

**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, 2020

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 April 30, 2020 was 28,212,052

**HERITAGE INSURANCE HOLDINGS, INC.**  
**Table of Contents**

	<u>Page</u>
<b><u>PART I – FINANCIAL INFORMATION</u></b>	
<b><u>Item 1 Unaudited Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets: March 31, 2020 (unaudited) and December 31, 2019</u>	2
<u>Condensed Consolidated Statements of Operations and Other Comprehensive Income: Three months ended March 31, 2020 and 2019 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Stockholders' Equity: Three months ended March 31, 2020 and 2019 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows: Three months ended March 31, 2020 and 2019 (unaudited)</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<b><u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	23
<b><u>Item 3 Quantitative and Qualitative Disclosures about Market Risk</u></b>	30
<b><u>Item 4 Controls and Procedures</u></b>	32
<b><u>PART II – OTHER INFORMATION</u></b>	
<b><u>Item 1 Legal Proceedings</u></b>	33
<b><u>Item 1A Risk Factors</u></b>	33
<b><u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	34
<b><u>Item 4 Mine Safety Disclosures</u></b>	34
<b><u>Item 6 Exhibits</u></b>	34
<b><u>Signatures</u></b>	36

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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;
- the fluctuation in our results of operations;
- increased costs of reinsurance, non-availability of reinsurance, and non-collectability of reinsurance;
- our failure to identify suitable acquisition candidates, effectively manage our growth and integrate acquired companies;
- increased competition, competitive pressures, and market conditions;
- our failure to accurately price the risks we underwrite;
- inherent uncertainty of our models and our reliance on such models as a tool to evaluate risk;
- 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 failure to execute our diversification strategy;
- failure of our information technology systems and unsuccessful development and implementation of new technologies;
- a lack of redundancy in our operations;
- our failure to attract and retain qualified employees and independent agents or our loss of key personnel;
- our inability to generate investment income;
- our inability to maintain our financial stability rating;
- 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;
- our reliance on independent agents to write voluntary insurance policies;
- changes in regulations and our failure to meet increased regulatory requirements;
- our ability to maintain effective internal controls over financial reporting;
- the regulation of our insurance operations;
- certain characteristics of our common stock; and
- the 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.

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, 2019. 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.

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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, 2020</i>	<i>December 31, 2019</i>
	<i>(unaudited)</i>	
<b>ASSETS</b>		
Fixed maturities, available-for-sale, at fair value (amortized cost of \$601,890 and \$577,789)	\$ 613,355	\$ 587,256
Equity securities, at fair value, (cost \$1,618 and \$1,618)	1,599	1,618
Other investments	6,375	6,375
<b>Total investments</b>	<b>621,329</b>	<b>595,249</b>
Cash and cash equivalents	313,360	268,351
Restricted cash	16,069	14,657
Accrued investment income	4,262	4,377
Premiums receivable, net	62,914	63,685
Reinsurance recoverable on paid and unpaid claims, net of allowance for estimated uncollectible reinsurance of \$44	374,994	428,903
Prepaid reinsurance premiums	146,029	224,102
Income taxes receivable	—	3,171
Deferred policy acquisition costs, net	74,895	77,211
Property and equipment, net	20,395	20,753
Intangibles, net	67,051	68,642
Goodwill	152,459	152,459
Other assets	26,738	18,110
<b>Total Assets</b>	<b>\$ 1,880,495</b>	<b>\$ 1,939,670</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Unpaid losses and loss adjustment expenses	\$ 607,177	\$ 613,533
Unearned premiums	480,627	486,220
Reinsurance payable	101,960	156,351
Long-term debt, net	125,775	129,248
Income taxes payable	4,439	—
Deferred income tax, net	8,627	12,623
Advance premiums	29,394	16,504
Accrued compensation	8,237	5,347
Accounts payable and other liabilities	64,962	71,045
<b>Total Liabilities</b>	<b>\$ 1,431,198</b>	<b>\$ 1,490,871</b>
<b>Commitments and contingencies (Note 17)</b>		
<b>Stockholders' Equity:</b>		
Common stock, \$0.0001 par value, 50,000,000 shares authorized, 28,212,052 shares issued and 27,891,518 shares outstanding at March 31, 2020; 28,996,452 shares issued and 28,650,918 shares outstanding at December 31, 2019	3	3
Additional paid-in capital	330,680	329,568
Accumulated other comprehensive income	8,842	7,330
Treasury stock, at cost, 9,116,383 and 8,349,483 shares, respectively	(113,354)	(105,368)
Retained earnings	223,126	217,266
<b>Total Stockholders' Equity</b>	<b>449,297</b>	<b>448,799</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,880,495</b>	<b>\$ 1,939,670</b>

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>2020</u>	<u>2019</u>
<b>REVENUES:</b>		
Gross premiums written	\$ 229,102	\$ 210,348
Change in gross unearned premiums	5,614	18,242
Gross premiums earned	234,716	228,590
Ceded premiums	(108,710)	(118,899)
Net premiums earned	126,006	109,691
Net investment income	3,670	3,672
Net realized and unrealized gains	59	1,024
Other revenue	2,971	3,874
<b>Total revenues</b>	<b>132,706</b>	<b>118,261</b>
<b>EXPENSES:</b>		
Losses and loss adjustment expenses	68,181	62,139
Policy acquisition costs, net of ceding commission income of \$10.4 and \$12.9 <sup>(1)</sup>	30,047	26,020
General and administrative expenses, net of ceding commission income of \$3.5 and \$4.3 <sup>(1)</sup>	21,718	18,604
<b>Total expenses</b>	<b>119,946</b>	<b>106,763</b>
<b>Operating income</b>	<b>12,760</b>	<b>11,498</b>
Interest expense, net	1,966	2,117
Other non-operating loss, net	—	48
<b>Income before income taxes</b>	<b>10,794</b>	<b>9,333</b>
Provision for income taxes	3,174	2,369
<b>Net income</b>	<b>\$ 7,620</b>	<b>\$ 6,964</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Change in net unrealized gains on investments	2,027	8,036
Reclassification adjustment for net realized investment (gains) losses	(59)	335
Income tax expense related to items of other comprehensive income	(456)	(2,408)
<b>Total comprehensive income</b>	<b>\$ 9,132</b>	<b>\$ 12,927</b>
<b>Weighted average shares outstanding</b>		
Basic	28,548,830	29,540,514
Diluted	28,549,012	29,544,563
<b>Earnings per share</b>		
Basic	\$ 0.27	\$ 0.24
Diluted	\$ 0.27	\$ 0.24

*(1) Parenthetical values are presented in millions*

*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 Income</i>	<i>Total Stockholders' Equity</i>
<b>Balance at January 1, 2020</b>	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)
<b>Balance at January 1, 2020 (as adjusted for change in accounting principle)</b>	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
Convertible option debt extinguishment, net of tax	—	—	—	—	—	—	—
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
<b>Balance at March 31, 2020</b>	27,891,518	\$ 3	\$ 330,680	\$ 223,126	\$ (113,354)	\$ 8,842	\$ 449,297

	<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>
<b>Balance at December 31, 2018</b>	29,477,756	\$ 3	\$ 325,292	\$ 195,750	\$ (89,185)	\$ (6,527)	\$ 425,333
Net unrealized change in investments, net of tax	—	—	—	—	—	5,963	5,963
Restricted stock vested, net of surrendered shares	17,000	—	(118)	—	—	—	(118)
Stock-based compensation on restricted stock	—	—	1,345	—	—	—	1,345
Convertible Option debt extinguishment, net of tax	—	—	(1,840)	—	—	—	(1,840)
Stock issued on convertible note conversion	285,201	—	4,210	—	—	—	4,210
Stock buy-back	(347,740)	—	—	—	(5,011)	—	(5,011)
Tax rate change	—	—	48	—	—	—	48
Cash dividends declared (\$0.06 per common stock)	—	—	—	(1,807)	—	—	(1,807)
Net income	—	—	—	6,964	—	—	6,964
<b>Balance at March 31, 2019</b>	29,432,217	\$ 3	\$ 328,937	\$ 200,907	\$ (94,196)	\$ (564)	\$ 435,087

*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>2020</u>	<u>2019</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 7,620	\$ 6,964
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Stock-based compensation	1,345	1,345
Bond amortization and accretion	1,359	1,229
Amortization of original issuance discount on debt	349	390
Depreciation and amortization	2,024	2,696
Net realized investment gains	(59)	(1,024)
Net (gain)/loss from repurchase of debt	—	48
Deferred income taxes	(4,452)	(4,098)
Changes in operating assets and liabilities:		
Accrued investment income	115	(150)
Premiums receivable, net	771	1,904
Prepaid reinsurance premiums	78,073	72,056
Reinsurance recoverable on paid and unpaid claims	53,880	54,664
Income taxes receivable	3,171	35,221
Deferred policy acquisition costs, net	2,316	3,171
Right of use leased asset	110	—
Other assets	(8,739)	(5,898)
Unpaid losses and loss adjustment expenses	(6,356)	(27,875)
Unearned premiums	(5,593)	(18,132)
Reinsurance payable	(54,391)	(52,712)
Accrued interest	(1,172)	127
Accrued compensation	2,890	(1,474)
Advance premiums	12,890	7,892
Income taxes payable	8,878	5,725
Other liabilities	(9,332)	3,253
Net cash provided by operating activities	<u>85,697</u>	<u>85,322</u>
<b>INVESTING ACTIVITIES</b>		
Fixed maturity securities sales, maturities and paydowns	58,462	25,486
Fixed maturity securities purchases	(83,891)	(37,203)
Equity securities sales	26	2,291
Equity securities purchases	(6)	(1,617)
Limited partnership interest	—	(19,205)
Proceeds from sale of assets	—	71
Cost of property and equipment acquired	(75)	(3,994)
Net cash used in investing activities	<u>(25,485)</u>	<u>(34,171)</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of term note	(3,750)	(11,875)
Mortgage loan payments	(72)	(70)
Repurchase of convertible notes	—	(2,869)
Purchase of treasury stock	(7,986)	(5,011)
Tax withholdings on share-based compensation awards	(233)	(118)
Dividends paid	(1,750)	(1,601)
Net cash used in financing activities	<u>(13,791)</u>	<u>(21,544)</u>
Increase in cash, cash equivalents, and restricted cash	46,421	29,607
Cash, cash equivalents and restricted cash, beginning of period	283,008	262,370
Cash, cash equivalents and restricted cash, end of period	<u>\$ 329,429</u>	<u>\$ 291,977</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Income taxes paid	\$ —	\$ —
Interest paid	\$ 2,418	\$ 2,977
Issuance of shares on conversion of convertible notes	\$ —	\$ 4,210

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

	<i>March 31, 2020</i>	<i>December 31, 2019</i>
	<i>(In thousands)</i>	
Cash and cash equivalents	\$ 313,360	\$ 268,351
Restricted cash	16,069	14,657
Total	<u>\$ 329,429</u>	<u>\$ 283,008</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, 2019 (the “2019 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 2019 Form 10-K.

***Reclassification***

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

***Recently Adopted Accounting Pronouncements***

In 2016, the Financial Accounting Standard Board (“FASB”) issued Accounting Standard Update (“ASU”) *Financial Instruments – Credit Losses* ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which introduces a new credit reserving model known as the Current Expected Credit Loss (“CECL”) model. Adoption of CECL required the evaluation to establish an allowance for the Company’s reinsurance recoverables, premium receivables and for our available-for-sale debt securities investments. The model requires consideration of a broader range of reasonable and supportable information and requires an entity to estimate expected credit losses over the lifetime of the asset. We adopted the standard on January 1, 2020, and based on the composition of our reinsurance recoverables, investment portfolio and other financial assets, current economic conditions and historical credit loss activity, the adoption of this standard did not have a material impact on our condensed consolidated financial statements and related disclosures. While the adoption of this guidance did not have a material impact on the Company’s condensed consolidated financial statements, it required changes to the Company’s process to establish and estimated expected credit losses on available-for-sale investments, reinsurance recoverables and premium receivables.

***Fair Value Measurements***

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This standard modifies certain disclosure requirements on fair value measurements. Other amendments in the update did not materially impact the Company. The standard became effective for the Company on January 1, 2020 with no impact on our condensed consolidated financial statements.

***Internal Use Software***

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This standard clarifies the accounting for implementation costs in cloud computing arrangements. The standard was effective on January 1, 2020 with no impact on our condensed consolidated financial statements.

### Accounting Pronouncements Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modifications and hedging relationships that reference London Inter-bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The guidance is effective upon issuance and generally can be applied through December 31, 2022. The Company is currently evaluating the potential impact of this ASU on the condensed consolidated financial statements.

For information regarding other accounting standards that the Company has not yet adopted, refer to our 2019 Form 10-K, filed on March 10, 2020, the section of Note 1 of the notes to the consolidated financial statements entitled “Accounting Pronouncement Not Yet Adopted”.

### NOTE 2. INVESTMENTS

#### Securities Available-for-Sale

The following table summarizes the amortized cost and fair value of securities available-for-sale at March 31, 2020 and December 31, 2019, and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income:

<i>March 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)	\$ 67,928	\$ 1,770	\$ 1	\$ 69,697
States, municipalities and political subdivisions	80,598	2,164	25	82,737
Special revenue	250,744	5,925	226	256,443
Hybrid securities	99	—	7	92
Industrial and miscellaneous	202,521	3,043	1,178	204,386
<b>Total</b>	<b>\$ 601,890</b>	<b>\$ 12,902</b>	<b>\$ 1,437</b>	<b>\$ 613,355</b>

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 issuers continues to make timely principal and interest payments on the bonds. After taking into account these and other factors previously described, we believe these unrealized losses generally were caused by an increase in market interest rates since the time of the securities were purchased.

<i>December 31, 2019</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)	\$ 53,836	\$ 383	\$ 28	\$ 54,191
States, municipalities and political subdivisions	74,755	1,641	41	76,355
Special revenue	246,791	3,689	254	250,226
Hybrid securities	100	1	—	101
Industrial and miscellaneous	202,307	4,097	21	206,383
<b>Total</b>	<b>\$ 577,789</b>	<b>\$ 9,811</b>	<b>\$ 344</b>	<b>\$ 587,256</b>

- (1) Includes securities at March 31, 2020 and December 31, 2019 with a carrying amount of \$19.4 million and \$20.2 million, respectively that were pledged as collateral for the advance agreement entered into with a financial institution in 2018. The Company is permitted to withdraw or exchange any portion of the pledged collateral over the minimum requirement at any time.

The Company calculates the gain or loss realized on the sale of investments by comparing the sales price (fair value) to the cost or adjusted/amortized cost of the security sold. The Company determines the cost or adjusted/amortized cost of the security sold using the specific-identification method. The following tables detail the Company's net realized gains (losses) for the three months ended March 31, 2020 and 2019.

