</i>	<i>Treasury Shares</i>	<i>Accumulated Other Comprehensive (Loss) Income</i>	<i>Total Stockholders' Equity</i>
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	—	—	—	—	—	(8,202)	(8,202)
Shares tendered for income taxes withholding	(12,500)	—	(127)	—	—	—	(127)
Restricted stock vested	25,000	—	—	—	—	—	—
Issued restricted stock	143,817	—	—	—	—	—	—
Stock-based compensation on restricted stock	—	—	260	—	—	—	260
Cash dividends declared (\$0.06 per common stock)	—	—	—	(1,679)	—	—	(1,679)
Net loss	—	—	—	(5,148)	—	—	(5,148)
Balance at March 31, 2021	27,904,923	\$ 3	\$ 332,000	\$ 212,955	\$ (115,365)	\$ (2,145)	\$ 427,448

	<i>Common Shares</i>	<i>Par Value</i>	<i>Additional Paid-In Capital</i>	<i>Retained Earnings</i>	<i>Treasury Shares</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Total Stockholders' Equity</i>
Balance at December 31, 2019	28,650,918	\$ 3	\$ 329,568	\$ 217,266	\$ (105,368)	\$ 7,330	\$ 448,799
Cumulative effect of adoption accounting guidance for expected credit losses, net of tax at January 1, 2020	—	—	—	(34)	—	—	(34)
Balance at January 1, 2020 (as adjusted for change in accounting principle)	28,650,918	3	329,568	217,232	(105,368)	7,330	448,765
Net unrealized change in investments, net of tax	—	—	—	—	—	1,512	1,512
Shares tendered for income taxes withholding	(17,500)	—	(233)	—	—	—	(233)
Restricted stock vested	25,000	—	—	—	—	—	—
Stock-based compensation on restricted stock	—	—	1,345	—	—	—	1,345
Stock buy-back	(766,900)	—	—	—	(7,986)	—	(7,986)
Cash dividends declared (\$0.06 per common stock)	—	—	—	(1,726)	—	—	(1,726)
Net income	—	—	—	7,620	—	—	7,620
Balance at March 31, 2020	27,891,518	\$ 3	\$ 330,680	\$ 223,126	\$ (113,354)	\$ 8,842	\$ 449,297

See accompanying notes to unaudited condensed consolidated financial statements.

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

	<i>For the Three Months Ended March 31,</i>	
	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Net (loss) income	\$ (5,148)	\$ 7,620
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Stock-based compensation	260	1,345
Bond amortization and accretion	917	1,359
Amortization of original issuance discount on debt	455	349
Depreciation and amortization	2,020	2,024
Allowance for bad debt	76	—
Net realized investment gains	(80)	(59)
Deferred income taxes	(4,893)	(4,452)
Changes in operating assets and liabilities:		
Accrued investment income	(135)	115
Premiums receivable, net	(6,941)	771
Prepaid reinsurance premiums	73,595	78,073
Reinsurance recoverable on paid and unpaid claims	28,761	53,880
Income taxes receivable	2,328	3,171
Deferred policy acquisition costs, net	389	2,316
Right of use leased asset	245	110
Other assets	(1,790)	(8,739)
Unpaid losses and loss adjustment expenses	(21,459)	(6,356)
Unearned premiums	3,793	(5,593)
Reinsurance payable	(17,712)	(54,391)
Accrued interest	(666)	(1,172)
Accrued compensation	(1,213)	2,890
Advance premiums	3,229	12,890
Income taxes payable	—	8,878
Operating lease liabilities	(271)	(264)
Other liabilities	(16,533)	(9,068)
Net cash provided by operating activities	<u>39,227</u>	<u>85,697</u>
INVESTING ACTIVITIES		
Fixed maturity securities sales, maturities and paydowns	40,470	58,462
Fixed maturity securities purchases	(113,890)	(83,891)
Equity securities sales	177	26
Equity securities purchases	—	(6)
Cost of property and equipment acquired	(421)	(76)
Net cash used in investing activities	<u>(73,664)</u>	<u>(25,485)</u>
FINANCING ACTIVITIES		
Repayment of term note	(1,875)	(3,750)
Mortgage loan payments	(77)	(72)
Purchase of treasury stock	—	(7,986)
Tax withholdings on share-based compensation awards	(127)	(233)
Dividends paid	(1,670)	(1,750)
Net cash used in financing activities	<u>(3,749)</u>	<u>(13,791)</u>
(Decrease) increase in cash, cash equivalents, and restricted cash	(38,186)	46,421
Cash, cash equivalents and restricted cash, beginning of period	446,383	283,008
Cash, cash equivalents and restricted cash, end of period	<u>\$ 408,197</u>	<u>\$ 329,429</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	\$ —	\$ —
Interest paid	<u>\$ 1,808</u>	<u>\$ 2,418</u>

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

	<i>March 31, 2021</i>	<i>December 31, 2020</i>
	<i>(In thousands)</i>	
Cash and cash equivalents	\$ 402,770	\$ 440,956
Restricted cash	5,427	5,427
Total	<u>\$ 408,197</u>	<u>\$ 446,383</u>

Restricted cash primarily represents funds held to meet our contractual obligations related to the catastrophe bonds issued by Citrus Re and by the Company's insurance subsidiaries in certain states in which such subsidiaries conduct business to meet regulatory requirements.

See accompanying notes to unaudited condensed consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of Heritage Insurance Holdings, Inc. (together with its subsidiaries, the “Company”). These statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain financial information that is normally included in annual consolidated financial statements prepared in accordance with GAAP, but that is not required for interim reporting purposes, has been omitted. In the opinion of the Company’s management, all material intercompany transactions and balances have been eliminated and all adjustments consisting of normal recurring accruals which are necessary for a fair statement of the financial condition and results of operations for the interim periods have been reflected. The accompanying interim condensed consolidated financial statements and related footnotes should be read in conjunction with the Company’s audited consolidated financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020 (the “2020 Form 10-K”).

Significant accounting policies

The accounting policies of the Company are set forth in Note 1 to condensed consolidated financial statements contained in the Company’s 2020 Form 10-K.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Accounting Pronouncements not yet adopted

The Company has documented the summary of its significant accounting policies in its Notes to the Audited Consolidated Financial Statements annual report on Form 10-K for the year ended December 31, 2020, filed on March 9, 2021. There have been no material changes to the Company’s accounting policies since the filing of that report.

No other new accounting pronouncements issued but not yet effective have had, or are expected to have, a material impact on our results of operations or financial position.

NOTE 2. INVESTMENTS

Securities Available-for-Sale

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

<u>March 31, 2021</u>	<u>Cost or Adjusted / Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<i>(In thousands)</i>				
<i>Debt Securities Available-for-sale</i>				
U.S. government and agency securities (1)	\$ 43,089	\$ 433	\$ 3	\$ 43,519
States, municipalities and political subdivisions	97,804	312	1,191	96,925
Special revenue	291,277	1,779	2,970	290,086
Hybrid securities	99	1	—	100
Industrial and miscellaneous	193,504	1,439	2,650	192,293
Total	<u>\$ 625,773</u>	<u>\$ 3,964</u>	<u>\$ 6,814</u>	<u>\$ 622,923</u>

- (1) Includes securities at March 31, 2021 with a carrying amount of \$22.2 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.

<i>December 31, 2020</i>	<i>Cost or Adjusted / Amortized Cost</i>	<i>Gross Unrealized Gains</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<i>Debt Securities Available-for-sale</i> <i>(In thousands)</i>				
U.S. government and agency securities (1)	\$ 29,985	\$ 609	\$ 1	\$ 30,593
States, municipalities and political subdivisions	84,597	1,077	4	85,670
Special revenue	271,194	3,154	27	274,321
Hybrid securities	100	—	—	100
Industrial and miscellaneous	167,296	3,070	39	170,327
Total	\$ 553,172	\$ 7,910	\$ 71	\$ 561,011

(1) Includes securities at December 31, 2020 with a carrying amount of \$20.2 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 following table presents net realized gains (losses) on the Company's debt securities available-for-sale for the three months ended March 31, 2021 and 2020, respectively:

<i>Three Months Ended March 31,</i>	<i>2021</i>		<i>2020</i>	
	<i>Gains (Losses)</i>	<i>Fair Value at Sale</i>	<i>Gains (Losses)</i>	<i>Fair Value at Sale</i>
<i>(In thousands)</i>				
<i>Debt Securities Available-for-Sale</i>				
Total realized gains	\$ 83	\$ 10,431	\$ 60	\$ 8,510
Total realized losses	(3)	642	(1)	256
Net realized gains and (losses)	\$ 80	\$ 11,073	\$ 59	\$ 8,766

The table below summarizes the Company's fixed maturity securities at March 31, 2021 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.

	<i>At March 31, 2021</i>			
	<i>Cost or Amortized Cost</i>	<i>Percent of Total</i>	<i>Fair Value</i>	<i>Percent of Total</i>
<i>(In thousands)</i>				
<i>Maturity dates:</i>				
Due in one year or less	\$ 78,937	13%	\$ 79,291	13%
Due after one year through five years	177,382	28%	178,603	29%
Due after five years through ten years	204,746	33%	200,886	32%
Due after ten years	164,708	26%	164,143	26%
Total	\$ 625,773	100%	\$ 622,923	100%

The following table summarizes the Company's net investment income by major investment category for the three months ended March 31, 2021 and 2020, respectively:

	<i>Three Months Ended March 31,</i>	
	<i>2021</i>	<i>2020</i>
<i>(In thousands)</i>		
Debt securities	\$ 1,418	\$ 4,162
Equity securities	—	—
Cash and cash equivalents	28	352
Other investments	371	94
Net investment income	1,817	4,608
Less: Investment expenses	524	938
Net investment income, less investment expenses	\$ 1,293	\$ 3,670

The following tables present, for all debt securities available-for-sale in an unrealized loss position (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 at March 31, 2021 and December 31, 2020, respectively:

<i>March 31, 2021</i>	<i>Less Than Twelve Months</i>			<i>Twelve Months or More</i>		
	<i>Number of Securities</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Number of Securities</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<i>Debt Securities Available-for-sale</i>						
U.S. government and agency securities	4	\$ 3	\$ 361	\$ —	\$ —	\$ —
States, municipalities and political subdivisions	66	1,191	55,427	—	—	—
Special revenue	159	2,966	127,866	10	4	101
Industrial and miscellaneous	131	2,650	102,756	—	—	—
Total fixed maturity securities	360	\$ 6,810	\$ 286,410	10	\$ 4	\$ 101

The Company's unrealized losses on corporate bonds have not been recognized because the bonds are of high credit quality with investment grade ratings of A- or higher, the Company does not intend to sell and it is unlikely the Company will be required to sell the securities prior to their anticipated recovery, and the decline in fair value is deemed due to changes in interest rates and other market conditions. The bond issuers continue to make timely principal and interest payments on the bonds. Further, we did not believe we had a credit event and therefore did not record any credit allowance for securities that were in an unrealized loss position at March 31, 2021. We attribute the price decline and subsequent increase in our unrealized losses to interest rates rather than any sort of fundamental deterioration.

<i>December 31, 2020</i>	<i>Less Than Twelve Months</i>			<i>Twelve Months or More</i>		
	<i>Number of Securities</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Number of Securities</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<i>Debt Securities Available-for-sale</i>						
U.S. government and agency securities	3	\$ 1	\$ 73	1	\$ —	\$ 7
States, municipalities and political subdivisions	6	4	5,158	—	—	—
Special revenue	27	24	16,439	9	3	73
Industrial and miscellaneous	26	39	16,025	—	—	—
Total fixed maturity securities	62	\$ 68	\$ 37,695	10	\$ 3	\$ 80

Other Investments

Non-Consolidating Variable Interest Entities ("VIEs")

The Company makes passive investments in limited partnerships ("LPs"), limited liability companies ("LLCs"), and a Real Estate Investment Trusts ("REITs"). These investments are accounted for using the equity method, with income reported in net realized and unrealized gains and losses or the measurement alternative method, which is reported at cost less impairment (if any), plus or minus changes from observable price changes.

These investments are generally of a passive nature and the Company has determined it is not the primary beneficiary as it has no ability to direct activities that could significantly affect the economic performance of the investments. Investments in these entities are by nature less liquid and may involve more risk than other investments. The Company's maximum exposure to loss with respect to these investments is limited to the investments carrying amounts reported as "other investments" in the Company's condensed consolidated balance sheet.

In 2020, the Company entered into agreements for preferred units in the amounts of \$7.5 million and \$9.9 million. The preferred units are measured at amortized cost under the guidance of ASC 320 and are subject to a fixed principal and interest payment schedule with maturity dates of February 1, 2023 and April 1, 2021, respectively. For the three months ended March 31, 2021, the Company received \$348,000 in interest payments from the preferred units. There is no active market for these investments.

The following table summarizes the carrying value and maximum loss exposure of the Company's non-consolidated VIEs at March 31, 2021 and 2020:

	<i>For the Three Months Ended March 31,</i>			
	<i>2021</i>		<i>2020</i>	
	<i>Carrying Value</i>	<i>Maximum Loss Exposure</i>	<i>Carrying Value</i>	<i>Maximum Loss Exposure</i>
	<i>(in thousands)</i>			
Investments in non-consolidated VIEs	\$ 26,409	\$ 26,409	\$ 6,375	\$ 6,375

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

NOTE 3. FAIR VALUE OF FINANCIAL MEASUREMENTS

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

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

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

The highest priority is assigned to Level 1 inputs and the lowest priority to Level 3 inputs. We did not hold any Level 3 assets or liabilities as of March 31, 2021 or December 31, 2020.

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

The table below present the balances of our invested assets measured at fair value on a recurring basis:

<i>March 31, 2021</i>	<i>Total</i>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
	<i>(in thousands)</i>			
Invested Assets:				
Debt Securities Available-for-sale				
U.S. government and agency securities	\$ 43,519	\$ 370	\$ 43,149	\$ —
States, municipalities and political subdivisions	96,925	—	96,925	—
Special revenue	290,086	—	290,086	—
Hybrid securities	100	—	100	—
Industrial and miscellaneous	192,293	—	192,293	—
Total investments	<u>\$ 622,923</u>	<u>\$ 370</u>	<u>\$ 622,553</u>	<u>\$ —</u>

<i>December 31, 2020</i>	<i>Total</i>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
<i>(in thousands)</i>				
Invested Assets:				
Debt Securities Available-for-sale				
U.S. government and agency securities	\$ 30,593	\$ 371	\$ 30,222	\$ —
States, municipalities and political subdivisions	85,670	—	85,670	—
Special revenue	274,321	—	274,321	—
Hybrid securities	100	—	100	—
Industrial and miscellaneous	170,327	—	170,327	—
Total investments	<u>\$ 561,011</u>	<u>\$ 371</u>	<u>\$ 560,640</u>	<u>\$ —</u>

Financial Instruments excluded from the fair value hierarchy

The carrying value of premium receivables and accounts payable, accrued expense, revolving loans and borrowings under our senior secured credit facility approximate their fair value. The rate at which revolving loans and borrowings under our senior secured credit facility bear interest resets periodically at market interest rates. All of these items are considered Level 1 assets and liabilities.

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. These non-recurring fair value measurements, primarily for intangible assets acquired, were based on Level 3 unobservable inputs. For the quarters ended March 31, 2021 and 2020, these non-recurring fair values inputs consisted of brand, agent relationships, renewal rights, customer relations, trade names, non-compete and goodwill. 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.

There were no non-recurring fair value adjustments to intangible assets and goodwill during the first quarters of 2021 and 2020. We record any measurement period adjustments to the fair value of assets acquired and liabilities assumed, with the corresponding offset to goodwill.

NOTE 4. OTHER COMPREHENSIVE (LOSS) INCOME

The following table is a summary of other comprehensive (loss) income and discloses the tax impact of each component of other comprehensive (loss) income for the three months ended March 31, 2021 and 2020, respectively:

	<i>For the Three Months Ended March 31,</i>					
	<i>2021</i>			<i>2020</i>		
	<i>Pre-tax</i>	<i>Tax</i>	<i>After-tax</i>	<i>Pre-tax</i>	<i>Tax</i>	<i>After-tax</i>
<i>(in thousands)</i>						
Other comprehensive (loss) income						
Change in unrealized (losses) gains on investments, net	\$ (10,597)	\$ 2,457	\$ (8,140)	\$ 2,027	\$ (469)	\$ 1,558
Reclassification adjustment of realized gains included in net income	(80)	18	(62)	(59)	13	(46)
Effect on other comprehensive (loss) income	<u>\$ (10,677)</u>	<u>\$ 2,475</u>	<u>\$ (8,202)</u>	<u>\$ 1,968</u>	<u>\$ (456)</u>	<u>\$ 1,512</u>

NOTE 5. LEASES

The Company has entered into operating and financing leases primarily for real estate and vehicles. The Company will determine whether an arrangement is a lease at inception of the agreement. The operating leases have terms of one to ten years, and often include one or more options to renew. These renewal terms can extend the lease term from two to ten years, and are included in the lease term when it is reasonably certain that the Company will exercise the option. The Company considers these options in determining the lease term used in establishing 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.

Components of our lease costs for the three months ended March 31, 2021 and 2020 were as follows (in thousands):

	<i>Three Months Ended March 31, 2021</i>	<i>Three Months Ended March 31, 2020</i>
Amortization of ROU assets - Finance leases	\$ 37	\$ 22
Interest on lease liabilities - Finance leases	9	6
Variable lease cost (cost excluded from lease payments)	121	130
Operating lease cost (cost resulting from lease payments)	340	343
Total lease cost	\$ 507	\$ 501

Supplemental cash flow information and non-cash activity related to our operating and financing leases were as follows (in thousands):

	<i>Three Months Ended March 31, 2021</i>	<i>Three Months Ended March 31, 2020</i>
Finance lease - Operating cash flows	\$ 9	\$ 6
Finance lease - Financing cash flows	\$ 30	\$ 18
Operating lease - Operating cash flows (fixed payments)	\$ 367	\$ 368
Operating lease - Operating cash flows (liability reduction)	\$ 271	\$ 264

Supplemental balance sheet information related to our operating and financing leases as of March 31, 2021 were as follows (in thousands):

	<i>Balance Sheet Classification</i>	<i>March 31, 2021</i>
Right-of-use assets - operating	Other assets	\$ 5,747
Right-of-use assets - finance	Other assets	\$ 469
Lease liability - operating (1)	Accounts payable and other liabilities	\$ 7,371
Lease liability - finance	Accounts payable and other liabilities	\$ 515

(1) Includes \$1.3 million in lease incentives received in the first quarter of 2019.

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

	<i>March 31, 2021</i>	<i>March 31, 2020</i>
Weighted average lease term - Finance leases	3.54 yrs.	3.42 yrs.
Weighted average lease term - Operating leases	6.78 yrs.	7.68 yrs.
Weighted average discount rate - Finance leases	6.9%	7.1%
Weighted average discount rate - Operating leases	5.3%	5.3%

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

	<i>March 31, 2021</i>
2021 remaining	\$ 1,242
2022	1,660
2023	1,550
2024	1,183
2025	885
Thereafter	2,906
Total lease payments	9,426
Less: imputed interest	(1,540)
Present value of lease liabilities	\$ 7,886

NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at March 31, 2021 and December 31, 2020:

	<i>March 31, 2021</i>	<i>December 31, 2020</i>
	<i>(In thousands)</i>	
Land	\$ 2,582	\$ 2,582
Building	10,141	10,141
Computer hardware and software	6,680	6,358
Office furniture and equipment	2,034	2,027
Tenant and leasehold improvements	8,225	8,133
Vehicle fleet	850	850
Total, at cost	<u>30,512</u>	<u>30,091</u>
Less: accumulated depreciation and amortization	(11,838)	(11,406)
Property and equipment, net	<u>\$ 18,674</u>	<u>\$ 18,685</u>

Depreciation and amortization expense for property and equipment was \$432,300 and \$432,000 for the three months ended March 31, 2021 and 2020, respectively. The Company's real estate consists of 15 acres of land and 5 buildings with a gross area of 191,200 square feet and a parking garage. Approximately 75% of the building in Clearwater is leased to unaffiliated tenants. Following our planned relocation to our new Tampa headquarters, which is expected to occur in the second half of 2021, we intend to sublease the remaining available space at the Clearwater location to unaffiliated tenants.

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and Intangible Assets

At March 31, 2021 and December 31, 2020 goodwill was \$152.5 million and intangible assets were \$60.7 million and \$62.3 million, respectively. The Company has determined the useful life of the other intangible assets to range between 2.5-15 years. The Company has recorded \$1.3 million relating to insurance licenses and has classified the licenses as an indefinite lived intangible which is subject to annual impairment testing concurrent with goodwill.

	<i>Goodwill</i>
	<i>(in thousands)</i>
Balance as of December 31, 2020	\$ 152,459
Goodwill acquired	—
Impairment	—
Balance as of March 31, 2021	<u>\$ 152,459</u>

Other Intangible Assets

Our intangible assets consist of brand, agent relationships, renewal rights, customer relations, trade names, non-competes and insurance licenses.

Amortization expense of our intangible assets was \$1.6 million and \$1.6 million for the three months ended March 31, 2021 and 2020, respectively. No impairment in the value of amortizing or non-amortizing intangible assets was recognized during the three months ended March 31, 2021 or 2020.

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

<i>Year</i>	<i>Amount(1)</i>
2021 - remaining	\$ 4,763
2022	\$ 6,351
2023	\$ 6,351
2024	\$ 6,351
2025	\$ 6,315
Thereafter	\$ 29,243
Total	<u>\$ 59,374</u>

(1) Excludes insurance licenses valued at \$1.3 million and classified as an indefinite lived intangible which is subject to annual impairment testing and not amortized.

NOTE 8. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (“EPS”) for the periods indicated.

	<i>Three Months Ended March 31,</i>	
	<u>2021</u>	<u>2020</u>
Basic (loss) earnings per share:		
Net (loss) income attributable to common stockholders (000's)	\$ (5,148)	\$ 7,620
Weighted average shares outstanding	27,827,804	28,548,830
Basic (loss) earnings per share:	\$ (0.19)	\$ 0.27
Diluted (loss) earnings per share:		
Net (loss) income attributable to common stockholders (000's)	\$ (5,148)	\$ 7,620
Weighted average shares outstanding	27,827,804	28,548,830
Weighted average dilutive shares	—	182
Total weighted average dilutive shares	27,827,804	28,549,012
Diluted (loss) earnings per share:	\$ (0.19)	\$ 0.27

Due to the net loss for the three months ended March 31, 2021, the number of dilutive shares is the same as the number of basic shares due to the antidilutive impact of the convertible debt and restricted stock under the if-converted method. 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 treasury method. The Company had 1,629,503 and 1,889,770 antidilutive shares as of March 31, 2021 and 2020, respectively.

NOTE 9. DEFERRED REINSURANCE CEDING COMMISSION

The Company defers reinsurance ceding commission income, which is amortized over the effective period of the related insurance policies. For the three months ended March 31, 2021 and 2020, the Company allocated ceding commission income of \$11.3 million and \$10.4 million to policy acquisition costs and \$3.7 million and \$3.5 million to general and administrative expense, respectively.

The table below depicts the activity with regard to deferred reinsurance ceding commission during the three months ended March 31, 2021 and 2020.

	<i>Three Months Ended March 31,</i>	
	<u>2021</u>	<u>2020</u>
	<i>(In thousands)</i>	
Beginning balance of deferred ceding commission income	\$ 39,995	\$ 37,464
Ceding commission deferred	13,029	10,845
Less: ceding commission earned	(15,033)	(13,929)
Ending balance of deferred ceding commission income	<u>\$ 37,991</u>	<u>\$ 34,380</u>

NOTE 10. DEFERRED POLICY ACQUISITION COSTS

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

The Company anticipates that its DPAC will be fully recoverable in the near term. The table below depicts the activity with regard to DPAC for the three months ended March 31, 2021 and 2020.

	<i>Three Months Ended March 31,</i>	
	<u>2021</u>	<u>2020</u>
	<i>(In thousands)</i>	
Beginning Balance	\$ 89,265	\$ 77,211
Policy acquisition costs deferred	46,675	38,131
Amortization	(47,064)	(40,447)
Ending Balance	<u>\$ 88,876</u>	<u>\$ 74,895</u>

NOTE 11. INCOME TAXES

For the three months ended March 31, 2021 and 2020, the Company recorded an income tax benefit of \$(2.6) million and an income tax expense of \$3.2 million, respectively, which corresponds to effective tax rates of 33.2% and 29.4%, respectively. Effective tax rates are dependent upon components of pre-tax earnings and the related tax effects. The effective tax rate for each three month period was affected by various permanent tax differences, predominately disallowed executive compensation deductions which were further limited in 2018 and future years upon the enactment of H.R.1, commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). Additionally, the state effective income tax rate can also fluctuate as a result of changes in the geographic dispersion of our business. The effective tax rate can fluctuate throughout the year as estimates used in the tax provision for each quarter are updated as more information becomes available throughout the year.

The table below summarizes the significant components of our net deferred tax liability:

	<i>March 31, 2021</i>	<i>December 31, 2020</i>
Deferred tax assets:	<i>(In thousands)</i>	
Unearned premiums	\$ 19,271	\$ 15,303
Unearned commission	8,807	9,272
Net operating loss	1,484	1,885
Tax-related discount on loss reserve	3,426	3,322
Stock-based compensation	114	113
Accrued expenses	1,110	982
Leases	379	394
Unrealized losses	661	—
Other	358	343
Total deferred tax asset	<u>35,610</u>	<u>31,614</u>
Deferred tax liabilities:		
Deferred acquisition costs	20,604	20,694
Prepaid expenses	202	236
Unrealized gains	—	1,814
Property and equipment	1,605	1,669
Note discount	286	326
Basis in purchased investments	48	53
Basis in purchased intangibles	15,346	15,693
Internal revenue code 481(a)-Accounting method change	7,505	8,577
Other	1,123	1,029
Total deferred tax liabilities	<u>46,719</u>	<u>50,091</u>
Net deferred tax liability	<u>\$ (11,109)</u>	<u>\$ (18,477)</u>

The statute of limitations related to our federal and state income tax returns remains open from our filings for 2018 through 2020. In April 2019, the Company was notified by the tax authority that the federal income tax returns for the years 2015, 2016 and 2017 would be examined. In August 2020, the Company received a notice from the tax authority for the examined tax years, reporting that the returns were accepted as final. No further action will be required and no other tax years are under examination.

At March 31, 2021 and December 31, 2020, we had no significant uncertain tax positions or unrecognized tax benefits that, if recognized, would impact the effective income tax rate.

NOTE 12. REINSURANCE

Overview

In order to limit the Company's potential exposure to individual risks and catastrophic events, 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. 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, 2019 and 2020, the Company purchased reinsurance from the following sources: (i) the Florida Hurricane Catastrophe Fund, a state-mandated catastrophe fund ("FHCF") for Florida 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"). 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 our 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 our reinsurers are unable to meet the obligations they assume under our reinsurance agreements, we remain liable for the entire insured loss.

The Company’s 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. The Company generally amortizes its catastrophe reinsurance premiums ratably over the 12-month contract period, which is June 1 through May 31. Its quota share reinsurance is amortized over the 12-month contract period and may be purchased on a calendar or fiscal year basis.

In the event that the Company incurs losses and loss adjustment expenses 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 its liability for unpaid losses associated with the reinsured policies; therefore, the amount changes in conjunction with any changes to its estimate of unpaid losses. 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 condensed consolidated financial statements.

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.

For a detailed discussion of our **2020-2021 Reinsurance Program** please Refer to Part II, Item 8, “Financial Statements and Supplementary Data” further “**Note 12. Reinsurance**” in our Annual Report on Form 10-K for the year ended December 31, 2020, which was filed with the SEC on March 9, 2021.

Effect of Reinsurance

The Company’s reinsurance arrangements had the following effect on certain items in the condensed consolidated statement of income for the three months ended March 31, 2021 and 2020:

	<i>Three Months Ended March 31,</i>	
	<i>2021</i>	<i>2020</i>
	<i>(In thousands)</i>	
Premium written:		
Direct	\$ 274,181	\$ 229,102
Ceded	(54,617)	(30,637)
Net	<u>\$ 219,564</u>	<u>\$ 198,465</u>
Premiums earned:		
Direct	\$ 270,411	\$ 234,716
Ceded	(128,212)	(108,710)
Net	<u>\$ 142,199</u>	<u>\$ 126,006</u>
Loss and Loss Adjustment Expenses		
Direct	\$ 125,495	\$ 107,365
Ceded	(27,585)	(39,184)
Net	<u>\$ 97,909</u>	<u>\$ 68,181</u>

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:

	<i>Three Months Ended March 31,</i>	
	<i>2021</i>	<i>2020</i>
	<i>(In thousands)</i>	
Balance, beginning of period	\$ 659,341	\$ 613,533
Less: reinsurance recoverable on unpaid losses	397,688	393,630
Net balance, beginning of period	261,653	219,903
Incurred related to:		
Current year	99,504	72,331
Prior years	(1,595)	(4,150)
Total incurred	97,909	68,181
Paid related to:		
Current year	25,826	21,236
Prior years	62,266	47,308
Total paid	88,092	68,544
Net balance, end of period	271,470	219,540
Plus: reinsurance recoverable on unpaid losses	366,412	387,637
Balance, end of period	\$ 637,882	\$ 607,177

As of March 31, 2021, the Company reported \$271.5 million in unpaid losses and loss adjustment expenses, net of reinsurance which included \$205.0 million attributable to IBNR net of reinsurance recoverable, or 75.5% of net reserves for unpaid losses and loss adjustment expenses.

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, commencing in 2018.

As of March 31, 2021, the Company had \$22.3 million of the Convertible Notes outstanding, net of issuance and debt discount costs in aggregate of approximately, \$1.1 million. For the three months ended March 31, 2021 and 2020, the Company made interest payments, net of affiliated Convertible Notes of approximately \$687,800 and \$687,800 respectively on the Convertible Notes.

Senior Secured Credit Facility

In December 2018, the Company entered into a five-year, \$125.0 million credit agreement (the "Credit Agreement") with a syndicate of lenders consisting of \$75.0 million senior secured term loan facility (the "Term Loan Facility") and a \$50.0 million senior secured 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, beginning with the close of the fiscal quarter ending March 31, 2019, in an amount equal to \$1.9 million per quarter, with the remaining balance payable at maturity. As of December 31, 2020, there was \$60.0 million in aggregate principal outstanding on the Term Loan Facility. As of March 31, 2021, the balance of the term loan was \$58.1 million. For the three months ended March 31, 2021 and 2020, the Company made interest payments of approximately \$706,800 and \$1.2 million on the term loan, respectively.

Revolving Credit Facility: The Revolving Credit Facility allows for borrowings of up to \$50.0 million inclusive of a \$5.0 million sublimit for the issuance of letters of credit and a \$10.0 million sublimit for swingline loans. As of March 31, 2021, and December 31, 2020, the Company had \$10.0 million of borrowings and no letters of credit outstanding under the Revolving Credit Facility. For the three months ended March 31, 2021 and 2020, the Company made interest payments of approximately \$116,805 and \$265,900 under the revolving credit facility, respectively.

At March 31, 2021, the Company's, effective interest rate for the Term Loan and for the Revolving Credit Facility was 3.38%. The Company monitors the rates prior to the reset date which allows it to establish if the payment is monthly or quarterly based on the most beneficial rate used to calculate the interest payment.