<i>Three Months Ended March 31,</i>	<i>2020</i>		<i>2019</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>			
<b><i>Debt Securities Available-for-Sale</i></b>				
Total realized gains	\$ 60	\$ 8,510	\$ 5	\$ 24,414
Total realized losses	(1)	256	(67)	6,141
<b>Net realized gains and (losses)</b>	<b>\$ 59</b>	<b>\$ 8,766</b>	<b>\$ (62)</b>	<b>\$ 30,555</b>

For the three months ended March 31, 2020 the Company sold no equity securities nor did it hold any marketable equity securities as of that date. For the three months ended March 31, 2019, the Company recorded a net unrealized holding gain of \$1.1 million resulting from a net loss from equities sold of approximately \$273,000 offset by the unrealized equity securities gains still held at the end of period in the amount of \$1.4 million.

The table below summarizes the Company's fixed maturity securities at March 31, 2020 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, 2020</i>			
	<i>Cost or Amortized Cost (In thousands)</i>	<i>Percent of Total</i>	<i>Fair Value (In thousands)</i>	<i>Percent of Total</i>
<b><i>Maturity dates:</i></b>				
Due in one year or less	\$ 75,247	13%	\$ 76,521	12%
Due after one year through five years	206,284	34%	208,059	34%
Due after five years through ten years	122,633	20%	126,435	21%
Due after ten years	197,726	33%	202,340	33%
Total	<b>\$ 601,890</b>	<b>100%</b>	<b>\$ 613,355</b>	<b>100%</b>

The following table summarizes the Company's net investment income by major investment category for the three months ended March 31, 2020 and 2019, respectively:

	<i>Three Months Ended March 31,</i>	
	<i>2020</i>	<i>2019</i>
	<i>(In thousands)</i>	
Fixed maturity securities	\$ 4,162	\$ 2,724
Equity securities	—	309
Cash and cash equivalents	352	817
Other investments	94	342
Net investment income	4,608	4,192
Less: Investment expenses	938	520
Net investment income, less investment expenses	<b>\$ 3,670</b>	<b>\$ 3,672</b>

The following tables summarizes debt securities available-for-sale in an unrealized loss position at March 31, 2020 and December 31, 2019, aggregated by major security category and length of time in a continued unrealized loss position:

<i>March 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>
<b><i>Debt Securities Available-for-sale</i></b>						
U.S. government and agency securities	3	\$ —	\$ 160	3	\$ 1	\$ 71
States, municipalities and political subdivisions	8	25	8,158	—	—	—
Special revenue	33	215	20,664	15	11	373
Hybrid securities	1	7	92	—	—	—
Industrial and miscellaneous	145	1,178	68,249	2	—	72
Total fixed maturity securities	<b>190</b>	<b>\$ 1,425</b>	<b>\$ 97,323</b>	<b>20</b>	<b>\$ 12</b>	<b>\$ 516</b>

At March 31, 2020, we did not intend to sell the securities with an unrealized loss position in accumulated other comprehensive income, and it is not likely that we will be required to sell these securities before recovery of their amortized cost basis. 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, 2020.

<i>December 31, 2019</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>
<b><i>Debt Securities Available-for-sale</i></b>						
U.S. government and agency securities	9	\$ 10	\$ 1,476	23	\$ 18	\$ 4,288
States, municipalities and political subdivisions	6	38	7,613	3	3	1,440
Special revenue	62	145	24,862	95	109	13,159
Industrial and miscellaneous	25	13	12,601	16	8	3,202
Total fixed maturity securities	<b>102</b>	<b>\$ 206</b>	<b>\$ 46,552</b>	<b>137</b>	<b>\$ 138</b>	<b>\$ 22,089</b>

#### *Limited Partnerships, REIT's and Limited Liability Company Investments*

Classified in other investments, the Company has interest in limited partnerships (“LPs”), Partnership Real Estate Investment Trust (REITs) and Limited Liability Companies (“LLCs”) totaling \$6.4 million and \$6.4 million at March 31, 2020 and December 31, 2019, respectively that are not registered or readily tradable on a securities exchange. The Company is not the primary beneficiary and does not consolidate these investments. These investments are carried at net asset value, which approximates fair value with changes in fair value recorded in net unrealized gains (losses) on the Company’s consolidated statement of operations and other comprehensive income. Realized gains (losses) on sales of these investments are reported within net realized and unrealized gains (losses) on the Company’s condensed consolidated statement of operations and other comprehensive income.

#### *Secured Promissory Notes*

In January 2020, the Company entered into transactions with a Limited Liability Company (“Debtor”) which resulted in the Company holding two Secured Promissory Notes (“Notes”) in the amount of \$3.75 million each. The Notes mature on February 1, 2023 and bear an 8% interest rate per annum, with principal payments in equal installments of \$300,000 due on the first day of each month commencing on June 1, 2021. Interest payments are to commence on March 1, 2020. A Security Agreement that collateralizes the Notes was entered into at the time of issuance. The Debtor has the right to prepay the note in part or whole after the 27th month of current payments of principal and interest without penalties or fees.

The Company recognizes the secured promissory notes as note receivables and records the Notes in Other Assets on the condensed consolidated balance sheet.

### **NOTE 3. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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 for not observable in the market. The three levels in the hierarchy are as follows:

- Level 1 – Inputs to the valuation based on quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- Level 2 – Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data.
- Level 3 – Inputs to the valuation that are unobservable inputs for the asset or liability.

The highest priority is assigned 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, 2020 or December 31, 2019.

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. Our revolving loans and borrowings under our senior secured credit facility resets periodically month at market interest rates. All of these items are considered Level 1 assets and liabilities.

#### **Investments excluded from the fair value hierarchy**

The Company also invests in LPs, REITs and LLCs. This investment categorization has the potential for higher returns but also the potential for higher degrees of risk, including less than stable rates of returns and may provide less liquidity. These investments are carried at net asset value, as reported by the managers of the funds, and are excluded from the fair value hierarchy.

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

<u>March 31, 2020</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Invested Assets:</b>				
<i>(in thousands)</i>				
<b>Debt Securities Available-for-sale</b>				
U.S. government and agency securities	\$ 69,697	\$ 374	\$ 69,323	\$ —
States, municipalities and political subdivisions	82,737	—	82,737	—
Special revenue	256,443	—	256,443	—
Hybrid securities	92	—	92	—
Industrial and miscellaneous	204,386	—	204,386	—
<i>Total debt securities</i>	<u>613,355</u>	<u>374</u>	<u>612,981</u>	<u>—</u>
<i>Investment reported at NAV<sup>(1)</sup></i>	7,974	—	—	—
Total investments	<u>\$ 621,329</u>	<u>\$ 374</u>	<u>\$ 612,981</u>	<u>\$ —</u>
<u>December 31, 2019</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Invested Assets:</b>				
<i>(in thousands)</i>				
<b>Debt Securities Available-for-sale</b>				
U.S. government and agency securities	\$ 54,191	\$ 366	\$ 53,825	\$ —
States, municipalities and political subdivisions	76,355	—	76,355	—
Special revenue	250,226	—	250,226	—
Hybrid securities	101	—	101	—
Industrial and miscellaneous	206,383	—	206,383	—
<i>Total debt securities</i>	<u>587,256</u>	<u>366</u>	<u>586,890</u>	<u>—</u>
<i>Investment reported at NAV<sup>(1)</sup></i>	7,993	—	—	—
Total investments	<u>\$ 595,249</u>	<u>\$ 366</u>	<u>\$ 586,890</u>	<u>\$ —</u>

(1) Includes \$1.6 million and \$1.6 million of Federal Home Loan Banks membership shares held by the Company as of March 31, 2020 and December 31, 2019, respectively.

#### **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, 2020 and 2019, 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 2020 and 2019. 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 INCOME**

The following table is a summary of other comprehensive income (loss) and discloses the tax impact of each component of other comprehensive income for the three months ended March 31, 2020 and 2019, respectively:

	<i>For the Three Months Ended March 31,</i>					
	<i>2020</i>			<i>2019</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 income						
Change in unrealized losses on investments, net	\$ 2,027	\$ (469)	\$ 1,558	\$ 8,036	\$ (2,323)	\$ 5,713
Reclassification adjustment of realized losses (gains) included in net income	(59)	13	(46)	335	(85)	250
Effect on other comprehensive income	<u>\$ 1,968</u>	<u>\$ (456)</u>	<u>\$ 1,512</u>	<u>\$ 8,371</u>	<u>\$ (2,408)</u>	<u>\$ 5,963</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, 2020 and 2019 are as follows (in thousands):

	<i>Three Months Ended March 31, 2020</i>	<i>Three Months Ended March 31, 2019</i>
Amortization of ROU assets - Finance leases	\$ 22	\$ 23
Interest on lease liabilities - Finance leases	6	7
Variable lease cost (cost excluded from lease payments)	130	111
Operating lease cost (cost resulting from lease payments)	343	176
<b>Total lease cost</b>	<u>\$ 501</u>	<u>\$ 317</u>

Supplemental cash flow information and non-cash activity related to our operating and financing leases as of March 31, 2020 are as follows (in thousands):

	<i>Three Months Ended March 31, 2020</i>	<i>Three Months Ended March 31, 2019</i>
Finance lease - Operating cash flows	\$ 6	\$ 8
Finance lease - Financing cash flows	\$ 18	\$ 17
Operating lease - Operating cash flows (fixed payments)	\$ 368	\$ 171
Operating lease - Operating cash flows (liability reduction)	\$ 264	\$ 14

Supplemental balance sheet information related to our operating and financing leases as of March 31, 2020 are as follows (in thousands):

	<i>Balance Sheet Classification</i>	<i>March 31, 2020</i>
Right-of-use assets - operating	Other assets	\$ 6,475
Right-of-use assets - finance	Other assets	\$ 280
Lease Liability (1) - operating	Accounts payable and other liabilities	\$ (8,195)
Lease Liability - finance	Accounts payable and other liabilities	\$ (307)

(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 as of March 31, 2020 are as follows:

	<i>March 31, 2020</i>	<i>March 31, 2019</i>
Weighted average lease term - Finance leases	3.42 yrs.	4.12
Weighted average lease term - Operating leases	7.68 yrs.	8.48
Weighted average discount rate - Finance leases	7.1%	8.1%
Weighted average discount rate - Operating leases	5.3%	5.3%

Maturities of lease liabilities by fiscal year for our operating and financing leases as of March 31, 2020 are as follows (in thousands):

	<i>March 31, 2020</i>
2020 remaining	\$ 1,112
2021	1,495
2022	1,522
2023	1,471
2024	1,112
Thereafter	3,694
Total lease payments	10,406
Less: imputed interest	(1,904)
Present value of lease liabilities	\$ 8,502

#### NOTE 6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at March 31, 2020 and December 31, 2019:

	<i>March 31, 2020</i>	<i>December 31, 2019</i>
	<i>(In thousands)</i>	
Land	\$ 2,582	\$ 2,582
Building	11,390	11,390
Computer hardware and software	5,725	5,712
Office furniture and equipment	2,007	2,007
Tenant and leasehold improvements	8,105	8,105
Vehicle fleet	850	789
Total, at cost	30,659	30,585
Less: accumulated depreciation and amortization	(10,264)	(9,832)
Property and equipment, net	\$ 20,395	\$ 20,753

Depreciation and amortization expense for property and equipment was \$432,000 and \$571,000 for the three months ended March 31, 2020 and 2019, respectively. The Company's real estate consists of 15 acres of land and five buildings with a gross area of 229,000 square feet and a parking garage.

#### NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

##### *Goodwill and Intangible Assets*

At March 31, 2020 and December 31, 2019 goodwill was \$152.5 million and intangible assets were \$67.1 million and \$68.6 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, 2019	\$ 152,459
Goodwill acquired	—
Impairment	—
Balance as of March 31, 2020	\$ 152,459

Our annual goodwill impairment analysis was performed as of October 1, 2019. Management determined that an impairment review is appropriate for the current period given potential impacts of the COVID-19 pandemic. We qualitatively assessed whether it was more likely than not that the goodwill and indefinite-lived assets were impaired as of March 31, 2020. Based on our interim impairment assessment, management determined that our goodwill and indefinite-lived assets are not impaired at March 31, 2020.

### Other Intangible Assets

Our intangible assets consist of brand, agent relationships, renewal rights, customer relations, trade names, non-competes and insurance licenses. Finite-lived intangibles assets are amortized over their useful lives from 2.5 to fifteen years.

Amortization expense of our intangible assets was \$1.6 million and \$2.1 million for the three months ended March 31, 2020 and 2019, respectively. No impairment in the value of amortizing or non-amortizing intangible assets was recognized during the three months ended March 31, 2020 or 2019.

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<sup>(1)</sup></i>
2020 - remaining	\$ 4,774
2021	\$ 6,351
2022	\$ 6,351
2023	\$ 6,351
2024	\$ 6,351
Thereafter	\$ 35,558
<b>Total</b>	<b>\$ 65,736</b>

(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>	
	<i>2020</i>	<i>2019</i>
<b>Basic earnings per share:</b>		
Net income attributable to common stockholders (000's)	\$ 7,620	\$ 6,964
Weighted average shares outstanding	28,548,830	29,540,514
<b>Basic earnings per share:</b>	<b>\$ 0.27</b>	<b>\$ 0.24</b>
<b>Diluted earnings per share:</b>		
Net income attributable to common stockholders (000's)	\$ 7,620	\$ 6,964
Weighted average shares outstanding	28,548,830	29,540,514
Weighted average dilutive shares	182	4,049
Total weighted average dilutive shares	28,549,012	29,544,563
<b>Diluted earnings per share:</b>	<b>\$ 0.27</b>	<b>\$ 0.24</b>

### 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 quarter ended March 31, 2020 and 2019, the Company allocated ceding commission income of \$10.4 million and \$12.9 million to policy acquisition costs and \$3.5 million and \$4.3 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, 2020 and 2019.

	<i>Three Months Ended March 31,</i>	
	<i>2020</i>	<i>2019</i>
	<i>(In thousands)</i>	
Beginning balance of deferred ceding commission income	\$ 37,464	\$ 44,996
Ceding commission deferred	10,845	12,647
Less: ceding commission earned	(13,929)	(17,169)
Ending balance of deferred ceding commission income	<b>\$ 34,380</b>	<b>\$ 40,474</b>



## NOTE 10. DEFERRED POLICY ACQUISITION COSTS

The Company incurs incremental policy acquisition costs that vary with, and are directly related to, the production of new business. Policy acquisition costs consist of the following four items: (i) commissions paid to outside agents at the time of policy issuance; (ii) policy administration fees paid to a third-party administrator at the time of policy issuance; (iii) premium taxes; and (iv) inspection fees. The Company capitalizes incremental policy acquisition costs that are directly related to the successful efforts of acquiring new or renewed insurance contracts to the extent recoverable, then the Company amortizes those costs over the contract period of the related policy. The Company defers the incurred incremental policy acquisition costs, commonly referred to as deferred policy acquisition costs (“DPAC”), which are amortized over the effective period of the related insurance policies.