At March 31, 2021, the Company closed the July 1, 2020 standby letter of credit in the amount of \$31.5 million that was issued by Regions Bank.

On June 1, 2020, the Company amended the Credit Agreement by entering into the Third Amendment to Credit Agreement (the "Third Amendment") with the lenders from time to time party to the Credit Agreement, and Regions Bank, as administrative agent

and collateral agent. The Third Amendment modified the Credit Agreement to increase the letter of credit sublimit from \$5 million to \$40 million and to make related modifications to certain of the negative covenants in the Credit Agreement.

On April 27, 2020, the Company amended the Credit Agreement by entering into the Second Amendment to Credit Agreement (the “Second Amendment”) with the lenders from time to time party to the Credit Agreement, and Regions Bank, as administrative agent and collateral agent. The Second Amendment modified the negative covenants in the Credit Agreement to permit the Company to make acquisitions and investments if, after giving effect to the acquisition or investment, either (1) the Company has an aggregate of \$25.0 million in cash and availability under the revolving credit facility or (2) the consolidated leverage ratio under the Credit Agreement is at least a quarter turn less than the required ratio for the trailing four quarters. The amendment gives the Company more flexibility to make acquisitions and investments in the future. All other material terms of the Credit Agreement remain unchanged.

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. On October 30, 2022, the interest rate shall adjust to an interest rate equal to the annualized interest rate of the United States 5-year Treasury Notes as reported by Federal Reserve on a weekly average basis plus 3.10%. The Company makes monthly principal and interest payments towards the loan. For each of the respective three-month periods ended March 31, 2021 and 2020, the Company made principal and interest payments of approximately \$223,200 on the mortgage loan.

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. In connection with the loan agreement, the subsidiary became a member of 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 March 31, 2021, the fair value of the collateralized securities was \$22.2 million and the equity investment in FHLB common stock was \$1.2 million. As of March 31, 2021, and 2020, the Company made quarterly interest payments as per the terms of the loan agreement of approximately \$150,160 and \$150,000, respectively. As of March 31, 2021, and December 31, 2020, the Company also holds other common stock from FHLB Des Moines, and FHLB Boston valued at \$139,300 and \$76,600, respectively.

The following table summarizes the Company’s debt and credit facilities as of March 31, 2021 and December 31, 2020:

	<i>March 31, 2021</i>	<i>December 31, 2020</i>
	<i>(in thousands)</i>	
Convertible debt	\$ 23,413	\$ 23,413
Mortgage loan	11,750	11,827
Term loan facility	58,125	60,000
Revolving credit facility	10,000	10,000
FHLB loan agreement	19,200	19,200
Total principal amount	\$ 122,488	\$ 124,440
Less: unamortized discount and issuance costs	\$ 2,987	\$ 3,442
Total long-term debt	\$ 119,501	\$ 120,998

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 indenture, cash borrowings and other loans. Our ability to secure future debt financing depends, in part, on our ability to remain in such compliance. Provided there is no default or an event of default, we are permitted to payout dividends in an aggregate amount not to exceed \$10.0 million in any fiscal year.

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 as of March 31, 2021 is as follows:

<i>Year</i>	<i>Amount</i>
	<i>(In thousands)</i>
2021 remaining	\$ 5,855
2022	7,822
2023	74,539
2024	354
2025	374
Thereafter	33,544
Total	\$ 122,488

NOTE 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following as of March 31, 2021 and December 31, 2020:

<i>Description</i>	<i>March 31, 2021</i>	<i>December 31, 2020</i>
	<i>(In thousands)</i>	
Deferred ceding commission	\$ 37,991	\$ 39,995
Outstanding claim checks	—	10,864
Accounts payable and other payables	7,951	9,248
Lease obligations	7,886	8,155
Accrued interest and issuance costs	167	833
Accrued dividends	1,678	1,670
Premium tax	1,886	—
Other liabilities	676	80
Commission payables	13,395	18,245
Total other liabilities	<u>\$ 71,628</u>	<u>\$ 89,090</u>

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 Heritage Property & Casualty Insurance Company ("Heritage P&C"), Narragansett Bay Insurance Company ("NBIC"), Zephyr Insurance Company ("Zephyr"), and Pawtucket Insurance Company ("PIC") must maintain capital and surplus ratios or balances as determined by the regulatory authority of the states in which they are domiciled. Heritage P&C is required to maintain capital and surplus equal to the greater of \$15 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 capital and surplus of \$3.0 million. The combined statutory surplus for Heritage P&C, Zephyr, NBIC and PIC was \$305.6 million at March 31, 2021 and \$333.3 million at December 31, 2020. State law also requires the Company's insurance subsidiaries to adhere to prescribed premium-to-capital surplus ratios, and risk-based capital requirements with which the Company is in compliance. At March 31, 2021, our insurance subsidiaries met the financial and regulatory requirements of each of the states in which they conduct business.

NOTE 17. COMMITMENTS AND CONTINGENCIES

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

In July 2020, the Company entered into a ten year, non-cancellable operating lease agreement for approximately 88,600 square feet of office space located in Tampa, Florida. The Company anticipates relocating from the Clearwater Corporate office to the new location during the second half of 2021. The anticipated principal contractual commitments based on the terms and conditions of the agreement is approximately \$29.7 million through 2031.

NOTE 18. RELATED PARTY TRANSACTIONS

From time to time the Company has been party to various related party transactions involving certain of its officers, directors and significant stockholders, including as set forth below. The Company has entered into each of these arrangements without obligation to continue its effect in the future and the associated expense was immaterial to its results of operations or financial position as of March 31, 2021 and 2020.

- In July 2019, the Board of Directors appointed Mark Berset to the Board of Directors of the Company. Mr. Berset is also the Chief Executive Officer of Comegys Insurance Agency, Inc. (“Comegys”), an independent insurance agency that writes policies for Company. The Company pays commission to Comegys based upon standard industry rates consistent with those provided to the Company’s other insurance agencies. There are no arrangements or understandings between Mr. Berset and any other persons with respect to his appointment as a director. For the three months ended March 31, 2021 and 2020, the Company paid agency commission to Comegys of approximately \$309,800 and \$179,800, respectively.

NOTE 19. EMPLOYEE BENEFIT PLANS

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 the three months ended March 31, 2021 and 2020, the contributions made to the plan on behalf of the participating employees were approximately \$322,200 and \$339,300, respectively.

The Company provides its employees with a partially self-insured healthcare plan and benefits. For the three months ended March 31, 2021 and 2020, incurred medical premium costs amounted to an aggregate of \$990,100 and \$910,000, respectively. An additional liability of approximately \$1.8 million and \$1.4 million is recorded for unpaid claims as of March 31, 2021 and December 31, 2020, respectively. A stop loss reinsurance policy caps the maximum loss that could be incurred by the Company under the self-insured plan. The Company’s stop loss coverage per employee is \$125,000 for which any excess cost would be covered by the reinsurer subject to an aggregate limit for losses in excess of \$1.5 million which would provide up to \$1.0 million of coverage. Any excess of the coverage limits would be borne by the Company. The aggregate stop loss commences once our expenses exceed 120% of the annual aggregate expected claims.

NOTE 20. EQUITY

The total amount of authorized capital stock consists of 50,000,000 shares of common stock and 5,000,000 shares of preferred stock. As of March 31, 2021, the Company had 27,904,923 shares of common stock outstanding, 9,279,839 treasury shares of common stock and 219,084 unvested shares of restricted common stock issued reflecting total paid-in capital of \$332.0 million as of such date.

As more fully disclosed in our audited consolidated financial statements for the year ended December 31, 2020, there were, 27,748,606 shares of common stock outstanding, 9,279,839 treasury shares of common stock and 100,267 unvested shares of restricted common stock, representing \$331.9 million of additional paid-in capital.

Common Stock

Holders of common stock are entitled to one vote for each share held on all matters subject to a vote of stockholders, subject to the rights of holders of any outstanding preferred stock. Accordingly, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election, subject to the rights of holders of any outstanding preferred stock. Holders of common stock will be entitled to receive ratably any dividends that the board of directors may declare out of funds legally available therefor, subject to any preferential dividend rights of outstanding preferred stock. Upon the Company’s liquidation, dissolution or winding up, the holders of common stock will be entitled to receive ratably 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 are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of the Company’s capital stock are fully paid and non-assessable.

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 our 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 our current Rule 10b5-1 trading plan, which allows the Company to purchase shares below a predetermined price per share, or otherwise. No shares were repurchased during the three months ended March 31, 2021 under the share repurchase program.

At March 31, 2021 the Company has the capacity to repurchase \$50 million of its common shares until December 31, 2021.

Dividends

On March 3, 2021, the Company's Board of Directors declared a \$0.06 per share quarterly dividend payable on April 6, 2021, to stockholders of record as of March 15, 2021.

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

NOTE 21. STOCK-BASED COMPENSATION

Common, Restricted and Performance-based Stock

The Company has adopted the Heritage Insurance Holdings, Inc., Omnibus Incentive Plan (the "Plan") effective on May 22, 2014. The Plan authorized 2,981,737 shares of common stock for issuance under the Plan for future grants. Our plan allows for a variety of equity awards including stock options, restricted stock awards and performance-based awards.

At March 31, 2021 there were 981,709 shares available for grant under the Plan. The Company recognizes compensation expense under ASC 718 for its stock-based payments based on the fair value of the awards.

During the quarter ended March 31, 2021, the Board of Directors awarded to its Chief Executive Officer 95,878 performance-based restricted shares with a market value at the time of grant of \$10.43 per share. The restricted shares have a three-year performance period beginning on January 1, 2021 and ending on December 31, 2023 and will vest following the end of the performance period but no later than March 5, 2024. 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 addition, the Board issued this executive 47,939 time-based restricted shares with a market value at the time of grant of \$10.43 per share. The restricted shares will vest in three equal installments of 15,979 on December 31, 2021, and 15,980 on December 31, 2022 and 2023, respectively.

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. For awards with only a service condition, the Company expenses stock-based compensation using the straight-line method over the requisite service period for the entire award.

The Plan authorizes the Company to grant stock options at exercise prices equal to the fair market value of the Company's stock on the dates the options are granted. Any options granted would typically have a maximum term of ten years from the date of grant and vest primarily in equal annual installments over a range of one to five-year periods following the date of grant for employee options. The Company has not granted any stock options since 2015 and all unexercised stock options have since been forfeited.

The Company has also granted shares of its common stock subject to certain restrictions under the Plan. Restricted stock awards granted to employee's vest in equal installments generally over a five-year period from the grant date subject to the recipient's continued employment. The fair value of restricted stock awards is estimated by the market price at the date of grant and amortized on a straight-line basis to expense over the period of vesting. Recipients of restricted stock awards have the right to receive dividends.

Restricted stock activity for the quarter ended March 31, 2021 is as follows:

	<u>Number of shares</u>	<u>Weighted-Average Grant-Date Fair Value per Share</u>
Non-vested, at December 31, 2020	100,267	\$ 15.37
Granted - Performance-based restricted stock	95,878	10.43
Granted - Time-based restricted stock	47,939	10.43
Vested	(12,500)	16.35
Canceled and surrendered	(12,500)	16.35
Non-vested, at March 31, 2021	<u>219,084</u>	<u>\$ 12.02</u>

Awards are being amortized to expense over the one to five-year vesting period. The Company recognized \$260,000 and \$1.3 million of compensation expense for the three months ended March 31, 2021 and 2020, respectively. For the three months ended March 31, 2021, 25,000 shares of restricted stock were vested and released, all of which had been granted to employees. Of the shares released to employees, 12,500 shares were withheld by the Company to cover withholding taxes of \$127,000.

At March 31, 2021 and 2020 there was approximately \$2.0 million and \$4.2 million, representing unrecognized expense related to the non-vested stock which is expected to be recognized over the remaining restriction periods as described in the table below.

Additional information regarding our outstanding non-vested restricted stock at March 31, 2021 is as follows:

Grant date	Restricted shares unvested	Share Value at Grant Date Per Share	Remaining Restriction Period (Years)
February 12, 2018	50,000	\$ 16.35	2.00
September 3, 2018	10,267	\$ 15.08	0.80
April 24, 2020	10,000	\$ 10.60	1.50
September 21, 2020	5,000	\$ 10.83	0.80
January 4, 2021	143,817	\$ 10.43	3.00
	219,084		

NOTE 22. SUBSEQUENT EVENTS

The Company performed an evaluation of subsequent events through the date the condensed consolidated financial statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the condensed consolidated financial statements as of March 31, 2021.

On May 5, 2021, the Company announced that its Board of Directors declared a \$0.06 per share quarterly dividend payable on July 6, 2021 to stockholders of record as of June 15, 2021.

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

You should read the following discussion in conjunction with our condensed consolidated financial statements and related notes and information included and elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2020 (“2020 Form 10-K”). Unless the context requires otherwise, as used in this Form 10-Q, the terms “we”, “us”, “our”, “the Company”, “our Company”, and similar references refer to Heritage Insurance Holdings, Inc., a Delaware corporation, and its subsidiaries.

FINANCIAL HIGHLIGHTS

Overview

Heritage Insurance Holdings, Inc., is a super-regional property and casualty insurance holding company that primarily provides personal and commercial residential insurance products across its multi-state footprint. We provide personal residential insurance in sixteen states and commercial residential insurance in three of those states, while maintaining licenses in one additional state. As a vertically integrated insurer, we control or manage substantially all aspects of underwriting, customer service, actuarial analysis, distribution and claims processing and adjusting. Our financial strength ratings are important to the Company in establishing our competitive position and can impact our ability to write policies.

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, 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 that appear elsewhere in this document.

COVID-19 and Other Matters

With regard to the COVID-19 pandemic, our first priority remains the health and safety of our employees and their families. Approximately 50% of our total personnel are either working from home full-time or on a hybrid schedule between office and home. Our corporate and remote offices remain operational, we are practicing social distancing, and have enhanced cleaning protocols and are using personal protective equipment in addition to employing other preventative measures.

We continue to monitor the short-and long-term impacts of COVID-19 virus and its variants, a global pandemic that has caused a significant slowdown in the global economy beginning in March 2020. For the year ended December 31, 2020, we saw virtually no impact to our business. As a residential property insurer, we view our business as somewhat insulated because property owners and renters generally view our products as a necessity. The majority of our gross and net premiums written are from renewals of expiring policies. New business, which accounts for a smaller portion of our revenue, may be impacted if consumers are not buying as many new homes in our geographies, but this could be partially or fully offset by increased retention in our renewal portfolio. In a prolonged recessionary and social-distancing environment, we could experience disruptions to our independent agency distribution channel, which may have a negative impact on our revenues and financial condition.

Although we have not experienced a significant amount of payment delays, or non-payment, there may be delays in premium payments in geographies that might require us to grant policyholders additional time to pay their premiums and, under prolonged recessionary economic conditions, we could experience more significant delays in premium payments and possibly non-payment of premiums.

Global credit and financial markets experienced extreme volatility and disruptions during the second quarter of 2020 as a result of the COVID-19 pandemic, including diminished liquidity and credit availability, declines in consumer confidence, increases in unemployment rates and uncertainty about economic stability. Although we were relatively unaffected by the condition of the credit markets, if the credit and financial markets again experience significant deterioration at a time when we need additional liquidity, it may make any necessary debt or equity financing more difficult, more costly, and more dilutive. Notwithstanding these actual and potential impacts, we currently believe that our cash on hand, revolving credit facility and expected earnings give us sufficient liquidity to fund our operations. However, if we need additional liquidity at a time when equity and credit markets deteriorate, it may make any necessary debt or equity financing more difficult, more costly, and more dilutive.

Coronavirus Aid, Relief, and Economic Security Act

The CARES Act was enacted on March 27, 2020 in the United States. The CARES Act and related notices include several significant provisions, including delaying certain payroll tax payments, mandatory transition tax payments under the TCJ Act, and estimated income tax payments that we are deferring to future periods. We do not currently expect the CARES Act to have a material impact on our liquidity or our financial results, except for the benefit associated with a 5-year carryback of our 2020 tax net operating loss. We will continue to monitor and assess the impact the CARES Act and similar legislation may have on our business and financial results.

Financial Results Highlights for the First Quarter of 2021

- Net loss for the quarter was \$5.1 million, or (\$0.19) per diluted share.
- Book value per share of \$15.32, down 4.9% from \$16.11 at March 31, 2020 and down 3.9% from year-end 2020.
- Gross premiums written of \$274.2 million, up 19.7% year-over-year, including 21.9% growth outside Florida and 17.7% growth in Florida.
- Premiums in force of \$1.1 billion, up \$167.4 million quarter-over-quarter.
- Policies-in-force of 591,924, up 10.0% year-over-year.
- Favorable prior year reserve development of \$1.6 million.
- Net current accident year weather losses of \$31.4 million, up substantially from \$21.2 million in the prior year quarter. Current accident year weather losses include \$15.4 million of net current accident quarter catastrophe losses, down from \$17.0 million in the prior year quarter, and \$16.1 million of other weather losses, up from \$4.1 million in the prior year quarter.
- Total capital returned to shareholders of \$1.7 million, representing a \$0.06 per share regular quarterly dividend.

Results of Operations

Comparison of the Three Months Ended March 31, 2021 and 2020

Revenue

(Unaudited)	For the Three Months Ended March 31,			
	2021	2020	\$ Change	% Change
	(in thousands)			
REVENUE:				
Gross premiums written	\$ 274,181	\$ 229,102	\$ 45,079	19.7%
Change in gross unearned premiums	(3,770)	5,614	(9,384)	(167.1)%
Gross premiums earned	270,411	234,716	35,695	15.2%
Ceded premiums	(128,212)	(108,710)	(19,502)	17.9%
Net premiums earned	142,199	126,006	16,193	12.9%
Net investment income	1,293	3,670	(2,377)	(64.8)%
Net realized gains	80	59	21	35.9%
Other revenue	3,671	2,971	700	23.6%
Total revenue	\$ 147,243	\$ 132,706	\$ 14,537	11.0%

NM= Not Meaningful

Gross premiums written

Gross premiums written were \$274.2 million in first quarter 2021, up 19.7% from \$229.1 million in the prior year quarter. The increase reflects 21.9% growth outside Florida and 17.7% growth in Florida. Rate increases materially benefited 2021 gross premiums written growth, particularly in Florida. Growth in all states was organic, including growth via independent agents and strategic partnerships with national carriers.

Premiums-in-force were \$1.1 billion as of first quarter 2021, representing a 16.0% annualized growth rate from year-end 2020. The increase stems from the same items impacting gross premiums written.

Gross premiums earned

Gross premiums earned were \$270.4 million in first quarter 2021, up 15.2% from \$234.7 million in the prior year quarter. The increase reflects higher gross premiums written over the past twelve months.

Ceded premiums

Ceded premiums were \$128.2 million in first quarter 2021, up 17.9% from \$108.7 million in the prior year quarter. The increase is primarily attributable to an increase in the cost of our catastrophe excess of loss reinsurance program and an increase in total insured value ("TIV") associated with premium growth.

Net premiums earned

Net premiums earned were \$142.2 million in first quarter 2021, up 12.9% from \$126.0 million in the prior year quarter. The increase primarily stems from higher gross premiums earned, partly offset by higher ceded premiums, as described above.

Net investment income

Net investment income, inclusive of realized investment gains and unrealized gains on equity securities, was \$1.4 million in first quarter 2021, down 62.1% compared to \$3.7 million in the prior year quarter. The decrease is primarily due to lower yields associated with the continued low interest rate environment.

Other revenue

Other revenue was \$3.7 million in first quarter 2021, up 23.6% million from \$3.0 million in the prior year quarter. The increase relates primarily to policy fee income associated with policy count growth.

Total revenue

Total revenue was \$147.2 million in first quarter 2021, up 11.0% from \$132.7 million in the prior year quarter. The increase primarily stems from higher net premiums earned, as described above.

(Unaudited)	For the Three Months Ended March 31,			
	2021	2020	\$ Change	% Change
OPERATING EXPENSES:	<i>(in thousands)</i>			
Losses and loss adjustment expenses	97,909	68,181	29,728	43.6%
Policy acquisition costs	35,366	30,047	5,319	17.7%
General and administrative expenses	19,800	21,718	(1,918)	(8.8)%
Total operating expenses	153,075	119,946	33,129	27.6%

Losses and loss adjustment expenses

Losses and loss adjustment expenses (“LAE”) were \$97.9 million in first quarter 2021, up 43.6% from \$68.2 million in the prior year quarter. The increase stems from higher attritional and weather net loss ratios and from a larger book of business.

Policy acquisition costs

Policy acquisition costs were \$35.3 million in first quarter of 2021, up 17.7% from \$30.0 million in the prior year quarter. The increase is primarily attributable to higher acquisition costs associated with growth in gross premiums written.

General and administrative expenses

General and administrative expenses were \$19.8 million in first quarter 2021, down 9% from \$21.7 million in the prior year quarter. The decrease is primarily attributable to compensation associated with executive management changes in late 2020 as well as a reduction in stock compensation as larger tranches of restricted stock were fully vested in 2020.

(Unaudited)	For the Three Months Ended March 31,			
	2021	2020	\$ Change	% Change
	<i>(in thousands, except per share and share amounts)</i>			
Operating (loss) income	(5,832)	12,760	(18,592)	(145.7)%
Interest expense, net	1,878	1,966	(88)	(4.5)%
(Loss) income before income taxes	(7,711)	10,794	(18,505)	(171.4)%
(Benefit) provision for income taxes	(2,562)	3,174	(5,736)	(180.7)%
Net (loss) income	<u>\$ (5,148)</u>	<u>\$ 7,620</u>	<u>\$ (12,768)</u>	<u>(167.6)%</u>
Basic net (loss) income per share	<u>\$ (0.19)</u>	<u>\$ 0.27</u>	<u>\$ (0.45)</u>	<u>(169.3)%</u>
Diluted net (loss) income per share	<u>\$ (0.19)</u>	<u>\$ 0.27</u>	<u>\$ (0.45)</u>	<u>(169.3)%</u>

Interest expense, net

Net interest expense was \$1.9 million in first quarter 2021, effectively flat quarter-over-quarter.

(Benefit) provision for income taxes

(Benefit) provision for income taxes was (\$2.6) million in first quarter 2021 compared to \$3.2 million in the prior year quarter. The effective tax rate was 33.2% in first quarter 2021, 3.8 points above the prior year quarter’s 29.4% rate. The higher effective tax rate relates to permanent tax differences. The effective tax rate can fluctuate throughout the year as estimates used in the quarterly tax provision are updated with additional information.

Net (loss) income

First quarter 2021 net loss was \$5.1 million ((\$0.19) per diluted share), down 167.6% from net income of \$7.6 million of net income (\$0.27 per diluted share) in the prior year quarter. The decrease primarily reflects a higher net loss ratio, partly offset by a lower net expense ratio.

Ratios

<i>(Unaudited)</i>	<i>For the Three Months Ended March 31,</i>	
	<i>2021</i>	<i>2020</i>
Ceded premium ratio	47.4%	46.3%
Net loss and LAE ratio	68.9%	54.1%
Net expense ratio	38.8%	41.1%
Net combined ratio	107.7%	95.2%

Ceded premium ratio

The ceded premium ratio was 47.4% in first quarter 2021, up 1.1 points from 46.3% in the prior year quarter. The increase is primarily attributable to higher costs associated with our catastrophe excess-of-loss reinsurance program, partly offset by higher gross premiums earned.

Net loss ratio

The net loss ratio was 68.9% in first quarter 2021, up 14.7 points from 54.1% in the prior year quarter. The increase primarily stems from higher current accident year attritional and weather net loss ratios and lower favorable reserve development.

Net expense ratio

The net expense ratio was 38.8% in first quarter 2021, down 2.3 points from 41.1% in the prior year quarter. The decrease primarily stems from a lower G&A expense ratio.

Net combined ratio

The net combined ratio was 107.6% in first quarter 2021, up 12.5 points from 95.2% in the prior year quarter. The increase primarily stems from a higher net loss ratio, partly offset by a lower net expense ratio, as described above.

Liquidity and Capital Resources

Our principal sources of liquidity include cash flows generated from operations, our cash, and cash equivalents, our marketable securities balances and borrowings available under our credit facilities. As of March 31, 2021, we had \$402.8 million of cash and cash equivalents and \$650.7 million in investments, compared to \$441.0 million and \$589.0 million, respectively, as of December 31, 2020. The decrease in cash and cash equivalents was due primarily to the decrease in investment of funds held in cash at December 31, 2020, which was partly offset by cash provided by operating activities.

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 cash 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.

Cash Flows

	For the Three Months Ended March 31,		
	2021	2020	Change
	<i>(in thousands)</i>		
Net cash provided by (used in):			
Operating activities	\$ 39,227	\$ 85,697	\$ (46,470)
Investing activities	(73,664)	(25,485)	(48,179)
Financing activities	(3,749)	(13,791)	10,042
Net (decrease) increase in cash and cash equivalents	\$ (38,186)	\$ 46,421	\$ (84,607)

Operating Activities

Net cash provided by operating activities was \$39.2 million for the three months ended March 31, 2021 compared to net cash provided of \$85.7 million for the comparable period in 2020. The decrease in cash from operating activities relates primarily to timing of cash flows associated with claim payments and reinsurance reimbursements during the first three months of 2021 compared to the first three months of 2020.

Investing Activities

Net cash used in investing activities for the three months ended March 31, 2021 was \$73.7 million as compared to net cash used of \$25.5 million for the comparable period in 2020. The change in cash used for investing activities relates primarily to investment of proceeds from fixed income securities sold during 2020 as well as the timing of allocations of funds for investment.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2021 was \$3.7 million, as compared to cash used in financing activities of \$13.8 million for the comparable period in 2020. The reduction in cash used in financing activities is due primarily to the decrease in the amount of stock repurchased under the stock repurchase program.

Credit Facilities

On December 14, 2018, the Company entered into a credit agreement (as amended from time to time, the "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.

Pursuant to the Credit Agreement, the participating Lenders agreed to provide (1) a five-year senior secured term loan facility in an aggregate principal amount of \$75 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 \$5 million sublimit for the issuance of letters of credit and a \$10 million sublimit for swingline loans) (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Credit Facilities"). As of December 31, 2020, the Company had in aggregate \$60.0 million principal outstanding under the Term Loan Facility and \$10.0 million of borrowings outstanding under 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 LIBOR (based on one, two, three or six-month interest periods), adjusted for statutory reserve requirements, plus an applicable margin or (2) a base rate determined by reference to the greatest of (a) the "prime rate" of Regions Bank, (b) the federal funds rate plus 0.50%, and (c) the LIBOR index rate applicable for an interest period of one month plus 1.00%, plus an applicable margin.

The applicable margin for loans under the Credit Facilities varies from 3.25% per annum to 3.75% per annum (for LIBOR loans) and 2.25% to 2.75% per annum (for base rate loans) based on our consolidated leverage ratio. 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 LIBOR loans) or, if the duration of the applicable interest period exceeds three months, then every three months. As of March 31, 2021, the borrowing under our Credit Facilities were accruing interest at a rate of 3.38% per annum.

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.

Each of the Revolving Credit Facility and the Term Loan Facility mature on December 14, 2023. The principal amount of the Term Loan Facility amortizes in quarterly installments, which began with the close of the fiscal quarter ended March 31, 2019, in an amount equal to \$1,875,000 per quarter, payable monthly or quarterly, with the balance payable at maturity.

The Company 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 LIBOR loans. In addition, the Company is 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 entered into a Pledge and Security Agreement, on December 14, 2018 (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 2.75 to 1.00 for each fiscal quarter in 2021, stepping down to 2.50 to 1.00 in 2022 and thereafter; (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. Events of default include, among other events, (i) nonpayment of principal, interest, fees or other amounts; (ii) failure to perform or observe certain covenants set forth in the Credit Agreement; (iii) breach of any representation or warranty; (iv) cross-default to other indebtedness; (v) bankruptcy and insolvency defaults; (vi) monetary judgment defaults and material nonmonetary judgment defaults; (vii) customary ERISA defaults; (viii) a change of control of the Company; and (ix) failure to maintain specified catastrophe retentions in each of the Company's regulated insurance subsidiaries.

Convertible Notes

On August 10, 2017, the Company and Heritage MGA, LLC (the "Notes Guarantor") entered into a purchase agreement (the "Purchase Agreement") with 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, \$125.0 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.

Except as described below, the Company may not redeem the Convertible Notes prior to August 5, 2022. On or after August 5, 2022 but 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 Notes automatically become immediately due and payable.

In the second quarter of 2018, the Company repurchased \$10.6 million principal amount of Convertible Notes for cash. In the fourth quarter of 2018 and first quarter of 2019, the Company repurchased Convertible Notes in the aggregate principal amount of \$81.6 million for a combination of cash and the issuance of an aggregate of 3,880,653 shares of the Company's common stock, valued at \$53.0 million, leaving \$23.4 million in aggregate principal amount outstanding. There were no repurchases of Convertible Notes subsequent to the first quarter of 2019.

FHLB Loan Agreements

In December 2018, a subsidiary of the Company pledged U.S. government and agency fixed maturity securities with an estimated fair value of \$31.0 million as collateral and received \$19.2 million in a cash loan under an advance agreement with the FHLB Atlanta. The loan originated on December 12, 2018 and bears a fixed interest rate of 3.094% with interest payments due quarterly commencing in March 2019. The principal balance on the loan has a maturity date of December 13, 2023. In connection with the agreement, the subsidiary became a member of FHLB. Membership in the FHLB required an investment in FHLB's common stock which was purchased on December 31, 2018 and 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 was used to prepay the Company's Senior Secured Notes due 2023 in 2018.

Critical Accounting Policies and Estimates

When we prepare our condensed consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles (GAAP), we must make estimates and assumptions about future events that affect the amounts we report. Certain of these estimates result from judgments that can be subjective and complex. As a result of that subjectivity and complexity, and because we continuously evaluate these estimates and assumptions based on a variety of factors, actual results could materially differ from our estimates and assumptions if changes in one or more factors require us to make accounting adjustments. During the three months ended March 31, 2021, we reassessed our critical accounting policies and estimates as disclosed within our 2020 Annual Report on Form 10-K.

Contractual Obligations

As of March 31, 2021, there have been no material changes to the contractual obligations table disclosed in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2020 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 each year. With our catastrophe reinsurance program effective on June 1 each year, 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 occur and be reflected in our financial results beginning June 1 of each year, subject to certain adjustments.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The duration of the financial instruments held in our portfolio that are subject to interest rate risk was 3.744 years at March 31, 2021, 3.137 years at March 31, 2020, and 3.615 years at December 31, 2020. 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 March 31, 2021, the estimated weighted-average credit quality rating of the fixed maturity securities portfolio was A+, at fair value, consistent with the average rating at December 31, 2020.

We have not experienced a material impact when compared to the tabular presentations of our interest rate and market risk sensitive instruments in our 2020 Annual Report on Form 10-K for the year ended

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Due to the COVID-19 pandemic, a portion of our employees continue to work from home or are on a hybrid schedule working both at our offices and from home. Established business continuity plans have been activated in order to continue business operations while mitigating any adverse impact to our control environment, operating procedures, data and internal controls. The design of our processes and controls allow for remote execution with accessibility to secure data.

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

As required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this Quarterly Report, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2021.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. There were no significant changes to our internal control over financial reporting for the period ending March 31, 2021.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The Company documented its risk factors in Item 1A of Part I of its annual report on Form 10-K for the year ended December 31, 2020 filed on March 9, 2021. There have been no material changes to the Company's risk factors since the filing of that report.