The Company anticipates that its DPAC costs will be fully recoverable in the near term. The table below depicts the activity with regard to DPAC during the three months ended March 31, 2020 and 2019.

	<i>Three Months Ended March 31,</i>	
	<i>2020</i>	<i>2019</i>
	<i>(In thousands)</i>	
Beginning Balance	\$ 77,211	\$ 73,055
Policy acquisition costs deferred	38,131	35,965
Amortization	(40,447)	(39,137)
Ending Balance	\$ 74,895	\$ 69,883

## NOTE 11. INCOME TAXES

For the three months ended March 31, 2020 and 2019, the Company recorded \$3.2 million and \$2.4 million, respectively, of income tax expense which corresponds to effective tax rates of 29.4% and 25.4%, respectively. Effective tax rates are dependent upon components of pre-tax earnings and the related tax effects. The effective tax rate for each calendar years 2020 and 2019 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 increased 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, 2020</i>	<i>December 31, 2019</i>
	<i>(In thousands)</i>	
Deferred tax assets:		
Unearned premiums	\$ 16,568	\$ 12,585
Unearned commission	7,958	8,671
Tax-related discount on loss reserve	2,688	2,716
Stock-based compensation	527	297
Accrued expenses	1,358	757
Leases	337	331
Other	1,912	1,890
Total deferred tax asset	31,348	27,247
Deferred tax liabilities:		
Deferred acquisition costs	17,335	17,871
Prepaid expenses	279	153
Unrealized gains	2,650	2,195
Property and equipment	1,102	1,029
Note discount	441	478
Basis in purchased investments	87	100
Basis in purchased intangibles	16,632	16,977
Other	1,449	1,067
Total deferred tax liabilities	39,975	39,870
Net deferred tax liability	\$ (8,627)	\$ (12,623)

In April 2019, the Company was notified by the tax authority that the federal income tax returns for the years 2015, 2016 and 2017 will be examined. The Company does not believe the examination results will have an adverse impact on the condensed consolidated financial statements.

At March 31, 2020 and December 31, 2019, 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**

The Company's reinsurance program is designed, utilizing the Company's risk management methodology, to address its exposure to catastrophes or large non-catastrophic losses. The Company's program provides reinsurance protection for catastrophes including hurricanes, tropical storms, tornadoes and winter storms. The Company's reinsurance agreements are part of its catastrophe management strategy, which is intended to provide its stockholders an acceptable return on the risks assumed in its property business, and to reduce variability of earnings, while providing protection to the Company's policyholders.

In order to limit our potential exposure to catastrophic events, we purchase significant reinsurance from third party reinsurers and sponsor catastrophe bonds issued by Citrus Re Ltd. The catastrophe reinsurance may be on an excess of loss or quota share basis. We also purchase reinsurance for non-catastrophe losses on a quota share, per risk or facultative basis. 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, and premiums paid (or ceded) to reinsurers is one of our largest cost components. 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.

Our reinsurance agreements are prospective contracts. We record an asset, prepaid reinsurance premiums, and a liability, reinsurance payable, for the entire contract amount upon commencement of our new reinsurance agreements. We generally amortize our catastrophe reinsurance premiums ratably over the 12-month contract period, which is June 1 through May 31. Our 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 we incur losses and loss adjustment expenses recoverable under our reinsurance program, we record amounts recoverable from our reinsurers on paid losses plus an estimate of amounts recoverable on unpaid losses. The estimate of amounts recoverable on unpaid losses is a function of our liability for unpaid losses associated with the reinsured policies; therefore, the amount changes in conjunction with any changes to our estimate of unpaid losses. As a result, a reasonable possibility exists that an estimated recovery may change significantly in the near term from the amounts included in our condensed consolidated financial statements.

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

We adopted the ASU 2016-13, Topic 326-20 on January 1, 2020, and based on the composition of our reinsurance recoverables current economic conditions and historical credit loss activity, the adoption of this standard did not have a material impact on our condensed consolidated financial statements and related disclosures. While the adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements, it required changes to the Company's process to establish and estimated expected credit losses on reinsurance recoverables and premium receivables.

## 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, 2020 and 2019:

	<i>Three Months Ended March 31,</i>	
	<i>2020</i>	<i>2019</i>
	<i>(In thousands)</i>	
Premium written:		
Direct	\$ 229,102	\$ 210,348
Ceded	(30,637)	(46,842)
Net	<u>\$ 198,465</u>	<u>\$ 163,506</u>
Premiums earned:		
Direct	\$ 234,716	\$ 228,590
Ceded	(108,710)	(118,899)
Net	<u>\$ 126,006</u>	<u>\$ 109,691</u>
Loss and Loss Adjustment Expenses		
Direct	\$ 107,365	\$ 112,176
Ceded	(39,184)	(50,037)
Net	<u>\$ 68,181</u>	<u>\$ 62,139</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.

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

	<i>Three Months Ended March 31,</i>	
	<i>2020</i>	<i>2019</i>
	<i>(In thousands)</i>	
Balance, beginning of period	\$ 613,533	\$ 432,359
Less: reinsurance recoverable on unpaid losses	393,630	250,507
Net balance, beginning of period	<u>219,903</u>	<u>181,852</u>
Incurred related to:		
Current year	72,331	62,725
Prior years	(4,150)	(586)
Total incurred	<u>68,181</u>	<u>62,139</u>
Paid related to:		
Current year	21,236	8,362
Prior years	47,308	45,616
Total paid	<u>68,544</u>	<u>53,978</u>
Net balance, end of period	219,540	190,013
Plus: reinsurance recoverable on unpaid losses	387,637	214,471
Balance, end of period	<u>\$ 607,177</u>	<u>\$ 404,484</u>

As of March 31, 2020, the Company reported \$219.5 million in unpaid losses and loss adjustment expenses, net of reinsurance which included \$169.2 million attributable to IBNR net of reinsurance recoverable, or 77.1% 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, 2020, the Company had \$21.5 million of the Convertible Notes outstanding, net of issuance and debt discount costs in aggregate of approximately, \$1.9 million. For the three months ended March 31, 2020 and 2019, the Company made interest payments of approximately \$1.4 million and \$1.5 million respectively on the Convertible Notes.

## Debt Extinguishment

On February 19, 2019, the Company reacquired \$5.8 million of its outstanding Convertible Notes for approximately \$2.9 million, which was paid in cash and the issuance of 285,201 shares of the Company's common stock valued at \$4.2 million. The repurchase resulted in a \$48,000 non-operating loss.

## 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, 2019, there was \$69.4 million in aggregate principal outstanding on the Term Loan Facility. The December 31, 2019 quarterly principal payment in the amount of \$1.9 million was processed by the lender on January 2, 2020. As of March 31, 2020, the balance of the term loan was \$65.6 million. For the three months ended March 31, 2020 and 2019, the Company made interest payments of approximately \$1.2 million and \$1.1 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, 2020, and December 31, 2019, 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, 2020 and 2019, the Company made interest payments of approximately \$265,900 and \$251,700 under the revolving credit facility, respectively.

At March 31, 2020, the Company's effective interest rate for the Term Loan Facility was 4.94% and 5.74% for the Revolving Credit Facility. 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.

## 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, 2020 and 2019, 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, 2020, the fair value of the collateralized securities was \$19.4 million and the equity investment in FHLB common stock was \$1.4 million. As of March 31, 2020, and 2019, the Company made quarterly interest payments as per the terms of the loan agreement of approximately \$150,000 and \$148,500, respectively. As of March 31, 2020, and December 31, 2019, the Company also holds common stock from FHLB Des Moines, and FHLB Boston valued at \$146,300 and \$76,600, respectively.

The following table summarizes the Company's debt and credit facilities as of March 31, 2020 and December 31, 2019:

	<i>March 31, 2020</i>	<i>December 31, 2019</i>
	<i>(in thousands)</i>	
Convertible debt	\$ 23,413	\$ 23,413
Mortgage loan	12,045	12,117
Term loan facility	65,625	69,375
Revolving credit facility	10,000	10,000
FHLB loan agreement	19,200	19,200
Total principal amount	\$ 130,283	\$ 134,105
Less: unamortized discount and issuance costs	\$ 4,508	\$ 4,857
Total long-term debt	\$ 125,775	\$ 129,248

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 schedule of principal payments on long-term debt as of March 31, 2020 is as follows:

<i>Year</i>	<i>Amount</i> <i>(In thousands)</i>
2020 remaining	\$ 5,843
2021	7,806
2022	7,822
2023	74,539
2024	354
Thereafter	33,919
<b>Total</b>	<b>\$ 130,283</b>

#### NOTE 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of the following as of March 31, 2020 and December 31, 2019:

<i>Description</i>	<i>March 31, 2020</i>	<i>December 31, 2019</i>
	<i>(In thousands)</i>	
Deferred ceding commission	\$ 34,380	\$ 37,464
Accounts payable and other payables	8,265	7,225
Lease obligations	8,501	8,369
Accrued interest and issuance costs	259	1,052
Accrued dividends	1,726	1,750
Other liabilities	112	387
Commission payables	11,719	14,798
Total other liabilities	<b>\$ 64,962</b>	<b>\$ 71,045</b>

#### 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 \$350.8 million at March 31, 2020 and \$351.8 million at December 31, 2019. 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, 2020, 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.

## NOTE 18. RELATED PARTY TRANSACTIONS

The Company has been party to various related party transactions involving certain of its officers, directors and significant stockholders 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, 2020 and 2019.

- In January 2017, the Company entered into a consulting agreement with Mrs. Shannon Lucas, the wife of the Chairman and CEO, in which she agreed to provide consulting services related to the Company's catastrophe reinsurance and risk management program at a rate of \$400 per hour. In 2019, Ms. Lucas received total cash compensation of approximately \$344,400. The consulting agreement has no specific term and either party may terminate the agreement upon providing written notice. Additionally, she serves as a director of our subsidiaries Heritage Property & Casualty Insurance Company ("HPCI") and NBIC. Ms. Lucas' annual compensation for her role as a director is \$150,000. For the three months ended March 31, 2020 and 2019, the Company paid consulting fees to Ms. Lucas of approximately \$23,900 and \$102,000, respectively.
- In July 2019, the Board of Directors appointed Mark Berset to the Board of Directors of the Company. As a Director, Mr. Berset will be entitled to an annual compensation of \$150,000. Mr. Berset is also the Chief Executive Officer of Comegys Insurance Agency, Inc. ("Comegys"), an independent insurance agency that writes policies for our insurance company affiliates. The Company pays commission to Comegys based upon standard industry rates consistent with those provided to the Company's other insurance agencies. There are no arrangements or understandings between Mr. Berset and any other persons with respect to his appointment as a director. For the years ended December 31, 2019 and 2018, the Company paid agency commission to Comegys of approximately \$598,000 and \$509,900, respectively. For the three months ended March 31, 2020 and 2019, the Company paid agency commission to Comegys of approximately \$179,800 and \$10,700, 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, 2020 and 2019, the contributions made to the plan on behalf of the participating employees were approximately \$339,300 and \$255,700, respectively.

The Company provides its employees with a partially self-insured healthcare plan and benefits. For the three months ended March 31, 2020 and 2019, incurred medical premium costs amounted to an aggregate of \$910,000 and \$841,400, respectively. An additional liability of approximately \$903,100 is recorded for unpaid claims as of March 31, 2020. 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 \$150,000 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 125% 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, 2020, the Company had 27,891,518 shares of common stock outstanding, 9,116,383 treasury shares of common stock and 320,534 unvested shares of restricted common stock issued reflecting total paid-in capital of \$330.7 million as of such date.

As more fully disclosed in our audited consolidated financial statements for the year ended December 31, 2019, there were, 28,650,918 shares of common stock outstanding, 8,349,483 treasury shares of common stock and 345,534 unvested shares of restricted common stock, representing \$329.6 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, 2018, the Company announced that its Board of Directors authorized a stock repurchase program authorizing the Company to repurchase up to \$50.0 million of its common stock through December 31, 2020. For the three months ended March 31, 2020, the Company purchased 766,900 shares of its common stock for \$8.0 million.

At March 31, 2020, the Company has the capacity to repurchase \$25.8 million of its common shares until December 2020. In addition, the Company acquired 17,500 shares for approximately \$233,000 for the three months ended March 31, 2020, respectively, that were not part of the publicly announced share repurchase authorization. These shares consisted of shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock awards.

## Dividends

On February 27, 2020, the Company's Board of Directors declared a \$0.06 per share quarterly dividend payable on April 3, 2020, to stockholders of record as of March 16, 2020.

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 and Restricted 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.

At March 31, 2020 there were 1,568,518 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.

No stock awards were granted during the three months ended March 31, 2020.

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. If a participant's employment relationship ends, the participant's vested awards would remain exercisable for the shorter of a period of 30 days or the period ending on the latest date on which such award could have been exercisable. The fair value of each option grant is separately estimated for each grant date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company estimates the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. 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, 2020 is as follows:

	<i>Number of shares</i>	<i>Weighted-Average Grant-Date Fair Value per Share</i>
<b>Non-vested, at December 31, 2019</b>	345,534	\$ 19.56
Granted	—	—
Vested	(7,500)	13.25
Canceled and surrendered	(17,500)	13.25
<b>Non-vested, at March 31, 2020</b>	<u>320,534</u>	<u>\$ 20.05</u>

Awards are being amortized to expense over the three to five-year vesting period. The Company recognized \$1.3 million and \$1.3 million of compensation expense for the three months ended March 31, 2020 and 2019, respectively. There was approximately \$4.2 million of unrecognized compensation expense related to the unvested restricted stock at March 31, 2020. The Company expects to recognize substantially all of remaining compensation expense over the next year. For the three months ended March 31, 2020, 25,000 shares of restricted stock were vested and released, all of which had been granted to employees. Of the shares released to employees, 17,500 shares were withheld by the Company to cover withholding taxes of \$233,000. For the comparable period of 2019, 25,000 shares were vested and released.

#### **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, 2020.

On May 4, 2020, the Company announced that its Board of Directors declared a \$0.06 per share quarterly dividend payable on July 6, 2020 to stockholders of record as of June 15, 2020.

On April 27, 2020, the Company amended its Credit Agreement dated as of December 14, 2018 (as amended to date, 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.