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

Issuer purchases of equity securities

During the three months ended March 31, 2021, the Company acquired 12,500 shares of its stock for a total cost of \$127,000 that were not part of the publicly announced share repurchase program authorization. These shares were delivered to the Company by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock awards.

A summary of our common stock repurchases during the three months ended March 31, 2021 is set forth in the table below (in thousands, except shares):

	<i>Total Number of Shares Purchased</i>	<i>Average Price Paid Per Share</i>	<i>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</i>	<i>Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs</i>
January 1 - January 31, 2021	12,500	\$16.35	—	\$50,000
February 1 - February 29, 2021	—	—	—	\$50,000
March 1 - March 31, 2021	—	—	—	\$50,000
Total	12,500	—	—	—

Item 6. Exhibits

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

Index to Exhibits

Exhibit Number	Description
3.1	Certificate of Incorporation of Heritage Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2014)
3.2	By-laws of Heritage Insurance Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2014)
4	Form of Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1/A (File No. 333-195409) filed on May 13, 2014)
4.1	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
4.2	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
10.18	Employment Agreement dated January 5, 2021 between Heritage Insurance Holdings, Inc. and Ernie Garateix, (incorporated by reference to Exhibit 10.1 to our Form 8-K filed on January 6, 2021)
10.19	Employment Agreement dated April 13, 2021 between Heritage Insurance Holdings, Inc. and Kirk Lusk, (incorporated by reference to Exhibit 10.1 to our Form 8-K filed on April 14, 2021)
10.20*	Employment Agreement dated January 1, 2015 between Heritage Insurance Holdings, Inc. and Sharon Binnun
10.21*	Employment Agreement dated April 2, 2018 between Zephyr Insurance Company, Inc. and Tim Johns

10.22*	Form of Restricted Stock Award Agreement (Time-Based and Performance-Based Vesting)
10.23*	Fourth Amendment to Credit Agreement, dated 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
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document (the Instance Document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Data Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

SIGNATURES

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

HERITAGE INSURANCE HOLDINGS, INC.

Date: May 7, 2021

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

Date: May 7, 2021

By: /s/ KIRK LUSK
Kirk Lusk
Chief Financial Officer
(Principal Financial and Accounting Officer)

Heritage Insurance Holdings, Inc.

A DELAWARE CORPORATION

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of January 1, 2015 by and between HERITAGE INSURANCE HOLDINGS, INC., and any of its parent or subsidiary companies (collectively, the "Company"), and Sharon Binnun (the "Executive").

RECITALS

1. The Company owns and operates a property and casualty insurance company that operates in the State of Florida.
2. The Executive, while assisting with the operation of the Company will obtain intimate knowledge of the business plan and modeling for the Company.
3. The Executive, in its duties, will come to possess intimate knowledge of the business and affairs of the Company and its Subsidiaries, their policies, methods and personnel.
4. The Board of Directors (the "Board") of the Company recognizes that the Executive's contribution to the growth and success of the Company and its Subsidiaries will be substantial and desires to assure the Company of the Executive's role in an Executive capacity and to compensate them, therefore.
5. The Board has determined that this Agreement will reinforce and encourage the Executive's continued attention and dedication to the Company and its Subsidiaries.
6. The Executive is willing to make its services available to the Company and its Subsidiaries on the terms and conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein, the parties hereby agree as follows:

Section I. Term

1. Term of Employment. The Company shall continue to retain the Executive and the Executive shall continue to serve the Company and its Subsidiaries, on the terms and conditions set forth herein, from January 1, 2015 until the termination of this agreement (the "Employment Term").

2. Duties of Executive. The Executive shall perform the duties of an Executive commensurate with such position, shall diligently perform all services as may be reasonably designated by the Board and shall exercise such power and authority as is necessary and customary to the performance of such duties and services. The Executive shall devote its services on a fulltime basis to the business and affairs of the Company and the Subsidiaries.

Section II. Compensation

1. Salary. During the Employment Term, the Executive shall receive a bi-monthly salary of \$12,500.00, subject to normal withholdings and matchings.

2. Additional Cash Compensation. During the Employment Term, Executive shall be eligible to receive an additional annual amount up to \$60,000 or such greater amount, as approved by the Board of Directors in their sole discretion.

3. Automobile Allowance. Executive shall receive an automobile allowance of \$900/month or such greater amount as approved by the Board of Directors during the Employment Term.

4. Expense Reimbursement. During the Employment Term, the Company, upon the submission of supporting documentation by the Executive, and in accordance with Company policies for its executives, shall reimburse the Executive for all expenses actually paid or incurred by the Executive in the course of and pursuant to the business of the Company and the Subsidiaries, expenses for travel and entertainment and other benefits provided to other executives of the Company and the Subsidiaries including stock options and similar benefits set by the Board from time to time.

5. Working Facilities. During the Employment Term, the Company shall furnish the Executive with an office, and such other facilities and services suitable to her position and adequate for the performance of her duties hereunder.

6. Vacation. During the Employment Term, Executive shall be entitled to reasonable paid vacations during each year of the Term, the time and duration thereof to be determined by mutual agreement between Executive and the Company, but not less than that period authorized for other employees of the Company.

Section III. Termination

1. Termination. Notwithstanding anything contained in this Agreement to the contrary, Executive is an at will employee and may be terminated for any reason as determined by the Company in its sole discretion.

Section IV. Restrictive Covenants

1. Confidentiality/Non-Disclosure. "Confidential Information" shall mean any intellectual property, information, or trade secrets (whether or not specifically labeled or identified as

"confidential" or "private"), in any form or medium, that is disclosed to, or developed or learned by, the Executive, and that relates to the operation of the Company in any way including, but not limited to, business plan, underwriting, products, services, research, or development of or by the Company or its Subsidiaries, suppliers, distributors, customers, investors, partner, and/or other business associates, and that has not become publicly known. Confidential Information includes, but is not limited to, the following:

a. Internal business information (including but not limited to information relating to strategy, staffing, financial data, training, marketing, promotional and sales plans and practices, costs, bidding activities and strategies, rate and pricing structures, and accounting and business methods);

b. Identities of; negotiations with, individual requirements of, specific contractual arrangements with, and information about, the Company's or its Subsidiaries' suppliers, distributors, customers, investors, partners and/or other business associates, their contact information, and their confidential information;

c. Compilations of data and analyses, underwriting process and parameters, material processes, technical data, specific program information, trade or industrial practices, computer programs, formulae, systems, research, records, reports, manuals, documentation, customer and supplier lists, data and databases relating thereto, and technology and methodology regarding specific projects; and

cl. Intellectual Property not generally available to the public, or published by the Company or its Subsidiaries. "Intellectual Property," or "IP," shall mean (1) inventions or devices, whether patentable or not; (2) original works of authorship produced by or on behalf of the Company or its Subsidiaries; (3) trade secrets; (4) know-how; (5) customer lists and confidential information; and (6) any other intangible property protectable under federal, state or foreign law. Other examples of Intellectual Property include, but are not limited to, patent applications, patents, copyrighted works, technical data, computer software, knowledge of suppliers or business partnership, documentation, processes, and methods and results of research.

2. Acknowledgements

a. The Executive acknowledges and agrees with the representations of the Company that Confidential Information and IP is proprietary and valuable to the Company, and that any disclosure or unauthorized use thereof may cause irreparable harm and loss to the Company. It is further acknowledged by the Executive that if the general public or competitors (now existing or to be created in the future) learn of these ongoing discussions and negotiations with potential investors as a result of the Executive's failure to comply hereunder, irreparable harm and substantial financial loss may occur to the Company's, the insurance entity or other Subsidiary's viability and future revenues. The Executive acknowledges and agrees that the knowledge and experience the Executive shall acquire by virtue of employment by the Company during the Employment Term is of a special, unique and extraordinary character

and that such position allows the Executive access to Confidential Information and Intellectual Property.

b. The Executive acknowledges and agrees that (a) the nature and periods of restrictions imposed by the covenants contained in this Agreement are fair, reasonable and necessary to protect and preserve for the Company and its Subsidiaries their viability and future revenues;

(b) the Company or its Subsidiaries would sustain great and irreparable loss and damage if the Executive were to breach any of such covenants set forth herein; and (c) the covenants herein set forth are made as an inducement to and have been relied upon by the Company in entering into this Agreement. The Executive acknowledges and agrees this Agreement is binding on the Executive's heirs, executors, successors, administrators, representatives and agents.

c. The Executive agrees to receive and to treat Confidential Information and the knowledge on a confidential and restricted basis and to undertake the following additional obligation with respect thereto:

- i. To use the Confidential Information for the singular purpose of benefiting the Company and its Subsidiaries, and specifically not use the Company's and its Subsidiaries' customer or prospective customer data to conduct market in g, or otherwise undertake personal contacts, to solicit, divert or appropriate customers or prospective customers of the Company or its Subsidiaries, whether for the benefit of the Executive or any person;
- ii. Not to disclose Confidential Information, except to the extent the Executive is required to disclose or use such Confidential Information in the performance of the Executive's assigned duties for the Company or its Subsidiaries, to any person without the prior express written consent of the Board of Directors of the Company;
- iii. To tender all Confidential Information to the Company, and destroy any of the Executive's additional notes or records made from such Confidential Information, immediately upon request by the Company or upon termination of this Agreement;
- iv. To promptly disclose and assign any right, title and interest to the Company all **IP** authored, made, conceived or actually reduced to practice, alone or jointly with others, (a) while performing duties for the Company or its Subsidiaries, or (b) during the Initial Term or Employment Term of this Agreement, or (c) which results or is suggested by any work done for or at the request of the Company or its Subsidiaries, or (cl) which was aided by the use of trade secret information, whether or not during working hours and regardless of location;
- v. To use best efforts to safeguard the Confidential Information and protect it against disclosure, misuse, espionage, loss, misappropriation and theft;

- vi. Immediately notify the Board of Directors of the Company of any breach of this Agreement; and
 - vu. Assist the Company or its Subsidiaries, both during and after the termination of this Agreement, in obtaining and enforcing any legal rights in IP of the Company or its Subsidiaries, or assigned or to be assigned by the Executive to the Company or its Subsidiaries.
3. Clawback. If the Executive breaches any of the terms of this agreement, the Company shall have the right to seek damages and injunctive relief for any breaches of this agreement. Each party shall be responsible for all expenses and attorney's fees incurred by the Company related to Executive's breach of this agreement.
 4. Non-Solicitation. For a period of two years after the Executive leaves the employment of the Company, the Executive covenants and agrees with the Company that the Executive will not, directly or indirectly, attempt to employ, divert away an employee, or enter into any contractual arrangement with any employee or former employee, of the Company or its Subsidiaries, unless such employee or former employee has not been employed by the Company or its Subsidiaries for a period in excess of twelve (12) months.
 5. Non-Compete. For a period of twelve (12) months after the Executive leaves the employment of the Company, the Executive covenants and agrees with the Company that the Executive will not, directly or indirectly, work for or consult with any competing insurance companies that do business in the same states in which the Company does business at the time of the Executive's termination of employment.
 6. Non-Prohibition. Notwithstanding any other provision of this Agreement, the Executive shall not be prohibited or restricted from the practice of public accounting upon termination of employment with the Company or Subsidiaries for any reason.
 7. Severance. In addition, notwithstanding any other provision of this Agreement, upon the consolidation, merger, transfer of assets or other acquisition of the Company ("Acquisition"), the Executive shall not be subject to any restrictions or covenant of this Agreement, if the Executive's employment is terminated for any reason by either the Company or the Executive within six (6) months after such Acquisition. In the event that the Executive is terminated by the Company for any reason within six (6) months after the Acquisition, then the Executive shall be paid a lump sum severance equal to six (6) months of Salary at the level paid to the Executive at the time of the termination.

Section V. Miscellaneous

1. Severability. In the event that the provisions of any covenant of this Agreement should ever be deemed to exceed the time or geographic limitations permitted by applicable law, then the provisions will be reformed to the maximum time or geographic limitations permitted by applicable law. Every provision of this Agreement is intended to be severable, and, if any term or provision is determined to be illegal, invalid or unenforceable for any reason

whatsoever, and cannot be reformed, such illegal, invalid or unenforceable provision shall be deemed severed here from and shall not affect the validity, legality or enforceability of the remainder of this Agreement.

2. Books and Records. All books, records, accounts and similar repositories of Confidential Information of the Company and its Subsidiaries, whether prepared by the Executive or otherwise coming into the Executive's possession, shall be the exclusive property of the Company and shall be returned immediately to the Company and its Subsidiaries on termination of this Agreement or on the Board's request at any time.
3. Survival. The restrictions and obligations of this Section IV shall survive any expiration, termination, or cancellation of either the Initial Term or Employment Term of this Agreement and shall continue to bind the Executive and the Executive's respective heirs, executors, successors, administrators, representatives and agents.
4. Consolidation, Merger or Sale of Assets. Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement, and all obligations of the Company hereunder, in writing. Upon such consolidation, merger, or transfer of assets and assumption, the term "the Company" as used herein, shall mean such other corporation and this Agreement shall continue in full force and effect.
5. Binding Effect. Except as herein otherwise provided, this Agreement shall inure to the benefit of and shall be binding upon the parties hereto, their personal representatives, successors, heirs and assigns. The obligations of Company and the Subsidiaries to Executive are joint and several. All provisions of this Agreement are specifically enforceable by the Subsidiaries in addition to Company. Each of the Subsidiaries shall be considered a third party beneficiary under the provisions of this Agreement.
6. Terminology. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural and vice versa. Titles of Paragraphs are for convenience only, and neither limit nor amplify the provisions of the Agreement itself.
7. Further Assurances. At any time, and from time to time, each party will take such action as may be reasonably requested by the other party to carry out the intent and purposes of this Agreement.
8. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof. It supersedes all prior negotiations, letters and understandings relating to the subject matter hereof.
9. Amendment. This Agreement may not be amended, supplemented or modified in whole or in part except by an instrument in writing signed by the party or parties

against whom enforcement of any such amendment, supplement or modification is sought.

10. Assignment. This Agreement may not be assigned by the Executive, and may not be assigned by the Company except as described in above.
11. Choice of Law. This Agreement will be interpreted, construed and enforced in accordance with the laws of the State of Florida, without giving effect to the application of the principles pertaining to conflicts of laws.
12. Effect of Waiver. The failure of any party at any time or times to require performance of any provision of this Agreement will in no manner affect the right to enforce the same. The waiver by any party of any breach of any provision of this Agreement will not be construed to be a waiver by any such party of any succeeding breach of that provision or a waiver by such party of any breach of any other provision.
13. Construction. The parties hereto and their respective legal counsel participated in the preparation of this Agreement; therefore, this Agreement shall be construed neither against nor in favor of any of the parties hereto, but rather in accordance with the fair meaning thereof.
14. Venue. Should it become necessary for any party to institute legal action to enforce the terms and conditions of this Agreement the successful party will be awarded reasonable attorneys' fees at all trial and appellate levels, expenses and costs. Any suit action or proceeding seeking equitable remedies with respect to this Agreement shall be brought in the courts of the State of Florida, County of Pinellas. The parties hereto hereby accept the exclusive jurisdiction of those courts for the purpose of any such suit, action or proceeding.
15. Arbitration. The parties agree that all disputes related to this Agreement, other than disputes seeking equitable remedies shall be submitted to arbitration in Pinellas County, Florida pursuant to the rules of the American Arbitration Association .
16. Equitable Remedy. The parties hereto acknowledge and agree that any party's remedy at law for a breach or threatened breach of any of the provisions of this Agreement would be inadequate and such breach or threatened breach shall be per se deemed as causing irreparable harm to such party. Therefore, in the event of such breach or threatened breach, the parties hereto agree that in addition to any available remedy at law, including but not limited to monetary damages, an aggrieved party, without posting any bond, shall be entitled to obtain, and the offending party agrees to oppose the aggrieved party's request for, equitable relief in the form of specific enforcement temporary restraining order, temporary or permanent injunction , or any other equitable remedy that may then be available to the aggrieved party.
17. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original.
18. Notice. Any notice required or permitted to be delivered hereunder shall be deemed to be delivered when sent by facsimile with receipt confirmed or when deposited in the United States mail postage prepaid, registered or certified mail, return receipt requested , or by overnight courier, addressed to the parties at the address first stated herein, or to such other address as either party hereto shall from time to time designate.