## 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, 2019 (“2019 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 through its insurance company subsidiaries. We are vertically integrated and control or manage substantially all aspects of insurance underwriting, customer service, actuarial analysis, distribution and claims processing and adjusting.

On an admitted basis, we provide personal residential insurance in eleven eastern states and commercial residential insurance in two of those states, while maintaining licenses in four additional eastern states. We also write personal residential insurance on an admitted basis in Hawaii and in California on an excess and surplus lines basis.

Our operating subsidiaries include, but are not limited to: Heritage Property & Casualty Insurance Company (“Heritage P&C”), which provides personal and commercial residential property insurance and commercial general liability insurance; Narragansett Bay Insurance Company (“NBIC”), which provides personal and commercial residential property insurance; Zephyr Insurance Company (“Zephyr”), which provides personal residential wind-only property and multi-peril property insurance in Hawaii; Osprey Re Ltd. (“Osprey”), our captive reinsurance subsidiary that may provide a portion of the reinsurance protection purchased by our insurance company subsidiaries; Heritage MGA, LLC, our managing general agent; NBIC Service Company, which provides services to NBIC; and Contractors’ Alliance Network, LLC (“CAN”), our vendor network manager for claims and provider of restoration, emergency and recovery services.

#### Impact of Coronavirus

We are currently monitoring the short- and long-term impacts of COVID-19, a global pandemic that has caused a significant slowdown in the global economy beginning in March 2020. During the three months ended March 31, 2020, we saw virtually no impact to our business. As a residential property insurer, we view our business as relatively insulated from an economic slowdown, as 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, could 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 minor 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 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 have experienced extreme volatility and disruptions as a result of the COVID-19 pandemic including diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. 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.

#### Financial Results Highlights for the First Quarter of 2020

- Net income for the quarter was \$7.6 million, or \$0.27 per diluted share.
- Book value per share increased to \$16.11, up 9.0% from March 31, 2019 and 2.9% (11.5% annualized growth rate) from year-end 2019.
- Gross premiums written of \$229.1 million, up 8.9% year-over-year, including 12.0% growth outside Florida and 6.4% growth in Florida.

- Favorable prior year reserve development of \$4.1 million, representing seventh consecutive quarter of favorable prior year reserve development.
- Net current accident quarter weather losses of \$21.2 million, including \$17.0 million of net current accident quarter catastrophe losses. In the prior year quarter, net current accident quarter weather and catastrophe losses were \$20.5 million and \$15.0 million, respectively.
- Repurchased 766,900 shares for \$8.0 million at an average price of \$10.41 per share, 35.4% below first quarter 2020 book value per share. Total capital returned to shareholders of \$9.7 million, including \$0.06 per share regular quarterly dividend.
- Began writing homeowners insurance in California on an excess and surplus lines basis.

## Results of Operations

### Comparison of the Three Months Ended March 31, 2020 and 2019

#### Revenue

(Unaudited)	For the Three Months Ended March 31,			
	2020	2019	\$ Change	% Change
	(in thousands)			
<b>REVENUE:</b>				
Gross premiums written	\$ 229,102	\$ 210,348	\$ 18,754	9%
Change in gross unearned premiums	5,614	18,242	(12,628)	(69)%
Gross premiums earned	234,716	228,590	6,126	3%
Ceded premiums	(108,710)	(118,899)	10,189	(9)%
Net premiums earned	126,006	109,691	16,314	15%
Net investment income	3,670	3,672	(2)	(0)%
Net realized gains	59	1,024	(965)	NM
Other revenue	2,971	3,874	(903)	(23)%
<b>Total revenue</b>	<b>\$ 132,706</b>	<b>\$ 118,261</b>	<b>\$ 14,445</b>	<b>12%</b>

NM= Not Meaningful

#### Gross premiums written

Gross premiums written were \$229.1 million in first quarter 2020, up 8.9% from \$210.3 million in the prior year quarter. The increase reflects 12.0% growth outside Florida and 6.4% growth in Florida, with positive growth across all states and lines of business.

Premiums-in-force were \$958.1 million in first quarter 2020, representing a 7.4% annualized growth rate from year-end 2019. The increase stems from the same items impacting gross premiums written.

#### Gross premiums earned

Gross premiums earned were \$234.7 million in the first quarter of 2020, up 2.7% from \$228.6 million in the prior year quarter. The increase reflects higher gross premiums written over the past twelve months.

#### Ceded premiums

Ceded premiums were \$108.7 million in first quarter 2020, down 8.6% from \$118.9 million in the prior year quarter. The decrease is primarily attributable to lower tri-county Florida total insured value ("TIV"), which benefited the cost of our 2019-2020 catastrophe reinsurance program, reinsurance synergies and an overall reduction to our quota share reinsurance coverage, partly offset by additional catastrophe excess-of-loss reinsurance coverage. The gross quota share reinsurance program was reduced from 18.75% to 8.0% effective June 1, 2018 and was eliminated effective June 1, 2019, while the net quota share reinsurance program increased from 52.0% to 56.0% effective December 31, 2019.

#### Net premiums earned

Net premiums earned were \$126.0 million in first quarter 2020, up 14.9% from \$109.7 million in the prior year quarter. The increase reflects higher gross premiums earned and lower ceded premiums earned, as described above.

#### Net investment income

Net investment income, inclusive of realized investment gains and unrealized gains on equity securities, was \$3.7 million in first quarter 2020, down \$1.0 million from \$4.7 million in the prior year quarter. The decrease is primarily due to unrealized gains on

equity securities in the prior year quarter. Investment income on the fixed income portfolio was relatively flat, as lower interest rates were mostly offset by a larger invested asset base.

#### Other revenue

Other revenue was \$3.0 million in first quarter 2020, down \$0.9 million from \$3.9 million in the prior year quarter. The decline primarily stems from a reduction in non-insurance income.

#### Total revenue

Total revenue was \$132.7 million in first quarter 2020, up 12.2% from \$118.3 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,			
	2020	2019	\$ Change	% Change
<b>OPERATING EXPENSES:</b>	<i>(in thousands)</i>			
Losses and loss adjustment expenses	68,181	62,139	6,042	10%
Policy acquisition costs	30,047	26,020	4,027	15%
General and administrative expenses	21,718	18,604	3,114	17%
<b>Total operating expenses</b>	<b>119,946</b>	<b>106,763</b>	<b>13,183</b>	<b>12%</b>

#### Losses and loss adjustment expenses

Losses and loss adjustment expenses (“LAE”) were \$68.2 million in first quarter 2020, up \$6.1 million from \$62.1 million in the prior year quarter. The increase primarily stems from higher retained losses associated with the reduced overall quota share reinsurance program and lower cost savings from vertically integrated operations partly offset by more favorable prior year reserve development

#### Policy acquisition costs

Policy acquisition costs were \$30.0 million in first quarter of 2020, up 15.4% from \$26.0 million in the prior year quarter. The increase is primarily attributable to higher acquisition costs associated with gross premiums written growth and reduced ceding commission income. Ceding commissions decreased in the current year period due to a reduction to our overall quota share reinsurance program, as described above.

#### General and administrative expenses

General and administrative expenses were \$21.7 million in first quarter 2020, up 16.7% from \$18.6 million in the prior year quarter. The increase is primarily attributable to increased headcount associated with premium growth and lower ceding commission income associated with a reduction to our overall quota share reinsurance program, as described above.

(Unaudited)	For the Three Months Ended March 31,			
	2020	2019	\$ Change	% Change
	<i>(in thousands, except per share and share amounts)</i>			
<b>Operating income</b>	12,760	11,498	1,262	11%
Interest expense, net	1,966	2,117	(151)	(7)%
Other non-operating expense, net	—	48	(48)	NM
Income before income taxes	10,794	9,333	1,462	16%
Provision for income taxes	3,174	2,369	805	34%
<b>Net income</b>	<b>\$ 7,620</b>	<b>\$ 6,964</b>	<b>\$ 657</b>	<b>9%</b>
Basic net income per share	\$ 0.27	\$ 0.24	\$ 0.03	13%
Diluted net income per share	\$ 0.27	\$ 0.24	\$ 0.03	13%

#### Interest expense, net

Net interest expense was \$2.0 million in first quarter 2020, basically flat year-over-year.

#### Provision for income taxes

Provision for income taxes was \$3.2 million in first quarter 2020 compared to \$2.4 million in the prior year quarter. The effective tax rate was 29.4% in first quarter 2020, 4.0 points above the prior year quarter’s 25.4% rate. The higher effective tax rate relates to permanent tax differences and a higher overall state income tax rate associated with our diversification outside Florida. The effective tax rate can fluctuate throughout the year as estimates used in the quarterly tax provision are updated with additional information.

### Net income

First quarter 2020 net income was \$7.6 million, up from \$7.0 million in the prior year quarter. The increase primarily reflects higher net premiums earned and a lower net combined ratio, partly offset by lower investment gains and other income and a higher effective tax rate.

### Ratio

(Unaudited)	For the Three Months Ended March 31,	
	2020	2019
Ceded premium ratio	46.3%	52.0%
Net loss and LAE ratio	54.1%	56.6%
Net expense ratio	41.1%	40.7%
Net combined ratio	95.2%	97.3%

#### Ceded premium ratio

The ceded premium ratio was 46.3% in first quarter 2020, down 5.7 points from 52.0% in the prior year quarter. The decrease is primarily attributable to a reduction in overall quota share reinsurance coverage and reinsurance synergies, partly offset by additional catastrophe excess-of-loss reinsurance coverage.

#### Net loss and LAE ratio

The net loss ratio was 54.1% in first quarter 2020, down 2.5 points from 56.6% in the prior year quarter. The decrease primarily stems from lower current accident year attritional and weather net loss ratios and higher favorable reserve development, partly offset by lower income from vertically integrated operations. Catastrophe and weather losses in the current year quarter primarily stemmed from February hail, tornado and wind events in the southeast.

#### Net expense ratio

The net expense ratio was 41.1% in first quarter 2020, up 0.4 points from 40.7% in the prior year quarter. The increase primarily stems from a modestly higher G&A expense ratio.

#### Net combined ratio

The net combined ratio was 95.2% in first quarter 2020, down 2.1 points from 97.3% in the prior year quarter. The decrease stems from a lower net loss ratio, partly offset by a higher net expense ratio, as described above.

### Liquidity and Capital Resources

As of March 31, 2020, we had \$313.4 million of cash and cash equivalents, which primarily consisted of cash and money market accounts. We generally hold substantial cash balances to meet seasonal liquidity needs including amounts to pay quarterly reinsurance installments as well as meet the collateral requirements of Osprey Re Ltd. (“Osprey”), our captive reinsurance company. In addition, we have \$16.1 million in restricted cash primarily related our contractual obligations related to the catastrophe bonds issued by Citrus Re Ltd. as well as state insurance department depository requirements.

Osprey is required to maintain a collateral trust account equal to the risk that it assumes from our insurance company affiliates. At March 31, 2020, approximately \$35 million was held in Osprey’s trust account.

Although we can provide no assurances, we believe that we maintain sufficient liquidity to pay our insurance company affiliates’ claims and expenses, as well as to satisfy commitments in the event of unforeseen events such as inadequate premium rates or reserve deficiencies. We believe our current capital resources, including funds available under our revolving credit facility, together with cash provided from our operations, will be sufficient to meet currently anticipated working capital requirements for at least the next twelve months. We maintain a comprehensive reinsurance program at levels management considers adequate to diversify risk and safeguard our financial position.

## Cash Flows

	<i>For the Three Months Ended March 31,</i>		
	<i>2020</i>	<i>2019</i>	<i>Change</i>
	<i>(in thousands)</i>		
Net cash provided by (used in):			
Operating activities	\$ 85,697	\$ 85,322	\$ 375
Investing activities	(25,485)	(34,171)	8,686
Financing activities	(13,791)	(21,544)	7,753
Net increase in cash and cash equivalents	<u>\$ 46,421</u>	<u>\$ 29,607</u>	<u>\$ 16,814</u>

### Operating Activities

Net cash provided by operating activities was \$85.7 million for the three months ended March 31, 2020 compared to cash provided of \$85.3 million for the comparable period in 2019. The increase 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 2020 compared to the first three months of 2019.

### Investing Activities

Net cash used in investing activities for the three months ended March 31, 2020 was \$25.5 million as compared to cash used of \$34.2 million for the comparable period in 2019. The change in cash used for investing activities relates to the timing of allocations of funds for investment.

### Financing Activities

Net cash used in financing activities for the three months ended March 31, 2020 was \$13.8 million, as compared to cash used in financing activities of \$21.5 million for the comparable period in 2019. The reduction in cash used in financing activities is due primarily to changes in stock repurchased under the stock repurchase program and principal payments on our corporate debt.

### Credit Facilities

On December 14, 2018, the Company, as borrower, entered into a credit agreement (as amended, the “Credit Agreement”) by and among the Company, 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 March 31, 2020, the Company had in aggregate \$65.6 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 (equal to 3.25% as of the Closing Date) 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 (equal to 2.25%).

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, 2020, the Company’s effective interest rate for the Term Loan Facility was 4.94% per annum and 5.74% per annum for the Revolving Credit Facility.

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 3.25 to 1.00 for each fiscal quarter ending on or before December 31, 2019, stepping down on each of the three anniversaries 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 "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 "Offering"). The Purchase Agreement contained customary representations, warranties and agreements of the Company and the Guarantor and customary conditions to closing, indemnification rights and obligations of the parties and termination provisions. The net proceeds from the Offering, after deducting discounts and commissions and estimated offering expenses payable by the Company, were approximately \$120.5 million. The Offering 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 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 began accruing on August 16, 2017 and is payable semi-annually in arrears, on February 1 and August 1 of each year, starting on February 1, 2018. 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 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 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, leaving \$23.4 million in aggregate principal amount outstanding. There were no repurchases of Convertible Notes in the third and fourth quarters of 2019 or in the first quarter of 2020.

#### 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 Federal Home Loan Bank ("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 ("Senior Notes") 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, 2020, we reassessed our critical accounting policies and estimates as disclosed within our 2019 Form 10-K. As disclosed in Note 1. to the condensed consolidated financial statements under the caption "Basis of Presentation and Significant Accounting Policies" we adopted on January 1, 2020, ASU 2016-13, *Financial Instruments – Credit Losses*, and we have made no further material changes or additions with regard to such policies and estimates.