Agreed to by:

Heritage Insurance Holdings, Inc.

By: /s/BRUCE LUCAS
Bruce Lucas, CEO

By: /s/SHARON BINNON
Sharon Binnun, Executive VicePresident

Zephyr Insurance Company, Inc.
A HAWAII CORPORATION
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of April 2, 2018 by and between ZEPHR INSURANCE COMPANY, INC., Hawaii corporation, and any of its parent or subsidiary companies (collectively, the "Company"), and TIM JOHNS (the, "Executive").

RECITALS

1. The Company is engaged in the insurance and financial services industry.
2. The Executive has the requisite experience to assist with the operation of the Insurance Entity.
3. The Executive, while assisting with the operation of the Company will obtain intimate knowledge of the business plan and modeling for the Company.
4. The Executive will be the President and Chief Executive Officer of Zephyr Insurance Company, Inc., a Hawaii corporation and wholly owned subsidiary of the Company ("ZIC").
5. The Executive, in his duties, will come to possess intimate knowledge of the business and affairs of the Company and its Subsidiaries their policies, methods and personnel.
6. The Board of Directors (the "Board") of the Company recognizes that the Executive's contribution, as the President and Chief Executive Officer of Zephyr Insurance Company, to the growth and success of the Company and its Subsidiaries will be substantial and desires to assure the Company of the Executive's employment in an executive capacity and to compensate him, therefore.
7. The Board has determined that this Agreement will reinforce and encourage the Executive's continued attention and dedication to the Company and its Subsidiaries.
8. The Executive is willing to make his services available to the Company and its Subsidiaries on the terms and conditions hereinafter set forth.

AGREEMENT

NOW, THEREFORE, in consideration of the premises and mutual covenants set forth herein, the parties hereby agree as follows:

Section I. Term and Duties

1. Term of Employment. The Company shall continue to employ the Executive and the Executive shall continue to serve the Company, at will and on the terms and condition set forth herein, unless terminated as hereinafter set forth, or as mutually agreed to by the parties.
2. Duties of Executive. The Executive shall serve as President and Chief Executive Officer of Zephyr Insurance Company and shall perform the duties of an executive commensurate with such position, shall diligently perform all services as may be reasonably designated by the Board and shall exercise such power and authority as is necessary and customary to the performance of such duties and services. The Executive shall devote his services on a fulltime basis to the business and affairs of the Company and the Subsidiaries.

Section II. Compensation and Benefits

1. **Base Salary.** The Executive shall receive an initial base salary at the annual rate of \$300,000. Such salary shall be reviewed on an annual basis. The base salary shall be payable in substantially equal installments consistent with the Company's normal payroll schedule, subject to applicable withholding and other taxes.
2. **Other Duties.** If Employee is elected or appointed a director or an officer of Employer or of any subsidiary or affiliate of Employer he shall serve such duties without additional compensation.
3. **Additional Compensation.** During the employment term, Executive shall participate in the Company's Incentive Compensation Plan, as determined by the Board of Directors. The Company may also in its sole discretion, award equity in the form of Common Stock or Restricted Stock Units.
4. **Expense Reimbursement.** During the employment term, the Company, upon the submission of supporting documentation by the Executive, and in accordance with Company policies for its executives, shall reimburse the Executive for all expenses actually paid or incurred by the Executive in the course of and pursuant to the business of the Company and the Subsidiaries, including expenses for travel.
5. **Additional Employee Benefits.** Subject to the terms and conditions of the Company's benefit plans, the Company shall provide Employee with the same benefits provided to other Employee employees. The specific terms and conditions and eligibility, premium and other contribution requirements are set forth in Exhibit B, SUMMARY OF EMPLOYEE BENEFITS.
6. **Working Facilities.** During the employment term, the Company shall furnish the Executive with an office, parking and such other facilities and services suitable to his position and adequate for the performance of his duties hereunder.

Section III. Termination.

1. **At Will Employee.** Notwithstanding anything contained in this Agreement to the contrary, Executive is an at will employee and may be terminated by the Company for any reason as determined by the Company in its sole discretion. The term of employment shall terminate upon the earliest to occur of (i) the Executive's death, (ii) a termination by the Company with or without Cause, (iii) a termination by Executive with or without Good Reason or (iv) expiration of the term of this Agreement.

- (a) Upon termination by the Executive without Good Reason or expiration of the term of this Agreement, Executive shall be entitled to (1) the Executive's annual base salary as in effect immediately prior to the termination date for a period of ninety (90) days according to the Company's payroll practice subject to applicable withholding taxes and (2) continuation of the health benefits provided to Executive and his covered dependents under the Company health plans as in effect from time to time after the date of such termination at the same cost applicable to active employees until the earlier of: (A) the date that is ninety (90) days after such termination date. or (B) the date Executive commences employment with any person or entity and, thus, is eligible for health insurance benefits; provided, however, that as a condition of continuation of such benefits, the Company may require the Executive to elect to continue his health insurance pursuant to COBRA
 - (b) Upon termination by the Company for Cause, Executive shall be entitled only to the Accrued Obligations.
2. Voluntary. Notwithstanding anything contained in this Agreement to the contrary, this Agreement may be terminated by the Executive for any reason by giving no less than 90 days' notice. The Company shall not be responsible for any further compensation of any kind to the Executive beyond 90 days from the date the Executive provides notice of his intent to terminate his employment.

Section IV. Restrictive Covenants

1. Confidentiality/Non-Disclosure. "Confidential Information" shall mean any intellectual property, information, or trade secrets (whether or not specifically labeled or identified as "confidential" or "private"), in any form or medium, that is disclosed to, or developed or learned by, the Executive, and that relates to the business plan, underwriting, products, services, research, or development of or by the Company or its Subsidiaries, suppliers, distributors, customers, investors, partners, and/or other business associates, and that has not become publicly known. Confidential Information includes, but is not limited to, the following:
- a. Internal business information (including but not limited to information relating to strategy, staffing, financial data, training, marketing promotional and sales plans and practices, costs, bidding activities and strategies. rate and pricing structures, and accounting and business methods);
 - b. Identities of, negotiations with, individual requirements of, specific contractual arrangements with, and information about, the Company's or its Subsidiaries' suppliers, distributors, customers, investors, partners and/or other business associates, their contact information, and their confidential information;
 - c. Compilations of data and analyses, underwriting process and parameters, material processes, technical data, specific program information, trade or industrial practices, computer programs, formulae, systems, research, records, reports, manuals, documentation, customer and supplier lists, data and databases relating thereto, and technology and methodology regarding specific projects; and
 - d. Intellectual Property not generally available to the public, or published by the Company or its Subsidiaries. "Intellectual Property," or "IP," shall mean (1) inventions or devices, whether patentable or not; (2) original works of authorship produced by or on behalf of the Company or its Subsidiaries; (3) trade secrets; (4) know-how; (5) customer lists and confidential information; and (6) any other intangible property protectable under federal, state or foreign law. Other examples of Intellectual Property include, but are not limited to, patent applications, patents, copyrighted works, technical data, computer software, knowledge of suppliers or business partnerships, documentation, processes, and methods and results of research.
2. Acknowledgements.
- a. The Executive acknowledges and agrees with the representations of the Company that Confidential Information and IP is proprietary and valuable to the Company, and that any disclosure or unauthorized use thereof may cause irreparable harm and loss to the Company. It is further acknowledged by the Executive that if the general public or competitors (now existing or to be created in the future) learn of these ongoing discussions and negotiations with potential investors as a result of the Executive's failure to comply hereunder, irreparable harm and substantial financial loss may occur to the Company's, the Insurance Entity or other Subsidiary's viability and future revenues. The Executive acknowledges and agrees that the knowledge and experience the Executive shall acquire by virtue of employment by the Company during the employment term is of a special, unique and

extraordinary character and that such position allows the Executive access to Confidential Information and Intellectual Property.

- b. The Executive acknowledges and agrees that (a) the nature and periods of restrictions imposed by the covenants contained in this Agreement are fair, reasonable and necessary to protect and preserve for the Company and its Subsidiaries their viability and future revenues; the Company or its Subsidiaries would sustain great and irreparable loss and damage if the Executive were to breach any of such covenants set forth herein; (c) the covenants herein set forth are made as an inducement to and have been relied upon by the Company in entering into this Agreement. The Executive acknowledges and agrees this Agreement is binding on the Executive's heirs, executors, successors, administrators, representatives and agents.
- c. The Executive agrees to receive and to treat Confidential information and the knowledge of IP on a confidential and restricted basis and to undertake the following additional obligation with respect thereto:
 - i. To use the Confidential Information for the singular purpose of benefiting the Company and its Subsidiaries, and specifically not use the Company's and its Subsidiaries' customer or prospective customer data to conduct marketing, or otherwise undertake personal contacts, to solicit, divert or appropriate customers or prospective customers of the Company or its Subsidiaries, whether for the benefit of the Executive or any Person;
 - ii. Not to disclose Confidential Information, except to the extent the Executive is required to disclose or use such Confidential Information in the performance of the Executive's assigned duties for the Company or its Subsidiaries, to any Person without the prior express written consent of the Board of Directors of the Company;
 - iii. To tender all Confidential Information to the Company, and destroy any of the Executive's additional notes or records made from such Confidential Information, immediately upon request by the Company or upon termination of this Agreement
 - iv. To promptly disclose and assign any right, title and interest to the Company all IP authored, made, conceived or actually reduced to practice, alone or jointly with others, (a) while performing duties for the Company or its Subsidiaries, or (b) during the employment term of this Agreement, or (c) which results or is suggested by any work done for or at the request of the Company or its Subsidiaries, or (d) which was aided by the use of trade secret information, whether or not during working hours and regardless of location;
 - v. To use best efforts to safeguard the Confidential Information and protect it against disclosure, misuse, espionage, loss, misappropriation and theft;
 - vi. Immediately notify the Board of Directors of the Company of any breach of this Agreement; and
 - vii. Assist the Company or its Subsidiaries, both during and after the termination of this Agreement, in obtaining and enforcing any legal rights in IP of the Company or its Subsidiaries, or assigned or to be assigned by the Executive to the Company or its Subsidiaries.

3. Non-Solicitation. For a period of two years after the Executive leaves the employment of the Company, the Executive covenants and agrees with the Company that the Executive will not, directly or indirectly, attempt to employ, divert away an employee, or enter into any contractual arrangement with any employee or former employee, of the Company or its Subsidiaries, unless such employee or former employee has not been employed by the Company or its Subsidiaries for a period in excess of one (1) year.

4. Non-Compete. During the Restricted Period, the Executive covenants and agrees with the Company that the Executive will not, directly or indirectly, work for or consult with any residential wind only insurance companies located in Hawaii. The "Restricted Period" shall mean a two (2) year period immediately after the Executive's employment with the Company.

Section V. Miscellaneous

1. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement or the application of any such provision to any party or circumstance is held to be prohibited by, illegal or unenforceable under applicable law in any respect by a court of competent jurisdiction such provision shall be severed to the maximum extent permissible so as to effect the intent of the parties hereto, and such provision shall be ineffective only to the extent of such prohibition, illegality or unenforceability, without invalidating the remainder of such provision or the remaining provisions of this Agreement. Every provision of this Agreement is intended to be severable, and, if any term or provision is determined to be illegal, invalid or unenforceable for any reason whatsoever, and cannot be reformed, such illegal, invalid or unenforceable provision shall be deemed severed here from and shall not affect the validity, legality or enforceability of the remainder of this Agreement.
2. Books and Records. All books, records, accounts and similar repositories of Confidential Information of the Company and its Subsidiaries, whether prepared by the Executive or otherwise coming into the Executive's possession, shall be the exclusive property of the Company and shall be returned immediately to the Company and its Subsidiaries on termination of this Agreement or on the Board's request at any time.
3. Survival. The restrictions and obligations of this Section IV shall survive any expiration, termination, or cancellation of the employment term of this Agreement and shall continue to bind the Executive and the Executive's respective heirs, executors, successors, administrators, representatives and agents.
4. Consolidation, Merger or Sale of Assets. Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement, and all obligations of the Company hereunder, in writing. Upon such consolidation, merger, or transfer of assets and assumption, the term "the Company" as used herein, shall mean such other corporation and this Agreement shall continue in full force and effect, subject to the provisions of Paragraph 6 hereof.
5. Binding Effect. Except as herein otherwise provided, this Agreement shall inure to the benefit of and shall be binding upon the parties hereto, their personal representatives, successors, heirs and assigns. The obligations of Company and the Subsidiaries to Executive are joint and several. All provisions of this Agreement are specifically enforceable by the Subsidiaries in addition to Company. Each of the Subsidiaries shall be considered a third party beneficiary under the provisions of this Agreement.
6. Terminology. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural and vice versa. Titles of Paragraphs are for convenience only, and neither limit nor amplify the provisions of the Agreement itself.
7. Further Assurances. At any time, and from time to time, each party will take such action as may be reasonably requested by the other party to carry out the intent and purposes of this Agreement.

8. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof. It supersedes all prior negotiations, letters and understandings relating to the subject matter hereof.
9. Amendment. This Agreement may not be amended, supplemented or modified in whole or in part except by an instrument in writing signed by the party or parties against whom enforcement of any such amendment, supplement or modification is sought.,
10. Assignment. This Agreement may not be assigned by the Executive, and may not be assigned by the Company except as described in above.
11. Choice of Law. This Agreement will be interpreted, construed and enforced in accordance with the laws of the State of Hawaii, without giving effect to the application of the principles pertaining to conflicts of laws.
12. Effect of Waiver. The failure of any party at any time or times to require performance of any provision of this Agreement will in no manner affect the right to enforce the same. The waiver by any party of any breach of any provision of this Agreement will not be construed to be a waiver by any such party of any succeeding breach of that provision or a waiver by such party of any breach of any other provision.
13. Construction. The parties hereto and their respective legal counsel participated in the preparation of this Agreement; therefore, this Agreement shall be construed neither against nor in favor of any of the parties hereto, but rather in accordance with the fair meaning thereof.
14. Venue. Should it become necessary for any party to institute legal action to enforce the terms and conditions of this Agreement, the successful party will be awarded reasonable attorneys' fees at all trial and appellate levels, expenses and costs. Any suit, action or proceeding seeking equitable remedies with respect to this Agreement shall be brought in the courts of the State of Hawaii. The parties hereto hereby accept the exclusive jurisdiction of those courts for the purpose of any such suit, action or proceeding.
15. Arbitration. The parties agree that all disputes related to this Agreement, other than disputes seeking equitable remedies, shall be submitted to arbitration in Honolulu, Hawaii pursuant to the rules of the American Arbitration Association.
16. Equitable Remedy. The parties hereto acknowledge and agree that any party's remedy at law for a breach or threatened breach of any of the provisions of this Agreement would be inadequate and such breach or threatened breach shall be per se deemed as causing irreparable harm to such party. Therefore, in the event of such breach or threatened breach, the parties hereto agree that, in addition to any available remedy at law, including but not limited to monetary damages, an aggrieved party, without posting any bond, shall be entitled to obtain, and the offending party agrees to oppose the aggrieved party's request for, equitable relief in the form of specific enforcement, temporary restraining order, temporary or permanent injunction, or any other equitable remedy that may then be available to the aggrieved party.

17. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original.
18. Notice. Any notice required or permitted to be delivered hereunder shall be deemed to be delivered when sent by facsimile with receipt confirmed or when deposited in the United States mail, postage prepaid, registered or certified mail, return receipt requested, or by overnight courier, addressed to the parties at the address first stated herein, or to such other address as either party hereto shall from time to time designate.
19. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to terms in Exhibit A attached hereto.

Agreed to by:
Heritage Insurance Holdings, Inc.

By: /s/ BRUCE T LUCAS

Bruce, Lucas, CEO

By: /s/ TIMOTHY E JOHNS

Tim Johns

Exhibit A -
Definitions

"Accrued Obligations,, means all accrued but unpaid base salary through the end of the term of employment; any unpaid or unreimbursed expenses incurred in accordance with Company policy; any benefits provided under the Company's employee benefit plans upon a termination of employment, in accordance with the terms therein, including rights to equity in the Company pursuant to any plan or grant; any unpaid bonus in respect to any completed fiscal year that has ended on or prior to the end of the term of employment; and rights to indemnification by virtue of the Executive's position as an officer or director of the Company or its subsidiaries and the benefits under any directors' and officers' liability insurance policy maintained by the Company, in accordance with its terms thereof.

"Cause" means a conviction of the Executive, or a plea of nolo contendere, to a felony; or willful misconduct or gross negligence by the Executive conduct by the Executive causing material economic harm to the Company; or a failure by the Executive to carry out the reasonable and lawful directions of the Board of Directors or the Executive's supervisor; or fraud, embezzlement, theft or dishonesty by the Executive against the Company or any Affiliate of the Company, or a violation by the Executive of a policy or procedure of the Company or any Affiliate; or a breach by the Executive of the Agreement.

"COBRA,, means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended from time to time.

"Good Reason" means any action by the Company that results in a material diminution in the Executive's position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive.

"Person" means an individual, a partnership, a limited liability company, a corporation (whether or not for profit), an association, a joint stock company, a trust, a joint venture, an unincorporated organization, investment fund any other business entity and a governmental entity or any department, agency or political subdivision thereof.

"ZAC" means Zephyr Acquisition Company, a Hawaii corporation.

(Exhibit B)

**ZEPHYR
INSURANCE
COMPANY**

SUMMARY OF EMPLOYEE BENEFITS

Health Plans: Zephyr offers a choice between Kaiser Permanente and two HMSA plans (HMSA Preferred Provider and HMSA Health Plan Hawaii). We pay 100% of the Insurance premiums for our employees and subsidize for dependents.

Dental Plans: Zephyr offers HDS (Hawaii Dental Service) coverage In conjunction with both Kaiser and HMSA medical plans.

Complementary Health Care Services: Zephyr offers coverage for Chiropractic Services, Acupuncture, and Massage Therapy and pays 100% of the premium cost.

Basic Life, AD&D, LTD and STD Insurance: Basic Life, AD&D, Long Term Disability and Short Term Disability Insurance premiums are 100% paid by the Company. All regular full time employees working at least 20 hours per week will receive Basic Life/AD&D Insurance with the benefit amount equal to 1.5 times your annual salary. Employees must meet eligibility requirements prior to enrollment.

Additional Life: Employees are offered the option to purchase Additional Life Insurance for you and your Spouse/Child.

Supplemental Insurance: A variety of supplemental Insurance products are offered to employees through AFLAC Including coverage for Accident, Cancer, Life, Personal Sickness, and Hospital Intensive Care. These premiums are all 100% employee-paid and are deducted via automatic payroll deduction. The fact that most are pre-tax Items does make these options more affordable.

Flexible Spending Plan: Employees may enroll into this plan that allows you to direct a part of your pay, on a pretax basis, into a special account that can be used throughout the year to reimburse yourself for certain out-of-pocket health care and dependent care expenses.

Employee Assistance Program (EAP): This web based service can be accessed by all employees and their family. This on-line EAP offers resources and information for issues such as Mental Health and Well-Being, Personal and Professional Issues, Relationships, Substance Abuse, Family Life, Daily Stress, and Self Improvement.

401k Plan: Employees may participate in the 401k plan upon completing 6 months of employment zephyr's matching contribution to employee's 401k plan will be 100% (dollar for dollar) of the first 6% of compensation employees defer to their Plan.

Incentive Compensation Program (ICP): At the discretion of the Board of Directors and based on the planned operating results of the company and each individual employee's performance, an ICP may be awarded to employees of Zephyr Insurance Company.

Paid Time Off (PTO): Employees who are beyond their initial year of employment and are employed by the Company as of December 31 of the previous year will be eligible for PTO in the current year according to the following schedule:

Years of Service	Annual PTO Allowed
4 years or less	18 days
5-9 years	23 days
10-15 years	28 days
16 years or more	33 days

Holidays: All employees will be given the day off with pay for the nine (9) standard holidays observed by the Company. In addition to one (1) floating holiday per year.

**Heritage Insurance Holdings, Inc.
Restricted Stock Award Agreement**

This Restricted Stock Award Agreement (the "Agreement") is entered into as of [____], 202[] (the "Award Date") between Heritage Insurance Holdings, Inc. (the "Company") and [____] (the "Participant"). Any term capitalized but not defined in the Agreement shall have the meaning set forth in the Heritage Insurance Holdings, Inc. Omnibus Incentive Plan, as may be amended from time to time (the "Plan").

The Plan provides that the Administrator may grant restricted stock to employees, directors, and independent contractors of the Company or its Affiliates. In the Administrator's exercise of discretion under the Plan, the Administrator has determined that the Participant should receive a restricted stock award under the Plan and, accordingly, the Company and the Participant hereby agree as follows:

1. *Grant.*

(a) Time-Based Shares. Participant is hereby issued [____] shares of Stock that are initially unvested and that will be eligible to vest in accordance with Section 4(a) of the Agreement (the "Time-Based Shares").

(b) Performance-Based Shares. Participant is hereby issued [____] shares of Stock that are initially unvested and that will be eligible to vest in accordance with Section 4(b) of the Agreement (the "Performance-Based Shares"; together with the Time-Based Shares, the "Award Shares").

2. *Stock Certificates.* The Company may, but shall not be required to, issue certificates for the Award Shares in the Participant's name, in which event the Company (or its designee) shall hold the certificates until the Award Shares either are forfeited or become vested.

3. *Rights as Stockholder.* On and after the Award Date, and except to the extent provided in Section 9, the Participant may exercise full voting rights with respect to the Award Shares and the Participant will be entitled to receive dividends on Award Shares if dividends are payable on Stock to stockholders of record after the Award Date; provided, that any such dividends shall not be paid currently but shall be accrued and paid within thirty (30) days of such time as all applicable restrictions on the corresponding Award Shares lapse. If the Participant forfeits any rights he may have to the Award Shares in accordance with Section 4 of the Agreement, the Participant shall, on the day of forfeiture, cease to have any rights as a stockholder with respect to the forfeited Award Shares or any interest therein, including rights to any dividends on such stock. Neither unvested Award Shares, nor the right to vote such shares and receive dividends thereon, may be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered; provided, however, that the Participant may grant to another person a revocable proxy to vote unvested Award Shares at a Company stockholder meeting.

4. *Vesting; Effect of Termination of Employment.*

(a) Vesting Generally – Time-Based Shares. The Time-Based Shares shall vest in three equal installments on [____], [____] and [____], provided the Participant remains continuously employed by the Company or its Affiliates from the Award Date until the corresponding vesting date.

(b) Vesting Generally – Performance-Based Shares. The Performance-Based Shares shall be eligible to vest on the “Certification Date” (as defined below), subject to and in accordance with the attached Schedule A, provided the Participant remains continuously employed by the Company or its Affiliates at all times from the Award Date until the Certification Date. Any Performance-Based Shares outstanding on the Certification Date but which do not vest in accordance with Schedule A shall automatically be forfeited by the Participant and revert to the Company on the Certification Date without any payment therefor. For purposes of the Agreement, “Certification Date” means the date on which the Committee determines the extent to which the performance criterion set forth on Schedule A has been achieved, which date shall be no later than [_____].

(c) Termination of Employment Generally. Except as expressly set forth in Section 4(d) and 4(e) below, if the Participant’s continuous employment with the Company and its Affiliates terminates for any reason prior to the vesting of any Award Shares, such invested Award Shares shall automatically be forfeited by the Participant and revert to the Company as of the Participant’s last day of employment without any payment therefor.

(d) Termination without Cause or resignation for Good Reason. If the Participant’s continuous employment with the Company and its Affiliates is terminated by the Company or its Affiliates without Cause or the Participant voluntarily terminates his employment with the Company or its Affiliates for Good Reason prior to [_____], the remaining invested Time-Based Shares shall fully vest upon the Participant’s last day of employment, the Target Performance Shares (as defined in Schedule A) shall vest upon the Participant’s last day of employment and the remaining amount of the unvested Performance-Based Shares shall automatically be forfeited by the Participant and revert to the Company as of the Participant’s last day of employment without any payment therefor. In the event that such termination without Cause or resignation for Good Reason occurs on or after [_____] but before the Certification Date, the Performance-Based Shares shall be eligible to vest on the Participant’s last day of employment based on the Committee’s good faith estimate, made on or before the Participant’s last day of employment, of the extent to which the performance criterion set forth on Schedule A was achieved.

(e) Termination upon death or Disability. If the Participant’s continuous employment with the Company and its Affiliates is terminated by reason of the Participant’s death or Disability:

- (i) a pro-rated portion of the then unvested Time-Based Shares shall vest upon the Participant’s last day of employment, such portion to equal the product of (A) the quotient of (I) the number of calendar days in calendar year 202[] on which the Participant was employed by the Company or its Affiliates divided by (II) 365 (such quotient, the “Pro-Ration Fraction”) and (B) the total number of then unvested Time-Based Shares; and

- (ii) (A) if the termination occurs prior to [____], a pro-rated portion of the Performance-Based Shares shall vest upon the Participant's last day of employment, such portion to equal the product of (I) the Pro-Ration Fraction and (II) the number of Target Performance Shares and (B) if the termination occurs on or after [____] but prior to the Certification Date, the number of Performance-Based Shares that shall vest, if any, as of the Participant's last day of employment shall be determined in accordance with Schedule A based on the Committee's good faith estimate, made on or promptly following the Participant's last day of employment, of the extent to which the performance criterion set forth on Schedule A was achieved.

(f) Termination for Cause or Inimical Conduct. Section 14(e) of the Plan is hereby incorporated by reference as if fully set forth herein and shall control in the event of conflict with any other provision of the Agreement.

5. *Terms and Conditions of Distribution.* The Company shall distribute certificates (if applicable) for Award Shares as soon as practicable after they become vested. If the Participant dies before the Company has distributed all vested Award Shares, the Company shall distribute certificates (if applicable) for the vested Award Shares to the beneficiary or beneficiaries the Participant designated, in the proportions the Participant specified. If the Participant failed to designate a beneficiary or beneficiaries, the Company shall distribute certificates (if applicable) for the vested Award Shares to the Participant's estate. The Company shall distribute certificates (if applicable) for the vested Award Shares no later than six months after the Participant's death.

Notwithstanding the foregoing, the Company shall not distribute the certificates for the Award Shares until the Participant has paid to the Company or an Affiliate the amount required to be withheld for federal, state or local taxes. The Participant may direct the Company to withhold a portion of the Award Shares for federal, state and local income taxes, in which case the amount withheld shall not exceed the maximum statutory tax rates in the Participant's applicable jurisdictions.

6. *Legend on Stock Certificates.* The Company may require that certificates for Award Shares distributed to the Participant pursuant to the Agreement bear any legend that counsel to the Company believes is necessary or desirable to facilitate compliance with applicable securities laws.

7. *Delivery of Certificates.* Notwithstanding the provisions of Sections 4 and 5 of the Agreement, the Company is not required to issue or deliver any certificates for Award Shares before completing the steps necessary to comply with applicable federal and state securities laws (including any registration requirements) and applicable stock exchange rules and practices. The Company shall use commercially reasonable efforts to cause compliance with those laws, rules and practices.

The Company shall not make any distribution of certificates before the first date the Award Shares may be distributed to the Participant without penalty or forfeiture under federal or state laws or regulations governing short swing trading of securities. In determining whether a distribution would result in such a penalty or forfeiture, the Administrator may rely upon information reasonably available to them or upon representations of the Participant's legal or personal representative.

8. *No Right to Employment.* Nothing in the Plan or the Agreement shall be construed as creating any right in the Participant to continued employment or service, or as altering or amending the existing terms and conditions of the Participant's employment or service (other than with respect to the Award Shares).

9. *Nontransferability.* No interest of the Participant or any beneficiary in or under the Agreement shall be assignable or transferable by voluntary or involuntary act or by operation of law, other than in accordance with Section 5 of the Agreement or by the laws of descent and distribution, or pursuant to a domestic relations order (as defined in section 414(p)) of the Code). Distribution of Award Shares shall be made only to the Participant; or, if the Administrator has been provided with evidence acceptable to it that the Participant is legally incompetent, the Participant's guardian or legal representative; or, if the Participant is deceased, to the beneficiaries that the Participant has designated in the manner required by the Administrator or, in the absence of a designated beneficiary, to the Participant's estate. The Administrator may, in its discretion, require a Participant's guardian or legal representative to supply it with evidence the Administrator deems necessary to establish the authority of the guardian or legal representative to act on behalf of the Participant. Any effort to assign or transfer the rights under the Agreement in contravention of the Agreement or the Plan shall be wholly ineffective, and shall be grounds for termination by the Administrator of all rights of the Participant and his beneficiary in and under the Agreement.

10. *Administration.* The Administrator administers the Plan. The Participant's rights under the Agreement are expressly subject to the terms and conditions of the Plan, including required stockholder approval thereof, and to any guidelines the Administrator adopts from time to time. The Participant hereby acknowledges receipt of a copy of the Plan.

11. *Submission to Jurisdiction; WAIVER OF JURY TRIAL.*

(a) Each party hereto hereby irrevocably and unconditionally (i) consents to submit to the exclusive jurisdiction of the state or federal courts residing in the state of Florida, county of Pinellas (the "Chosen Courts") for any dispute, claim or controversy arising out of or relating to the Agreement or the negotiation, validity or performance of the Agreement or the transactions contemplated hereby ("Proceeding"), (ii) waives any objection to the laying of venue of any such Proceeding in the Chosen Courts and (iii) agrees not to plead or claim in any Chosen Court that such Proceeding brought therein has been brought in any inconvenient forum. Each party hereto hereby agrees not to commence any such Proceeding other than before a Chosen Court. Each party hereto agrees that a final, non-appealable judgment in any Proceeding so brought shall be conclusive and may be enforced by suit on the judgment in any court of competent jurisdiction, or in any other manner provided by law. Each party hereto agrees that service of summons and complaint or any other process that might be served in any Proceeding hereunder may be made on such party by sending or delivering a copy of the process to such party to be served at the address of such party and in the manner provided for the giving of notices in Section 18 of the Agreement. Nothing in this Section 11(a), however, shall affect the right of any party hereto to serve legal process in any other manner permitted by applicable law.

(b) EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES (AND SHALL CAUSE ITS AFFILIATES TO IRREVOCABLY WAIVE) ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY

LEGAL PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATED TO THIS AGREEMENT OR BY THE TRANSACTIONS CONTEMPLATED HEREBY OR THE NEGOTIATION, VALIDITY OR PERFORMANCE HEREOF. EACH PARTY HERETO (i) CERTIFIES THAT NO OTHER PARTY HERETO OR ANY OF SUCH OTHER PARTY'S REPRESENTATIVES HAS REPRESENTED, EXPRESSLY OR OTHERWISE THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (ii) ACKNOWLEDGES THAT SUCH PARTY AND THE OTHER PARTIES HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11(b).