## Contractual Obligations

The following table represents our contractual obligations for which cash flows are fixed or determinable as of March 31, 2020:

	<i>Total</i>	<i>Less Than 1 Year</i>	<i>1-3 Years</i>	<i>3-5 Years</i>	<i>More than 5 Years</i>
			<i>(In thousands)</i>		
Convertible debt	\$ 38,429	\$ 1,261	\$ 2,751	\$ 2,751	\$ 31,666
Note Payable (1)	87,375	8,106	21,453	57,816	—
Mortgage loan	20,387	670	1,786	1,786	16,145
FHLB agreement	21,461	454	1,205	19,802	—
Lease obligations	10,406	1,112	3,017	2,583	3,694
Total Contractual Obligations	<u>\$ 178,058</u>	<u>\$ 11,603</u>	<u>\$ 30,212</u>	<u>\$ 84,738</u>	<u>\$ 51,505</u>

(1) Represents the principal and interest payments per the terms of the Credit Facility debt.

## Seasonality of our Business

Our insurance business is seasonal as hurricanes typically occur during the period from June 1 through November 30 each year and winter storms generally impact the first and fourth quarters of 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.

## Off-Balance Sheet Arrangements

We do not have transactions with unconsolidated entities, such as entities often referred to as structured financial or special purpose entities, whereby we have financial guarantees, subordinated retained interest, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities or any other obligation under a variable interest in an unconsolidated entity that provides financial, liquidity, market risk, or credit risk support to us.

## 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.

Our investment portfolios at March 31, 2020 included fixed maturity and equity securities, the purposes of which are not for trading or speculation. Our main objective is to maximize after-tax investment income and maintain sufficient liquidity to meet policyholder obligations while minimizing market risk, which is the potential economic loss from adverse fluctuations in securities’ prices. We consider many factors including credit ratings, investment concentrations, regulatory requirements, anticipated fluctuation of interest rates, durations and market conditions in developing investment strategies. Investment securities are managed by a group of nationally recognized asset managers and are overseen by the investment committee appointed by our board of directors. Our investment portfolios are primarily exposed to interest rate risk, credit risk and equity price risk. We classify our fixed maturity securities as available-for-sale and report any unrealized gains or losses, net of deferred income taxes, as a component of other comprehensive income within our stockholders’ equity. We evaluate our available-for-sale securities for future expected credit losses and report any allowance in the income statement. We classify our equity securities as available-for-sale and report any unrealized gains or losses in the income statement. As such, any material temporary changes in the fair value of such securities can adversely impact the carrying value of our stockholders’ equity.

### Interest Rate Risk

Our fixed maturity securities are sensitive to potential losses resulting from unfavorable changes in interest rates. We manage the risk by analyzing anticipated movement in interest rates and considering our future capital needs.



The following table illustrates the impact of hypothetical changes in interest rates to the fair value of our fixed maturity securities at March 31, 2020 (in thousands):

<i>Hypothetical Change in Interest rates</i>	<i>Estimated Fair Value After Change</i>	<i>Change in Estimated Fair Value</i>	<i>Percentage Increase (Decrease) in Estimated Fair Value</i>
300 basis point increase	\$ 551,671	\$ (61,684)	-10%
200 basis point increase	\$ 572,253	\$ (41,102)	-7%
100 basis point increase	\$ 592,812	\$ (20,543)	-3%
100 basis point decrease	\$ 633,088	\$ 19,733	3%
200 basis point decrease	\$ 648,564	\$ 35,209	6%
300 basis point decrease	\$ 655,313	\$ 41,958	7%

#### *Credit Risk*

Credit risk can expose us to potential losses arising principally from adverse changes in the financial condition of the issuer of our fixed maturities. We mitigate this risk by investing in fixed maturities that are generally investment grade and by diversifying our investment portfolio to avoid concentrations in any single issuer or market sector. A majority of the securities in an unrealized gain position as of March 31, 2020 held an A rating or better. We do not intend to sell these investments until recovery of their amortized cost basis or maturity, and further believe that it is not more-likely-than-not that we will be required to sell these investments prior to that time.

The following table presents the composition of our fixed maturity portfolio by rating at March 31, 2020 (in thousands):

<i>Comparable Rating</i>	<i>Amortized Cost</i>	<i>% of Total Amortized Cost</i>	<i>Estimated Fair Value</i>	<i>% of total Estimated Fair Value</i>
AAA	\$ 174,407	29.0%	\$ 178,908	29.2%
AA+	\$ 106,908	17.8%	\$ 109,694	17.8%
AA	\$ 75,824	12.6%	\$ 77,363	12.6%
AA-	\$ 48,078	8.0%	\$ 49,054	8.0%
A+	\$ 44,163	7.3%	\$ 44,853	7.3%
A	\$ 47,830	7.9%	\$ 48,191	7.9%
A-, A-1+	\$ 57,173	9.5%	\$ 57,656	9.4%
BBB+	\$ 25,988	4.3%	\$ 26,199	4.3%
BBB	\$ 18,142	3.0%	\$ 18,178	3.0%
BBB-	\$ 2,263	0.4%	\$ 2,141	0.3%
NA	\$ 1,113	0.2%	\$ 1,117	0.2%
<b>Total</b>	<b>\$ 601,890</b>	<b>100%</b>	<b>\$ 613,355</b>	<b>100%</b>

#### *Equity Price Risk*

Our equity investment portfolio at March 31, 2020 consists of \$1.6 million of Federal Home Loan Bank common stock, the investment is recorded at cost and adjusted, if and when subsequent price changes are provided by the institution. Such changes in the basis of the equity investment are recognized in net realized and unrealized gains and losses on the Company's consolidated statements of operations. As of March 31, 2020, the Company recorded in aggregate \$218,000 in dividends and reduced its membership stock holdings by \$25,700.

#### *Foreign Currency Exchange Risk*

At March 31, 2020, we did not have any material exposure to foreign currency related risk.

**Item 4. Controls and Procedures.*****Evaluation of Disclosure Controls and Procedures***

Due to the COVID-19 pandemic, a significant portion of our employees are now working from home. Established business continuity plans were 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, 2020.

***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, 2020.

## 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 risk factors disclosed in the section entitled “Risk Factors” in our 2019 Form 10-K set forth information relating to various risks and uncertainties that could materially adversely affect our business, financial condition, and operating results. Those risk factors continue to be relevant to an understanding of our business, financial condition, and operating results.

***The recent coronavirus (COVID-19) global pandemic may adversely affect our business, including revenues, profitability, results of operations, and/or cash flows, in a manner and to a degree that cannot be predicted but could be material.***

Beginning in March 2020, the global pandemic related to the novel coronavirus COVID-19 began to impact the global economy and our results of operations. The cumulative effects of COVID-19 on the Company, and the effect of any other epidemic, pandemic or public health outbreak, cannot be predicted at this time, but could include, without limitation:

- We expect that the impact of COVID-19 on general economic activity could negatively impact our premium volumes. While we did not experience this impact for the first quarter 2020, we anticipate premium volumes, particularly in new sales volumes, could be adversely affected prospectively if economic conditions worsen and home purchases in our geographies decline materially. If premium volumes were to decrease materially, our earned premium would also decline and we could experience an increase in our net operating expense ratio.
- States and local governments have launched measures to combat the spread of COVID-19, including travel bans, quarantines and lock-downs of affected areas which could cause disruption to our distribution channel of independent agents which may have a negative impact on our revenues and financial condition.
- In an effort to support insurance consumers during this pandemic, most states where we market our products have issued mandates or requests such as moratoriums on policy cancellations or non-renewals for non-payments of premiums, forbearance on premium collections, waivers of late payment fees and extended periods in which policyholders may make their missed payments. Such actions may result in delayed premium receipts, disrupting cash flows and increasing credit risk from policyholders unable to make timely premium payments.
- Increased claims, losses, litigation, and related expenses, as well as higher costs related to delays in adjusting claims, as a result of stay-at-home orders and quarantines;
- increased volatility and declines in financial markets which, could negatively impact liquidity and credit availability and could continue to reduce the fair market value of, or result in the impairment of, invested assets held by the Company; and
- the decline in interest rates which could reduce future investment results.

The situation surrounding COVID-19 remains fluid. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of any economic recession or depression that has occurred or may occur in the future, and the potential for a material impact on the Company’s results of operations, financial condition, and liquidity increases the longer the virus impacts activity levels in the United States and globally. For this reason, we cannot reasonably estimate with any degree of certainty the future impact COVID-19 may have on the Company’s results of operations, financial position, and liquidity. The extent to which the COVID-19 pandemic may impact the Company’s business, operating results, financial condition, or liquidity will depend on future developments, including the duration of the outbreak, travel restrictions, business and workforce disruptions, and the effectiveness of actions taken to contain and treat the disease.

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

### Issuer purchases of equity securities

During the three months ended March 31, 2020, we purchased 766,900 shares of common stock for an aggregate purchase of \$8 million. In addition, the Company acquired 17,500 shares for a total cost of \$233,000 during the three months ended March 31, 2020 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, 2020 is set forth in the table below (in thousands, except shares):

	<i>Total Number of Shares Purchased</i>	<i>Average Price Paid Per Share (1)</i>	<i>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</i>	<i>Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs</i>
January 1 - January 31, 2020	—	\$ —	—	\$ 33,816
February 1 - February 29, 2020	—	\$ —	—	\$ 33,816
March 1 - March 31, 2020	784,400	\$ 10.48	766,900	\$ 25,830
Total	784,400		766,900	

(1) Average price paid per share excludes cash paid for commissions.

(2) On August 1, 2018, the Company announced that its Board of Directors authorized a stock repurchase program authorizing the Company to repurchase up to \$50.0 million of its common stock through December 31, 2020. At March 31, 2020, the Company has the capacity to repurchase \$25.8 million of its common shares until December 2020.

## Item 4. Mine Safety Disclosures

None

## 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

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">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)</a>
3.2	<a href="#">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)</a>
4	<a href="#">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)</a>
4.1	<a href="#">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</a>
4.2	<a href="#">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</a>
10.9†*	<a href="#">Amendment to Employment agreement, dated October 7, 2019, by and between Heritage Insurance Holdings, Inc. and Kirk H. Lusk</a>
10.10†*	<a href="#">Employment Agreement, dated February 3, 2014, by and between NBIC Service Company, Inc. and Timothy M. Moura.</a>
10.11†*	<a href="#">First Amendment to Employment Agreement, dated January 1, 2018, by and between NBIC Service Company, Inc. and Timothy M. Moura</a>
10.12†*	<a href="#">Restricted Stock Award Agreement, dated November 4, 2015, by and between Heritage Insurance Holdings, Inc. and Ernie Garateix</a>

10.13†*	<a href="#">Restricted Stock Award Agreement, dated November 4, 2015, by and between Heritage Insurance Holdings, Inc. and Bruce Lucas</a>
10.14†*	<a href="#">Restricted Stock Award Agreement, dated February 12, 2018, by and between Heritage Insurance Holdings, Inc. and Kirk Lusk</a>
10.15†*	<a href="#">Restricted Stock Award Agreement, dated November 4, 2015, by and between Heritage Insurance Holdings, Inc. and Rich Widdicombe</a>
10.16†*	<a href="#">Restricted Stock Award Agreement, dated February 12, 2018, by and between Heritage Insurance Holdings, Inc. and Timothy Moura</a>
10.17†*	<a href="#">First Amendment to Credit Agreement, dated as of May 17, 2019, by and between Heritage Insurance Holdings, Inc. and the Lenders party, the Guarantors and Regions Bank</a>
31.1*	<a href="#">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</a>
31.2*	<a href="#">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</a>
32.1**	<a href="#">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</a>
32.2**	<a href="#">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</a>
101.INS	XBRL Instance Document
101.SCH	101. SCH XBRL Taxonomy Extension Schema.
101.CAL	101. CAL XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	101. DEF XBRL Taxonomy Extension Definition Linkbase.
101.LAB	101. LAB XBRL Taxonomy Extension Label Linkbase.
101.PRE	101. PRE XBRL Taxonomy Extension Presentation Linkbase.

† Management contract or compensatory plan or arrangement.

\* 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 8, 2020

By: /s/ BRUCE LUCAS

Bruce Lucas  
Chairman and Chief Executive Officer  
(Principal Executive Officer and Duly Authorized Officer)

Date: May 8, 2020

By: /s/ KIRK LUSK

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

**Heritage Insurance Holdings, Inc.**

A DELAWARE CORPORATION

**AMENDMENT TO EMPLOYMENT AGREEMENT**

THIS AMENDMENT TO EMPLOYMENT AGREEMENT ("Amendment") is made and entered into on October 7, 2019, by and between HERITAGE INSURANCE HOLDINGS, INC., and its subsidiary companies (collectively, the "Company"), and Kirk H. Lusk (the "Executive").

RECITALS

1. The Company is engaged in the insurance and financial services industry;
2. The Executive serve as the Chief Financial Officer of the Company and its Subsidiaries;
3. The parties signed an Employment Agreement dated January 30, 2018 (the "Agreement");
4. The Company and Executive have agreed that Executive should receive a housing allowance and travel reimbursement as set forth herein.

NOW, therefore, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the Company and Executive agree as follows:

AGREEMENT

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

Section 5 of the Agreement is amended in its entirety to read:

"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. Executive shall also be reimbursed for all reasonable travel expenses to and from Clearwater, Florida."

Section 8 of the Agreement is amended in its entirety to read:

"Temporary housing. The Company shall provide a monthly housing allowance to Executive in the amount of \$3,500."

Entire Agreement. This Amendment and the Agreement constitute 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.

Amendment. This Amendment 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.

Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original.

Agreed by:

**Heritage Insurance Holdings, Inc.**

By: /s/ BRUCE LUCAS By: /s/ KIRK LUSK  
Bruce Lucas, CEO      Kirk Lusk, CEO



**EMPLOYMENT AGREEMENT**

THIS EMPLOYMENT AGREEMENT (the "Agreement") is by and between NBIC Service Company, Inc, a Rhode Island Corporation with a principal place of business located at 25 Maple Street, Pawtucket, Rhode Island (the "Company") and Timothy M. Moura, an individual residing at 51 Pinsonnault Lane, North Attleboro, MA 02760 (the "Executive").

## WITNESSETH THAT:

WHEREAS, the Company believes that the Executive has all the necessary skills and experience to act as its Senior Vice President Marketing, Agency and Client Services; and

WHEREAS, the Company wishes to employ the Executive as its Senior Vice President Marketing, Agency and Client Services and the Executive wishes to accept such offer of employment from the Company.

NOW, THEREFORE, in consideration of the mutual covenants and promises hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Executive hereby agree as follows:

Employment and Employment Term

. The Company agrees to employ the Executive as the Senior Vice President Marketing, Agency and Client Services of the Company, subject to the terms and conditions of this Agreement, for a term commencing on February 3, 2014 (the "Effective Date") and ending upon termination of this Agreement in accordance with Section 5.

Duties

. The Executive shall devote his full business efforts to the Company and shall perform all duties that are usual and customary for a Senior Vice President Marketing, Agency and Client Services of entities similar to the Company. Other activities of the Executive shall be limited in time and scope and not conflict with the terms of this Agreement. Subject to the foregoing, Executive may (a) continue to serve as a member of any board of directors on which he currently serves, as set forth in Attachment A; (b) serve on the board of directors of other companies with the prior written approval of the Board of Directors of the Company, which shall not be unreasonably withheld; (c) engage in such charitable activities, including board service, as he deems appropriate; and (d) devote necessary time to the management of his personal assets. The Executive shall perform his assigned duties and responsibilities at the offices of the Company in Pawtucket, Rhode Island (the "Office").

Compensation

. For all services rendered by the Executive to the Company during the Employment Term, the Executive shall be entitled to receive the compensation and other benefits set forth in this Section 3.

Salary

. During the Employment Term, the Company shall pay to the Executive a salary at the rate of \$245,000 per annum subject to discretionary increase by the Company ("Base Salary"). Base Salary payable to the Executive hereunder shall be paid in accordance with the payroll practices of the Company in effect from time to time for its executive employees.

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### Annual Bonus

. In addition to the Base Salary provided for above, the Executive shall be entitled to an annual bonus up to one hundred percent (100%) of Base Salary (the "Target Bonus") beginning with calendar year 2014 (without being prorated because of Executive's commencement of work after January 1, 2014), provided that the Executive achieves individual goals and the Company achieves financial objectives, such individual and Company-wide goals, annual targets, and payout amounts are to be set by the Compensation Committee of the Board in consultation with the Executive, and, provided further that the Executive is an employee of the Company at the time the Target Bonus is payable pursuant to the terms of any applicable bonus plan or program and as approved by the Compensation Committee of the Board. The Target Bonus shall be paid within two and one-half (2.5) months of the close of the applicable fiscal year. For fiscal year 2014 only, the bonus paid to the Executive shall be in amount equal to at least fifty percent (50%) of his base salary regardless of individual or company achievement of goals and objectives.

### Initial Bonus

. Company shall pay to Executive an advance on bonus equal to Twenty Thousand Dollars (\$20,000) within ten (10) business days of the first day of the Initial Employment Term.

### Restricted Stock Award

. The Executive shall be entitled to a restricted stock grant of 5% shares of Company Class B Common Stock under the NBIC Holdings, Inc. (f/k/a Blackstone Financial Group Holdings, Inc.) 2007 Management Incentive Plan (as amended, restated or otherwise modified from time to time, the "Management Plan"). The Management Plan restricted stock awards shall be subject to the terms and conditions of the Management Plan and the applicable restricted stock award agreement ("Restricted Stock Award"), which Executive agrees to execute and deliver to the Company promptly upon request. The Executive may, at his discretion, make an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), to accelerate income taxation on his respective Restricted Stock Award within thirty (30) days of the grant of such Restricted Stock Award.

### Puts and Calls

. The Executive and Company hereby agree to the terms and conditions of certain "put" and "call" rights set forth on Attachment C hereto.

### Flexible Time Off

. The Executive shall be entitled to five (5) weeks paid Flexible Time Off in each calendar year, or such greater period as may be provided by the Company's applicable Flexible Time Off policies. Such flexible time off may be taken subject to such rules of general application as the Company may establish and modify from time to time.

### Additional Company Benefits

. The Company shall provide the Executive with family medical and dental insurance coverage, long-term disability insurance, accidental death and dismemberment insurance, and life insurance as provided in the Company's group benefit program. The Executive shall also be eligible for any incentive plan, pension plan, retirement plan, profit sharing plan, stock ownership plan, stock option plan, stock appreciation plan, stock purchase plan, and any other insurance, benefit, fringe benefit and/or perquisite plans and programs which are made generally available by the Company and its subsidiaries to its other senior executives and in all cases subject to the terms and conditions of such plans or programs as noted in the plan documents.

## Other Agreements

The parties acknowledge that the Executive is a party to other agreements relating to the purchase and ownership of stock in the Company, including, without limitation, the Management Plan, and that Executive's rights and remedies in this Agreement are in addition to, and not in limitation of, the rights and remedies set forth in such other agreements.

## Expenses

Subject to the usual policies and procedures of the Company in effect from time to time, the Executive shall be entitled to be fully reimbursed for reasonable expenses incurred by him in the performance of his duties hereunder ("Business Expenses") after such submission is approved by the Company's Chief Executive Officer. The Company will, from time to time, reimburse him for all such reasonable expenses upon presentation of a written itemized account thereof together with such vouchers, receipts and other evidence of such expenses as the Company may reasonably deem to be necessary. The Executive must submit any request for reimbursement no later than forty-five (45) days following the date that such business expense is incurred in accordance with the Company's reimbursement policy regarding same and business expenses must be substantiated by appropriate receipts and documentation. The Company may request additional reasonable documentation or a further explanation to substantiate any business expense submitted for reimbursement, and retains the discretion to approve or deny a request for reimbursement. Any reimbursement in one calendar year shall not affect the amount that may be reimbursed in any other calendar year and a reimbursement (or right thereto) may not be exchanged or liquidated for another benefit or payment. Any business expense reimbursements subject to Section 409A of the Code shall be made no later than the end of the calendar year following the calendar year in which such business expense is incurred by the Executive.

## Termination

(a) The Executive's employment with the Company and the Employment Term shall terminate upon the occurrence of any of the following events:

- (i) immediately upon the Executive's death;
- (ii) immediately upon written notice by the Company following the Executive's Disability (as hereinafter defined);
- (iii) upon ninety (90) days' prior written notice to the Company by the Executive if the Executive elects to voluntarily terminate his employment; provided, however, that the Company may waive any or all of the notice requirement and make the termination effective at any time during such 90-day period;
- (iv) immediately upon written notice to the Executive by the Company for Cause (as hereinafter defined);
- (v) upon (A) ninety (90) days' prior written notice to the Executive by the Company if the Company elects to terminate the Executive's employment without Cause on or prior to March 31, 2014, (B) one hundred eighty (180) days' prior written notice if the Company elects to terminate Executive's employment without Cause during the period from April 1, 2014 to December 31, 2014 and (C) twelve (12) months' prior written notice to the Executive if the Company elects to terminate Executive's employment without Cause any time on or after January 1, 2015; or

(vi) upon ninety (90) days' prior written notice to the Company by the Executive if the Executive elects to terminate his employment for Good Reason (as hereinafter defined).

(b) Upon termination of the Executive's employment with the Company pursuant to Section 5(a), the Executive (or his estate) shall be entitled to receive accrued but unpaid Base Salary through the effective date of such termination (including Base Salary and benefits during any required notice period), any accrued Flexible Time Off (which shall be calculated based solely on the Executive's base Salary on the effective date of such termination) and other benefits payable to the Executive in accordance with the provisions of this Agreement, any other agreement between the Executive and the Company and any benefit plan (other than any severance plan) in which he is then a participant, and reimbursement for any unreimbursed expenses incurred as of the date of such termination. If Executive's employment terminates for Good Reason under Section 5(a)(vi), the notice periods (and commensurate Base Salary and benefit continuation requirements) set forth in Section 5(a)(v), measured from the date of Executive's notice of Good Reason under Section 5(a)(vi), shall apply as if the Company had terminated without cause. Any vesting of rights or benefits under the provisions of this Agreement, any other agreement between Executive and the Company and any benefit plan (other than any severance plan) in which he is then a participant shall continue during any notice period, until the expiration or earlier waiver of such period (if applicable), prior to termination of the Employment Term.

(c) Notwithstanding the foregoing, continued payments of the Executive's Base Salary and vesting of other rights or benefits during any notice period as provided in Section 5(a) shall be subject to and conditioned upon the execution and delivery by the Executive of a release in favor of the Company substantially in the form annexed hereto as Attachment B and such release becoming effective in accordance with the terms thereof.

(d) For purposes of this Agreement, the following capitalized terms shall have the respective meanings set forth below:

(i) "Cause" shall mean:

(A) the Executive's conviction of any felony by a court of competent jurisdiction;

(B) a good faith determination by the Board of Directors of the Company that the Executive has committed an act of fraud upon the Company;

(C) a good faith determination by the Board of Directors of the Company that the Executive has willfully refused or grossly neglected to perform the duties reasonably assigned to him and consistent with his position with the Company or to otherwise comply with the material terms of this Agreement, which refusal or gross neglect continues for more than thirty (30) days after the Executive receives specific written notice thereof from the Company; or

(D) breach of the Executive's non-compete, non-solicit or non-disclosure obligations which results in a material adverse effect on the Company.

(ii) “Good Reason” shall, subject to the conditions and the Company’s rights to cure set forth below, mean:

- (A) a material diminution in the Executive’s duties as compared to such duties as of the Effective Date, unless required by applicable law;
- (B) failure to pay the Executive amounts owed under this Agreement;
- (C) the Company requiring the Executive’s principal location of employment to be at any office or location more than fifty (50) miles from the principal headquarters of the Company or the greater Providence area (other than to the extent agreed to or requested by the Executive) on the Effective Date; or
- (D) the failure of the Executive to retain a position of similar scope, responsibility and title with a successor company or entity.

Notwithstanding the occurrence of any of the events provided for in this Subsection (ii), an event shall not be deemed to constitute Good Reason if, (1) Executive does not report the conditions which the Executive believes to be Good Reason to the Company within 60 days of such conditions first occurring, and (2) within 60 days after the Executive provides notice of Good Reason to the Company, the Company has fully corrected such Good Reason and made the Executive whole for any such losses. In no event shall the Executive be deemed to have terminated his employment for Good Reason if the Executive does not terminate his employment within one (1) year from the date that Good Reason first occurs. For purposes of clarification, the conditions of this paragraph shall apply separately to each occurrence of Good Reason and failure to adhere to such conditions in the event of Good Reason shall not disqualify Executive from asserting Good Reason for any subsequent occurrence of Good Reason.

(iii) “Disability” shall occur upon either of the following:

- (A) the Executive is unable to perform substantially all of his duties under this Agreement for a period of one hundred twenty (120) or more consecutive days or for one hundred eighty (180) days in the aggregate during any consecutive twelve (12) month period; or
- (B) the Executive is eligible for long-term benefits for total disability under the Company’s long-term disability plan, if the Company adopts such a plan, provided, with respect to this Section 5(d)(iii) (B), that such plan must provide for complete replacement of Executive’s Base Salary on an after-tax basis.

Notwithstanding the foregoing, if any benefits payable as a result of Disability are deferred compensation under Section 409A of the Code, Disability or Disabled shall, with respect to such benefits, mean Executive (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving

income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company.

#### Adjustments to Payments for Section 280G

. Anything contained in this Employment Agreement to the contrary notwithstanding, if it is reasonably determined that any payment or distribution by the Company or an affiliate of the Company of direct or indirect compensation to or for the benefit of Executive, whether such compensation is paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement, including without limitation any Restricted Stock Award, stock option, stock appreciation right or similar rights, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (the "Payments"), will be subject to the excise tax imposed by Section 4999 of the Code, (the "Excise Tax"), then the total amount of the Payments shall be automatically reduced to the extent necessary so that no portion thereof shall be subject to the Excise Tax; provided, however, that if Executive would receive in the aggregate greater value (as determined under Section 280G of the Code and the regulations thereunder) on an after tax basis if the total amount of the Payments were not subject to such reduction, then no such reduction shall be made. To effectuate the reduction described above, if applicable, the Company shall first reduce or eliminate the payments and benefits provided under this Employment Agreement. All calculations required to be made under this Section will be made by the Company's independent public accountants, subject to the right of Executive's representative to review the same. The parties recognize that the actual implementation of the provisions of this Section are complex and agree to deal with each other in good faith to resolve any questions or disagreements arising hereunder.

#### Withholding

. All payments described in this Agreement made to the Executive shall be net of any tax or other amounts required to be withheld by the Company under applicable law, or as a result of the Executive's election.

#### Restrictive Covenants of the Executive

. During the Employment Term and for a period of two (2) years following the earlier of notice of, or the effective date of, the Executive's termination pursuant to Section 5(a), the Executive shall not, directly or indirectly, whether as a principal, agent, employee, director, consultant, stockholder, partner or in any other capacity, (a) be engaged by, or have a financial or any other interest in, any corporation, firm, partnership, proprietorship or other business entity or enterprise which competes with the Company in any state in which the Company conducts Business during Executive's employment with the Company, (b) encourage any insured of the Company or independent agent of the Company to cease or reduce its business with the Company, (c) hire, solicit or induce any employee or consultant of the Company to resign from or cease providing services to the Company, or (d) hire, retain or participate in the hiring or retaining of any employee of the Company; provided, however, that nothing contained herein shall preclude the Executive from purchasing or owning less than five percent (5%) of the stock or other securities of any company with securities traded on a nationally recognized securities exchange. For purposes hereof, "Business" shall mean a homeowner insurance carrier deriving 90% or more of its prior year written premium from coastal homeowners policies.

If any part of this Section 8 shall be determined by a court of competent jurisdiction to be unreasonable in duration, geographic area or scope, then the provisions of this Section are intended

to and shall extend only for such period of time, in such area and with respect to such activities as shall be determined by such court to be reasonable and all provisions hereof shall be applied to the fullest extent permitted by law.

#### Non-Disclosure of Confidential Information., Intellectual Property

(a) The Executive shall not during the Employment Term or at any time thereafter, disclose to any person, firm or corporation any confidential or proprietary information acquired by, or disclosed to, him during the course of his employment relating to the Company (or its subsidiaries or affiliates) except in the course of performing his duties for the Company. Such confidential and proprietary information shall include, but shall not be limited to, proprietary technology, trade secrets, patented processes, research and development data, know-how, formulae, contractual information, pricing policies, the substance of agreements and arrangements with customers, suppliers and others, names of accounts, customer and supplier lists and any other documents embodying such confidential and proprietary information.

(b) All information and documents relating to the Company (or its subsidiaries or affiliates) shall be the exclusive property of the Company (or its subsidiaries or affiliates), and the Executive shall use commercially reasonable efforts, at the direction of the Board of Directors, to prevent any publication or disclosure of such information and documents. Upon termination of the employment of the Executive with the Company, the Executive shall not take from and will promptly return to the Company all Company property including, but not limited to, documents, records, customer or supplier lists, computer programs, equipment designs, technical information, reports, writings and other similar documents containing confidential or proprietary information of the Company (or its subsidiaries or affiliates), including copies thereof, then in the Executive's possession or control except to the extent such documents relate to the Executive's employment status or benefits with the Company.