12. *Choice of Law.* The Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without regard to any choice of law or conflict of laws rules, provisions or principles (whether of the State of Delaware or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Delaware.

13. *Sole Agreement.* The Award Shares are in all respects subject to the provisions set forth in the Plan to the same extent and with the same effect as if set forth fully herein. In the event that the terms of the Agreement conflict with the terms of the Plan, the Plan shall control. The Agreement is the entire agreement between the parties to it relating to the subject matter hereof, and any and all prior oral and written representations relating to the subject matter hereof are merged in the Agreement. The Agreement may be amended only by written agreement between the Participant and the Company.

14. *Counterparts.* The parties may execute the Agreement in one or more counterparts, all of which together shall constitute but one Agreement.

15. *Delivery by Facsimile or E-Mail.* The Agreement, and any amendments hereto or thereto, to the extent signed and delivered by means of a facsimile machine or electronic transmission in portable document format (".pdf"), shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of either party hereto or to any such agreement or instrument, the other party hereto or thereto shall re-execute original forms thereof and deliver them to the other party. No party hereto shall raise the use of a facsimile machine or electronic transmission in .pdf format to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or electronic transmission in .pdf format as a defense to the formation or enforceability of a contract and each such party forever waives any such defense.

16. *Tax Consequences.* The Participant has reviewed with his own tax advisors the federal, state, local and foreign tax consequences of the acquisition, ownership and sale of the Award Shares and the transactions contemplated by the Agreement. The Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. The Participant understands that the Participant (and not the Company) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by the Agreement. Without limiting the generality of the foregoing, the Participant may, within thirty (30) days of the transfer of the Award Shares to the Participant, make an election under Section 83 of the Internal Revenue Code of 1986, as amended, with respect to any or all of the Award Shares and, if he makes such an election, he shall promptly deliver to the Company a copy of such election.

17. *Waiver.* Except as expressly provided herein, neither the Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument referencing the Agreement and signed by the Company and Participant. Either party's failure to enforce any provision of the Agreement shall not in any way be construed as a waiver of any such provision, nor prevent that party from thereafter enforcing any other provision of the Agreement. The rights granted both parties hereunder are cumulative and shall not constitute a waiver of either party's right to assert any other legal remedy available to him or it.

18. *Notices.* All notices required or permitted hereunder will be in writing and will be deemed effectively given: (i) upon personal delivery to the party to be notified; (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient, and if not during normal business hours of the recipient, then on the next business day; (iii) five calendar days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) one business day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications under the Agreement to the Company shall be sent to the Company's headquarters, attention: Vice President of Compliance, and all communications under the Agreement to the Participant will be sent to his then current address on file in the Company's payroll records, or to such other address as either such party may designate by 10 days' advance written notice to the other party hereto.

19. *Successors.* The rights and obligations created under the Agreement shall, subject to the transfer restrictions contained herein and in the Plan, be binding on the Participant and his heirs and legal representatives and shall be binding on the successors and assigns of the Company.

[signature page follows]

IN WITNESS WHEREOF, the Company and the Participant have duly executed the Agreement as of the day and year first above written.

COMPANY:

Heritage Insurance Holdings, Inc.

Name:

Title:

PARTICIPANT:

Name:

Title:

Schedule A

Performance-Based Shares

Performance Period: January 1, 202[] through December 31, 202[]

Performance Criteria: []

Target Number of Performance-Based Shares: [] of the total number of Performance-Based Shares (the "Target Performance Shares")

Performance Goals and Vesting Formula:

	Threshold	Target	Max
[]	[]%	[]%	[]%
<i>Percentage of Target Performance Shares that vest</i>	[]%	[]%	[]%

Note: pro rata amounts are calculated between threshold and target and target and max. If performance is less than threshold performance, all of the Performance-Based Shares shall terminate on the last day of the Performance Period without any payment in respect thereof.

FOURTH AMENDMENT TO CREDIT AGREEMENT

This FOURTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of March 24, 2021 (the "Fourth Amendment Effective Date"), is entered into by and among HERITAGE INSURANCE HOLDINGS, INC., a Delaware corporation (the "Borrower"), the Guarantors, the Lenders party hereto, and Regions Bank, in its capacity as Administrative Agent (the "Administrative Agent").

RECITALS

WHEREAS, the Borrower, the Guarantors from time to time party thereto, the Lenders from time to time party thereto, and Regions Bank, as Administrative Agent and Collateral Agent, are parties to that certain Credit Agreement, dated as of December 14, 2018 (as amended by that certain First Amendment to Credit Agreement, dated as of May 17, 2019, as further amended by that certain Second Amendment to Credit Agreement, dated as of April 27, 2020, as further amended by that certain Third Amendment to Credit Agreement, dated as of June 1, 2020, and as further amended, restated, amended and restated, supplemented, increased, extended, refinanced, renewed, replaced, and/or otherwise modified in writing from time to time, the "Credit Agreement"); and

WHEREAS, the Credit Parties have requested that the Credit Agreement be amended as provided in Section 3 below, and the Lenders (by act of the Required Lenders) have agreed to consent to such amendments set forth herein, subject to the terms and conditions of this Amendment;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

AGREEMENT

1. Introductory Paragraph and Recitals; Definitions. The above introductory paragraph and recitals (including any terms defined therein) of this Amendment are incorporated herein by reference as if fully set forth in the body of this Amendment. Capitalized terms used herein but not otherwise defined herein shall have the meanings provided for such terms in the Credit Agreement (as amended by this Amendment).

2. Amendments to the Credit Agreement. Pursuant to Section 11.4 of the Credit Agreement, the Credit Agreement is hereby amended in the following respects:

(a) Section 1.1 (*Definitions*) of the Credit Agreement is amended by inserting the following new definitions in the appropriate alphabetical order:

"Fourth Amendment Effective Date" shall mean March 24, 2021.

"Specified Managing Agency Services Agreement" shall mean that certain Managing Agency Contract, dated as of January 1, 2019, by and between Heritage Property & Casualty Insurance Company, as the company, and Heritage MGA, LLC, as the manager (as amended, restated, amended and restated, supplemented, extended, renewed, replaced, and/or otherwise modified in writing from time to time pursuant to the Specified Managing Agency Services Agreement Amendment or otherwise in accordance with the terms of this Agreement and the other Loan Documents).

“Specified Managing Agency Services Agreement Amendment” shall mean that certain letter agreement, dated as of the Fourth Amendment Effective Date, by and between Heritage Property & Casualty Insurance Company, as the company, and Heritage MGA, LLC, as the manager, relating to the Specified Managing Agency Services Agreement (as provided to the Administrative Agent (or its designee) in fully executed form on or prior to the Fourth Amendment Effective Date).

(b) The definition of “*Consolidated EBITDA*” in Section 1.1 (*Definitions*) of the Credit Agreement is amended by (i) deleting the text “and” as it occurs immediately prior to the beginning of clause (a)(vii) of such definition, (ii) renumbering clause (a)(vii) of such definition as a new clause (a)(viii) of such definition, and (iii) inserting a new clause (a)(vii) of such definition in the appropriate alphabetical and sub-numerical order to read as follows:

(vii) unpaid managing general agency fees, expenses and other amounts that would have been due and owing by Heritage Property & Casualty Insurance Company to Heritage MGA, LLC pursuant to the Specified Managing Agency Services Agreement with respect to the twelve (12) consecutive calendar month period ended December 31, 2020, but for a waiver provided by Heritage MGA, LLC pursuant to and in accordance with the terms of the Specified Managing Agency Services Agreement Amendment, to the extent that the Specified Managing Agency Services Agreement Amendment is expressly permitted under clause (A) of the proviso to the last sentence of Section 8.16, and

(c) The proviso to the last sentence of Section 8.16 (*Amendments to Organizational Agreements / Material Agreements*) of the Credit Agreement is amended and restated in its entirety to read as follows:

; *provided, however*, that the Credit Parties and their Subsidiaries shall be permitted (A) to amend or waive any provision of the Specified Managing Agency Services Agreement pursuant to the Specified Managing Agency Services Agreement Amendment in order to reduce the managing general agency fees, expenses and/or other amounts that would otherwise be due and payable under the Specified Managing Agency Services Agreement from Heritage Property & Casualty Insurance Company to Heritage MGA, LLC *solely* with respect to the twelve (12) consecutive calendar month period ended December 31, 2020, and (B) to amend, terminate or waive any provision of a Material Contract to the extent expressly required to do so under Applicable Law or in writing by any Insurance Regulatory Authority, in each case of this clause (B), with prompt written notice of such amendment, termination or waiver to be provided to the Administrative Agent.

3. Effectiveness; Conditions Precedent. This Amendment shall become effective as of the Fourth Amendment Effective Date upon receipt by the Administrative Agent of counterparts of this Amendment, duly executed by each of the Credit Parties, Lenders constituting the Required Lenders, the Administrative Agent and the Collateral Agent.

Representations and Warranties. The Borrower (on behalf of itself and the other Credit Parties) hereby represents and warrants to the Administrative Agent and the Lenders as follows:

the ~~B~~(a)orrower and each other Credit Party has taken all necessary action to authorize the execution and delivery of, and performance under, this Amendment;

this ~~A~~(b)endment has been duly executed and delivered by the Borrower and each other Credit Party and constitutes each such Credit Party’s legal, valid and binding obligations, enforceable in accordance with its terms, except as such enforceability may be subject to: (i) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar Laws affecting creditors’ rights

generally; and/or (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity);

no consent, approval, authorization or order of, or filing, registration or qualification with, any court or Governmental Authority or third-party is required in connection with the execution or delivery of, or performance under, this Amendment by the Borrower or any other Credit Party;

both immediately before and immediately after giving effect to this Amendment, the representations and warranties contained in the Credit Agreement or any other Credit Document are true and correct in all material respects, except to the extent that such representations and warranties specifically refer to an earlier date, in which case, they are true and correct in all material respects as of such earlier date; and

immediately after giving effect to this Amendment, no Default or Event of Default exists.

5. Reaffirmation. The Borrower (on behalf of itself and the other Credit Parties): (a) (i) acknowledges and consents to all of the terms and conditions of this Amendment, (ii) affirms all of its obligations under the Credit Documents (as amended by this Amendment), and (iii) agrees that this Amendment, and all documents, agreements and instruments executed in connection with this Amendment, do *not* operate to reduce or discharge such Credit Party's obligations under the Credit Documents (except to the extent such obligations are expressly modified pursuant to this Amendment); and (b) (i) affirms that each of the Liens granted in, or pursuant to, the Credit Documents is valid and subsisting, and (ii) agrees that this Amendment, and all documents, agreements and instruments executed in connection with this Amendment, do *not*, in any manner, impair, or otherwise adversely affect, any of the Liens granted in, or pursuant to, the Credit Documents.

6. Miscellaneous.

Credit Document. This Amendment shall be deemed to be, and is, a Credit Document, and all references to a "Credit Document" in the Credit Agreement and the other Credit Documents (including, without limitation, all such references in the representations and warranties in the Credit Agreement and the other Credit Documents) shall be deemed to include this Amendment.

No Other Changes. Except as expressly modified hereby, all of the terms and provisions of the Credit Documents shall remain unchanged and in full force and effect.

Counterparts; Delivery. This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Amendment by telecopy or other electronic imaging means (including in ".pdf" form) shall be effective as delivery of a manually executed counterpart of this Amendment.

Fees and Expenses. The Borrower agrees to pay all reasonable out-of-pocket fees and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and expenses of Moore & Van Allen PLLC, as counsel to the Administrative Agent.

Governing Law. THIS AMENDMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSE OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF, OR RELATING TO THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH, AND BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK.

[Remainder of Page Intentionally Left Blank; Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written, intending to create an instrument under seal.

BORROWER:

HERITAGE INSURANCE HOLDINGS, INC.,
a Delaware corporation

By: /s/ Kirk Lusk (Seal)
Name: Kirk Lusk
Title: Chief Financial Officer

GUARANTORS:

CONTRACTORS ALLIANCE NETWORK, LLC,
a Florida limited liability company
FIRST ACCESS INSURANCE GROUP, LLC,
a Florida limited liability company
HERITAGE INSURANCE CLAIMS, LLC,
a Florida limited liability company
HERITAGE MGA, LLC,
a Florida limited liability company
NBIC FINANCIAL HOLDINGS, INC.,
a Delaware corporation
NBIC HOLDINGS, INC.,
a Delaware corporation
NBIC SERVICE COMPANY, INC.,
a Rhode Island corporation
SKYE LANE PROPERTIES, LLC,
a Florida limited liability company
ZEPHYR ACQUISITION COMPANY,
a Delaware corporation

By: /s/ Kirk Lusk (Seal)
Name: Kirk Lusk
Title: Chief Financial Officer

HI HOLDINGS, INC.,
a Hawaii corporation

By: /s/ Ernesto Garateix (Seal)
Name: Ernesto Garateix
Title: Chief Operating Officer

[Signature Pages Continue]

ADMINISTRATIVE AGENT
AND COLLATERAL AGENT:

REGIONS BANK,
as Administrative Agent and Collateral Agent

By: /s/ Travis Lovell (Seal)
Name: Travis Lovell
Title: Director

[Signature Pages Continue]

Signature Page to Fourth Amendment to Credit Agreement (Heritage Insurance Holdings, Inc.)

LENDERS:

REGIONS BANK,
as a Lender

By: /s/ Travis Lovell (Seal)
Name: Travis Lovell
Title: Director

[Signature Pages Continue]

Signature Page to Fourth Amendment to Credit Agreement (Heritage Insurance Holdings, Inc.)

as a Lender

By: /s/ Collin Wagner (Seal)
Name: Collin Wagner
Title: Vice President

[Signature Pages Continue]

Signature Page to Fourth Amendment to Credit Agreement (Heritage Insurance Holdings, Inc.)

as a Lender

By: /s/ Allen L. Harvell, Jr. (Seal)
Name: Allen L. Harvell, Jr.
Title: SVP

[Signature Pages Continue]

Signature Page to Fourth Amendment to Credit Agreement (Heritage Insurance Holdings, Inc.)

as a Lender

By: /s/ Austin G. Love (Seal)
Name: Austin G. Love
Title: Managing Director

[Signature Pages Continue]

Signature Page to Fourth Amendment to Credit Agreement (Heritage Insurance Holdings, Inc.)

as a Lender

By: /s/ Thomas Angley (Seal)
Name: Thomas Angley
Title: Senior Vice President

[Signature Pages End]

Signature Page to Fourth Amendment to Credit Agreement (Heritage Insurance Holdings, Inc.)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT**

I, Ernesto Garateix, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heritage Insurance Holdings, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 we 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the end of the period covered by this report; 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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 controls over financial reporting.

Date: May 7, 2021

By: /s/ ERNESTO GARATEIX

Ernesto Garateix

Chief Executive Officer

(Principal Executive Officer and Duly Authorized

Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT**

I, Kirk Lusk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Heritage Insurance Holdings, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 we 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the end of the period covered by this report; 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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
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 controls over financial reporting.

Date: May 7, 2021

By: /s/ KIRK LUSK

Kirk Lusk
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection the Quarterly Report on Form 10Q of Heritage Insurance Holdings, Inc. (the “Company”) for the quarter ended March 31, 2021, as filed with the Securities and Exchange Commission (the “Report”), I, Ernesto Garateix, the Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2021

By: /s/ ERNESTO GARATEIX

Ernesto Garateix

*Chief Executive Officer (Principal Executive Officer and
Duly Authorized Officer)*

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

In connection the Quarterly Report on Form 10Q of Heritage Insurance Holdings, Inc. (the “Company”) for the quarter ended March 31, 2021, as filed with the Securities and Exchange Commission (the “Report”), I, Kirk Lusk, the Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 7, 2021

By: /s/ KIRK LUSK

Kirk Lusk

Chief Financial Officer

(Principal Financial and Accounting Officer)