(c) Confidential Information does not include information which is: (i) in the public domain through no fault of Executive; (ii) already known to Executive at the time of such disclosure; (iii) subsequently received by Executive in good faith from a third party having prior right to make such subsequent disclosure; (iv) independently developed by Executive without use of the information disclosed pursuant to this Agreement; (v) approved in writing for unrestricted release or unrestricted disclosure by the Company; or (vi) produced or disclosed pursuant to applicable laws, regulations or court order, provided Executive has given the Company written notice of such request such that the Company has an opportunity to defend, limit or protect such production or disclosure.

#### Work Product

All materials (including but not limited to prototypes, analytical models and documentation and all deliverables) and any materials, ideas, designs, techniques, inventions, discoveries, improvements, information, creations, software, and any other items discovered, prepared or developed by the Executive during the Employment Term will be considered the property of the Company. Executive assigns to the Company all right, title and interest in the Work Product, including all copyrights, patent rights, patents and applications therefore. Executive will retain ownership of its materials developed prior to the Employment Term. If the Work Product includes previously developed materials, Executive hereby grants to the Company and its Affiliates an unrestricted, royalty-free, perpetual, irrevocable license to make,

have made, use, market, import, distribute, copy, modify, prepare derivative works of, perform, display, disclose and sublicense such items.

### Right to Injunction

. The Company and the Executive each acknowledge that the services to be performed by the Executive hereunder are unique. The Executive specifically acknowledges and agrees that the restrictions imposed by Sections 8 and 9 are reasonable as to duration, geographic area and scope and are necessary for the protection of the interests of the Company and its subsidiaries and affiliates. Any breach or threatened breach of any provision of this Agreement by the Executive shall entitle the Company, in addition to any other remedies available to it at law or in equity, to bring an action in any court of competent jurisdiction seeking to (a) enjoin any such breach or threatened breach and (b) to obtain an order temporarily, preliminarily, or permanently enjoin any such breach or threatened breach, without posting a bond.

### Nondisparagement

(a) The Executive shall not during the Employment Term or at any time thereafter, directly or indirectly make any statement or release any information, or encourage others to make any statement or release any information that is (i) designed to embarrass or criticize the Company (or any of its respective affiliates) or any of the Company's investors (or any of their respective affiliates) or (ii) intended to in any way adversely affect or otherwise malign the business or reputation of the Company (or any of its respective affiliates) or any of the Company's investors (or any of their respective affiliates). Nothing in this Agreement shall limit the Executive from being able to give truthful and accurate testimony in any court, administrative or other legal proceeding.

(b) The Company will not and shall ensure that its senior officers and managers will not, directly or indirectly, make any statement or release any information, or encourage others to make any statement or release any information that is professionally or personally disparaging about, or adverse to, Executive's interests including, but not limited to, any statement that disparages Executive's performance, character, finances, or capabilities or could otherwise detrimentally affect Executive's reputation.

(c) Nothing in this Section 12 shall preclude Executive or Company from enforcing the terms of this Agreement or any other agreement between Executive and the Company.

### Dispute Resolution

. Any and all disputes, controversies or claims arising out of or in connection with this Agreement, or Executive's employment with the Company, including without limitation claims relating in any way to Executive's employment relationship with the Company, or the termination thereof, and any rights or claims arising under any statute or regulation, including without limitation the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans with Disabilities Act of 1990, each as amended, the Fair Employment Practices Act, or any other federal, state or local law, regulation, ordinance or common law, or under any policy, agreement, understanding or promise, written or oral, formal or informal, shall be submitted to binding arbitration pursuant to the terms and procedures set forth in this Section 13. The arbitration shall be conducted in Rhode Island in accordance with the rules of JAMS for expedited disposition as modified by the terms hereof. If the parties have not agreed upon an arbitrator within seven (7)



days after demand for arbitration, either party may request Judicial Arbitration and Mediation Services, Inc. (“JAMS”) to appoint, on an expedited basis, an arbitrator who shall be experienced in employment, executive compensation and equity matters and able to commence the arbitration proceedings (with at least an initial hearing) according to the requirements of this Section 13 and such other complementary rules of JAMS, within fourteen (14) days of appointment. The parties agree to exchange demands and responses, as well as documents prior to the initial hearing. The proceedings shall be completed within thirty (30) days of the initial hearing. The arbitrator shall render an award within seven (7) days thereof which shall be final and binding and which shall contain the details of any calculation of damages, if any. The Company shall bear the costs of such arbitration, excluding the fees of Executive’s counsel, which shall be borne by Executive, subject to the right of the arbitrator to award counsel fees and costs (including, without limitation, JAMS fees, transcripts, if any, and other professional fees of the parties in the dispute) to the party in whose favor the award is made. The award of the arbitrator may be enforced in any court of competent jurisdiction. Notwithstanding the foregoing provisions of this Section 13, any dispute regarding the provisions and rights set forth on Attachment C shall be addressed by the provisions of Attachment C.

#### Assignment

. This Agreement is personal to the Executive and cannot be assigned by him. The Company may assign this Agreement to its successors and cause it to be assumed by its successors.

#### Waiver

. No consent to or waiver of any breach or default in the performance of any obligations hereunder shall be deemed or construed to be a consent to or waiver of any other breach or default in the performance of any of the same or any other obligations hereunder. No waiver hereunder shall be effective unless it is in writing and executed by the party waiving the breach or default hereunder.

#### Amendment or Modification

. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and an officer of the Company and subject to approval by the Company’s Board of Directors.

#### Governing Law

. This Agreement shall be governed by and construed in accordance with the laws of Rhode Island without regard to choice or conflict of law principles.

#### Severability

. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

#### Notices

. Any notices required or permitted to be given hereunder shall be sufficient if in writing, and if delivered by hand, by courier, by facsimile, or sent by certified mail, return receipt requested, prepaid, to the addresses set forth below or such other address as either party may from time to time designate in writing to the other and shall be deemed given as of the date of the delivery if delivered by hand, facsimile or by courier or, if mailed, three (3) days after the date of mailing.

If to the Executive:

Timothy M. Moura  
51 Pinonnault Lane,  
North Attleboro, MA 02760

If to the Company:

NBIC Service Company, Inc.  
25 Maple Street  
Pawtucket, RI 02860  
Attention: Todd C. Hart, Chief Executive Officer

Certification to the Company

. Executive covenants and certifies to the Company (i) that he is not subject to any agreement that restricts his ability to work for the Company in the role contemplated by this Agreement; (ii) that he has not taken and will not take, bring onto Company premises, or use on behalf of Company any confidential, proprietary and/or trade secret information belonging to any current or former employer, partner, client, joint venture, investor, or other third party; and (iii) that he has honored all material commitments to former employers, as set forth in any applicable employment agreements or otherwise, and intends to continue to honor all such commitments. Executive and Company agree that if any of the foregoing certifications are false, this Agreement shall be void ab initio and of no force or effect.

Entire Agreement and Binding Effect

. This Agreement contains the entire agreement of the parties and supersedes any prior negotiations, representations, discussions, arrangements or agreements by or between the parties with respect to the subject matter hereof. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors, permitted assigns and legal representatives.

Counterparts

. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument, and in pleading or proving any provision of this Agreement it shall not be necessary to produce more than one of such counterparts.

[Remainder of page intentionally left blank]

Headings

. The Section headings appearing in this Agreement are for reference purposes only and shall not be considered a part of this Agreement or in any way modify, amend or affect its provisions.

IN WITNESS WHEREOF, the parties have executed this Agreement under seal effective as of this   3   day of February, 2014.

WITNESS:

COMPANY:

NBIC SERVICE COMPANY, INC.

By: /s/ Todd C. Hart  
Todd C. Hart

Title: Chief Executive Officer

EXECUTIVE:

By: /s/ Timothy M. Moura  
Timothy M. Moura

Attachment A

Other Boards of Directors of Which Executive is a Member and Other Disclosable Positions

n/a: \_\_\_\_\_

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Attachment B

GENERAL RELEASE

Timothy M. Moura (“Releasor”) for and in consideration of the amounts set forth in Section 5(b) the Employment Agreement, as applicable, to be paid by NBIC Service Company, Inc., (the “Company”), a Rhode Island corporation, does for himself and his heirs, executors, administrators, successors and assigns, hereby now and forever, voluntarily, knowingly and willingly release and discharge the Company and its parents, subsidiaries and affiliates, together with their respective present and former partners, officers, directors, shareholders, employees and agents, and each of their predecessors, heirs, executors, administrators, successors and assigns (collectively, the “Company Releasees”) from any and all complaints, claims, promises, agreements, controversies, causes of action and demands of any nature whatsoever, known or unknown, suspected or unsuspected, which against the Company Releasees, jointly or severally, Releasor or Releasor’s heirs, executors, administrators, successors or assigns ever had, now have or hereafter can, shall or may have by reason of any matter, cause or thing whatsoever arising from: (a) the beginning of time to the time Releasor executes this Release, or (b) the Amended and Restated Employment Agreement. Subject to the preceding sentence, this Release includes, but is not limited to, any rights or claims relating in any way to Releasor’s employment relationship with the Company, or the termination thereof, any rights or claims arising under any statute or regulation, including the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Americans with Disabilities Act of 1990, each as amended, the Fair Employment Practices Act, [Aids Services Law, Disability Discrimination Law], or any other federal, state or local law, regulation, ordinance or common law, or under any policy, agreement, understanding or promise, written or oral, formal or informal, between any Company Releasee and Releasor. Releasor shall not seek or be entitled to any recovery, in any action or proceeding that may be commenced on Releasor’s behalf in any way arising out of or relating to the matters released under this Release.

Provisions of the Employment Agreement, including but not limited to Section 8 Restrictive Covenants of the Executive, survive termination of the employment relationship

Notwithstanding the foregoing, nothing contained herein releases the Company from its obligations to indemnify and insure the Releasor pursuant to Section 5 of the Employment Agreement entered into by the Releasor and the Company on [date].

Releasor has been advised to consult with an attorney of Releasor’s choice prior to signing this Release. Releasor understands and agrees that Releasor has the right and has been given the opportunity to review this Release with an attorney of Releasor’s choice should Releasor so desire. Releasor also agrees that Releasor has entered into this Release freely and voluntarily.

Releasor has at least twenty-one (21) calendar days or, if terminated as part of an exit incentive program, forty-five (45) calendar days to consider the terms of this Release, although Releasor may sign it sooner if Releasor wishes. Furthermore, once Releasor has signed this Release, Releasor has seven (7) additional days to revoke Releasor’s consent and may do so by writing to Todd C. Hart, Chief Executive Officer, NBIC Services Company, Inc., 25 Maple Street, Pawtucket, RI 02860. The Release shall not be effective, and no payments shall be due hereunder,

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until the eighth day after Releasor shall have executed this Release and returned it to the Company, assuming that Releasor has not revoked Releasor's consent to this Release prior to such date (the "Effective Date").

In the event that any one or more of the provisions of this Release shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder of the Release shall not in any way be affected or impaired thereby.

This Release shall be governed by the law of the State of Rhode Island without reference to its choice of law rules.

Signed as of this \_\_\_\_ day of \_\_\_\_\_, 2014.

Timothy M. Moura

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Attachment C

Termination Put and Call Rights

- (a) Executive Put Right. Upon the termination from employment of the Executive for any reason other than for Cause, the Executive shall have the right to require the Company to purchase all vested Company securities owned by the Executive, including any Company securities that become vested as a result of such termination from employment (together, the "Termination Shares") for a cash purchase price equal to the Fair Market Value thereof by giving written notice upon or at any time within one (1) year after such termination (the "Put Notice"). Termination Shares repurchased by the Company pursuant to this Section (a) or Section (b) shall be retired and not available for reissuance by the Company.
- (b) Company Call Right. Beginning six (6) months and one (1) day after the date of termination of the Executive (the "Call Commencement Date"), the Company shall have the right to purchase from the Executive, all Termination Shares held by the Executive, for a cash purchase price equal to the Fair Market Value thereof, by giving written notice upon or at any time within the six (6) months following the Call Commencement Date (the "Call Notice").
- (c) The purchase price of Termination Shares pursuant to Sections (a) or (b) shall be the "fair market value" thereof as determined by the Board of Directors in good faith as of the date of receipt of the Put Notice or Call Notice, as applicable ("Fair Market Value"), the calculation of which shall be set forth in a written notice delivered to the Executive within ten (10) Business Days of the delivery of the Put Notice or Call Notice, as applicable (the "FMV Notice"). If the Executive disagrees in good faith with the Board of Directors' determination of the Fair Market Value, such Executive shall promptly, but in any event within ten (10) Business Days of receipt of the FMV Notice, notify the Company in writing of such disagreement (the "Dispute Notice"), in which event an independent appraiser, accountant or investment banking firm (the "Arbiter") selected by mutual agreement of the Executive and the Company shall make a determination of the Fair Market Value solely by (i) reviewing the written calculation and backup documentation provided by each of the Company and the Executive to the Arbiter within the later of fifteen (15) days after the Dispute Notice or appointment of the Arbiter setting forth their respective resolutions of the dispute and the bases therefor and (ii) accepting either the Executive's or the Company's proposed resolution of the dispute. If the parties do not agree on an Arbiter within ten (10) Business Days of the receipt by the Company of the Dispute Notice, then on the request of any party, Judicial Arbitration and Mediation Services, Inc. shall appoint a nationally recognized appraiser, accountant or investment banking firm that has not performed any services for either the Company or the Executive since January 1, 2004 to serve as Arbiter. Promptly following the Company's receipt of the Dispute Notice, the Company shall make available to the Executive all data (including reports of employees and outside advisors) relied upon by the Board of Directors in making its determination of Fair Market Value. The Arbiter shall notify the Executive and the Company of its decision within thirty (30) days of the later of the receipt of the Dispute Notice or the appointment of the Arbiter (such period, the "Arbitration Period"). The Arbiter may extend such Arbitration Period upon the consent of the parties or for good cause shown, but any extension shall not be for more than fifteen (15) additional days. The decision of the Arbiter shall be final and binding on the parties and may be entered and enforced in any court having jurisdiction. The party whose proposed resolution is not accepted shall pay all of the
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Arbiter's fees and expenses, which in the case of the Executive may not exceed the value of the Termination Shares as determined by the Arbiter by more than \$15,000, with any shortfall being the obligation of the Company; provided, however, that if the Executive's proposed resolution is accepted, the Company also shall pay all of such Executive's reasonable out-of-pocket fees and expenses (including reasonable fees and expenses of counsel and one appraiser, accountant or investment banking firm, as applicable) incurred in connection with the arbitration. Each of the Company and such Executive agrees to execute, if requested by the Arbiter, a reasonable and customary engagement letter with the Arbiter.

- (d) The closing of such purchase by the Company shall take place at the principal executive office of the Company two (2) Business Days after the latest to occur of (i) the eleventh Business Day following the delivery of the FMV Notice, (ii) if applicable, the expiration of the thirty (30) day Arbitration Period provided under Section (c) hereof (subject to extension of up to fifteen (15) days as set forth therein), or (iii) such other date and place as may be mutually agreed to in writing by the parties to such transaction.
- (e) If the Company consummates a Liquidation Event or Qualified IPO (each as defined in the Amended and Restated Certificate of Incorporation, as in effect immediately prior to such consummation), at any time within six (6) months following the closing of a purchase of Termination Shares pursuant to the call right of the Company under Section (b), the Executive shall be entitled to receive from the Company in respect of such Termination Shares and any unvested Company securities previously forfeited by the Executive, if any (the "Forfeited Shares"), (i) consideration in the form and for the amounts that the Executive would have received with respect to such Termination Shares and Forfeited Shares, if any, in connection with such Liquidation Event or Qualified IPO had such Executive held such Termination Shares and Forfeited Shares, if any, at the time of consummation of such Liquidation Event or Qualified IPO, less (ii) any amounts previously paid therefor pursuant to Section (c), with such payment to be made by the Company concurrent with the consummation of such Liquidation Event or Qualified IPO.



## FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO EMPLOYMENT AGREEMENT ("Agreement") is made, entered into and effective on January 1, 2018, by and between NBIC Service Company, Inc. (the "Company"), and Timothy M. Moura (the "Executive").

### RECITALS

1. The Company is engaged in the insurance and financial services industry;
2. The Executive and Company signed an employment agreement dated February 3, 2014 (the "Agreement");
3. The Executive and Company wish to amend the Agreement as set forth herein.
4. The Executive will serve as the President of the Company and its Subsidiaries;

NOW, therefore, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the Company and Executive agree as follows:

### AGREEMENT

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

#### **Section I. Amendments**

1. Title. The portion of paragraphs 1 and 2 that read "Senior Vice President Marketing, Agency and Client Services" are amended to read "President, reporting to the CEO of Heritage Insurance Holdings".
2. Base Salary. The portion of paragraph 3(a) that reads "\$245,000" is amended to read "\$850,000".
3. Annual Bonus. Paragraph 3(b) is deleted in its entirety and replaced with the following: "Annual Bonus. The Executive shall be eligible to receive an annual cash bonus of up to \$50,000, payable by February 28<sup>th</sup> of each calendar year. Such cash bonus shall be discretionary and shall be based on (i) the approval of an EBITDA bonus pool by the Board, (ii) the approval of the bonus paid to the Executive by the Board, and (iii) the Executive's performance during the calendar year."
4. Initial Bonus. Paragraph 3(c) is deleted in its entirety and replaced with the following: "Additional Cash Bonus. The Executive shall receive, as an incentive under the Heritage Insurance Holdings, Inc. Omnibus Incentive Plan, a cash bonus, based on annual Gross Written Premium ("GWP") growth and combined ratio ("CR") as set forth below. The reference

financials will be the consolidated financials of NBIC Holdings. The CR shall be defined as gross premiums adjusted for loss, loss adjustment, reinsurance costs and recoveries, acquisition and operational costs. These figures may be adjusted for items as agreed by both parties in writing ("CR Adjustment Schedule") to reflect changes outside the scope or control of the Executive. The Additional Cash Bonus shall be paid by March 31<sup>st</sup> of each calendar year for results in the calendar year immediately preceding that date, provided the Executive is employed by the Company at the time of such payment.

If year-end GWP is 10% or more in excess of prior year GWP, and exceeds Annual Baseline GWP, the bonus will be calculated as follows:

$(\text{Actual GWP} - \text{Baseline GWP}) \times (100\% - \text{Actual CR}) \times 25\%$  Annual Baseline

GWP:

2018: \$353,649,970

2019: \$379,258,863

2020: \$404,226,128

2021 and beyond: to be determined in good faith by Executive, CEO and Board of Directors

If the yearend CR is greater than 95%, no bonus will be earned in that performance year. The GWP calculation shall exclude all GWP associated with acquisitions of other insurance companies and the purchase of books of business from other insurers. The maximum annual payment under this specific bonus plan is capped at \$500,000.

By way of example, if GWP at yearend 2018 is \$376 million, representing 15% growth over the prior year, and the CR is 93%, the bonus payment would be \$391,125, calculated as follows:

$(\$376,000 - \$353,649,970) \times (100\% - 93\%) \times 25\% = \$391,125$

5. Paragraph 3(d) is deleted in its entirety and replaced with the following:

"Restricted Stock Award. Executive is hereby granted a restricted stock award of 10,000 shares of Heritage common stock per year for the first five years of Executive's employment with Heritage. Executive shall receive a separate restricted stock agreement that sets forth the terms, conditions and vesting schedule for the restricted stock award."

6. Paragraphs 3(e) and 3(h) are deleted in their entirety.

7. Additional Company Benefits. The first sentence of paragraph 3(g) is amended to read:

"The Company shall provide the Executive with medical and dental insurance coverage, long term disability insurance, accidental death and dismemberment insurance, life insurance, directors & officers insurance and errors & omissions insurance that is fully funded by the Company."

8. Paragraph S(v) is deleted in its entirety and replaced with the following:

"(v) upon twenty-four (24) months' prior written notice to the Executive by the Company if the Company elects to terminate the Executive's employment without Cause."

9. Restrictive Covenants. The last sentence of paragraph 8 is amended to read:

"This covenant specifically applies to engaging with a competing entity defined as 1) a homeowners insurance carrier deriving 90% or more of its prior year written premium from coastal homeowners policies in the northeast or 2) any Florida-domiciled homeowners insurance carrier regardless of the percentage of prior year written premium derived from coastal homeowners policies."

10. Severability. In the event that the provisions 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.

11. 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.

12. 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.

13. Assignment. This Agreement may not be assigned by the Executive, and may not be assigned by the Company except as described in above.

14. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original.

Agreed to by:

**NBIC Service Company, Inc.**

By: /s/ TODD HART  
Todd Hart, CEO

By: /s/ TIMOTHY M. MOURA  
Timothy M. Moura, President

**Heritage Insurance Holdings, Inc.**

By: /s/ BRUCE LUCAS  
Bruce Lucas, CEO

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

This Restricted Stock Award Agreement (the “Agreement”) is entered into as of November 4, 2015 (the “Award Date”) between Heritage Insurance Holdings, Inc. (the “Company”) and Ernie Garateix (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:

**Grant**

. The Company hereby grants to the Participant a restricted stock award (the “RS Award”) of 125,000 shares of Stock (the “Award Shares”). The RS Award shall be subject to the terms and conditions of the Plan and the Agreement.

**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.

**Rights as Shareholder**

. 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 and when dividends are payable on Stock to shareholders of record after the Award Date. If the Participant forfeits any rights he/she may have under the RS Award in accordance with Section 4, the Participant shall, on the day following the event of forfeiture: (i) cease to have any rights as a shareholder with respect to the Award Shares or any interest therein and, including rights to any dividends on such stock and (ii) Participant shall repay to the Company any dividends that were paid on any forfeited Award Shares. Neither unvested shares of 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 shares of Award Shares at a Company stockholder meeting.

**Vesting; Effect of Termination of Employment**

. The Participant’s Award Shares shall vest in equal one fifth (1/5) installments on each of the first, second, third, fourth, and fifth anniversaries of the Award Date, provided the Participant remains continuously employed by, or in service as an employee of, the Company or its Affiliates until each such respective date. If the application of this Section would result in the Participant vesting in a fraction of a share, such fractional share shall be rounded up to the next whole share.

If Participant ceases to be continuously employed as an employee for any reason and before all of his/her Award Shares have become vested under the Agreement, the Participant’s Award

Shares that have not become vested as of the effective date of the termination shall be immediately forfeited, in which case neither the Company nor any Affiliate shall have any further obligations under this Agreement with respect to such forfeited shares. *Notwithstanding* the previous sentence, if the Participant has in effect an employment, retention, change of control, severance or similar agreement with the Company or any Affiliate that discusses the effect of the Participant's termination of employment or service on the RS Award, such agreement shall control.

#### Terms and Conditions of Distribution

. The Company shall distribute certificates 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 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 for the vested Award Shares to the Participant's estate. The Company shall distribute certificates 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 satisfy the required withholding amount by directing that the Company use for this purpose a portion of the Award Shares that would otherwise be distributed to him/her.

#### 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.

#### Delivery of Certificates

. Notwithstanding the provisions of Sections 4 and 5, 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.

#### 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.

#### 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 by will 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 shall be wholly ineffective, and shall be grounds for termination by the Administrator of all rights of the Participant and his/her beneficiary in and under the Agreement.

#### 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 shareholder approval thereof, and to any guidelines the Administrator adopts from time to time. The Participant hereby acknowledges receipt of a copy of the Plan.

#### Dispute Resolution and Arbitration

. In the event of any dispute or claim relating to or arising out of the terms and conditions of the Plan and the Agreement (including, without limitation, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Participant and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Pinellas County, Florida in accordance with its National Employment Dispute Resolution rules, as those rules are currently in effect (and not as they may be modified in the future). Participant acknowledges that by accepting this arbitration provision he is waiving any right to a jury trial in the event of such dispute. Notwithstanding the foregoing, this arbitration provision shall not apply to any disputes or claims relating to or arising out of the misuse or misappropriation of trade secrets or proprietary information.

#### 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.

#### Sole Agreement

. The RS Award is 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 RS Award conflict with the terms of the Plan, the Plan shall control. The Agreement is the entire agreement between the parties to it, and any and all prior oral and written representations are merged in the Agreement. The Agreement may be amended only by written agreement between the Participant and the Company.

#### Counterparts

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

[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.**

By: /s/ Bruce Lucas

Name: Bruce Lucas

Title: CEO

**PARTICIPANT:**

/s/ Ernie Garateix  
Ernie Garateix

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

This Restricted Stock Award Agreement (the "Agreement") is entered into as of November 4, 2015 (the "Award Date") between Heritage Insurance Holdings, Inc. (the "Company") and Bruce Lucas (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:

**Grant**

. The Company hereby grants to the Participant a restricted stock award (the "RS Award") of 750,000 shares of Stock (the "Award Shares"). The RS Award shall be subject to the terms and conditions of the Plan and the Agreement.

**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.

**Rights as Shareholder**

. 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 and when dividends are payable on Stock to shareholders of record after the Award Date. If the Participant forfeits any rights he/she may have under the RS Award in accordance with Section 4, the Participant shall, on the day following the event of forfeiture: (i) cease to have any rights as a shareholder with respect to the Award Shares or any interest therein and, including rights to any dividends on such stock and (ii) Participant shall repay to the Company any dividends that were paid on any forfeited Award Shares. Neither unvested shares of 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 shares of Award Shares at a Company stockholder meeting.

**Vesting; Effect of Termination of Employment**

. The Participant's Award Shares shall vest in equal one fifth (1/5) installments on each of the first, second, third, fourth, and fifth anniversaries of the Award Date, provided the Participant remains continuously employed by, or in service as an employee of, the Company or its Affiliates until each such respective date. If the application of this Section would result in the Participant vesting in a fraction of a share, such fractional share shall be rounded up to the next whole share.

If Participant ceases to be continuously employed as an employee for any reason and before all of his/her Award Shares have become vested under the Agreement, the Participant's Award Shares that have not become vested as of the effective date of the termination shall be immediately



forfeited, in which case neither the Company nor any Affiliate shall have any further obligations under this Agreement with respect to such forfeited shares. *Notwithstanding* the previous sentence, if the Participant has in effect an employment, retention, change of control, severance or similar agreement with the Company or any Affiliate that discusses the effect of the Participant's termination of employment or service on the RS Award, such agreement shall control.

#### Terms and Conditions of Distribution

. The Company shall distribute certificates 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 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 for the vested Award Shares to the Participant's estate. The Company shall distribute certificates 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 satisfy the required withholding amount by directing that the Company use for this purpose a portion of the Award Shares that would otherwise be distributed to him/her.

#### 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.

#### Delivery of Certificates

. Notwithstanding the provisions of Sections 4 and 5, 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.

#### 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.

#### 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 by will 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 shall be wholly ineffective, and shall be grounds for termination by the Administrator of all rights of the Participant and his/her beneficiary in and under the Agreement.

#### 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 shareholder approval thereof, and to any guidelines the Administrator adopts from time to time. The Participant hereby acknowledges receipt of a copy of the Plan.

#### Dispute Resolution and Arbitration

. In the event of any dispute or claim relating to or arising out of the terms and conditions of the Plan and the Agreement (including, without limitation, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Participant and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Pinellas County, Florida in accordance with its National Employment Dispute Resolution rules, as those rules are currently in effect (and not as they may be modified in the future). Participant acknowledges that by accepting this arbitration provision he is waiving any right to a jury trial in the event of such dispute. Notwithstanding the foregoing, this arbitration provision shall not apply to any disputes or claims relating to or arising out of the misuse or misappropriation of trade secrets or proprietary information.

#### 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.

#### Sole Agreement

. The RS Award is 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 RS Award conflict with the terms of the Plan, the Plan shall control. The Agreement is the entire agreement between the parties to it, and any and all prior oral and written representations are merged in the Agreement. The Agreement may be amended only by written agreement between the Participant and the Company.

#### Counterparts

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

[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.**

By: /s/ Richard Widdicombe

Name: Richard Widdicombe

Title: President

**PARTICIPANT:**

/s/ Bruce Lucas

Bruce Lucas

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

This Restricted Stock Award Agreement (the “Agreement”) is entered into as of February 12, 2018 (the “Award Date”) between Heritage Insurance Holdings, Inc. (the “Company”) and Kirk Lusk (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:

**Grant**

. The Company hereby grants to the Participant a restricted stock award (the “RS Award”) of 75,000 shares of Stock (the “Award Shares”). The RS Award shall be subject to the terms and conditions of the Plan and the Agreement.

**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.

**Rights as Shareholder**

. 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 and when dividends are payable on Stock to shareholders of record after the Award Date. If the Participant forfeits any rights he/she may have under the RS Award in accordance with Section 4, the Participant shall, on the day following the event of forfeiture: (i) cease to have any rights as a shareholder with respect to the Award Shares or any interest therein and, including rights to any dividends on such stock and (ii) Participant shall repay to the Company any dividends that were paid on any forfeited Award Shares. Neither unvested shares of 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 shares of Award Shares at a Company stockholder meeting.

**Vesting; Effect of Termination of Employment**

. The Participant’s Award Shares shall vest:

- January 1, 2019 - 20%,
- January 1, 2020 - 20%,
- January 1, 2021 - 20%,
- January 1, 2022 - 20%, and
- January 1, 2023 - 20%,

provided the Participant remains continuously employed by, or in service as an employee of, the Company or its Affiliates until each such respective date. If the application of this Section would result in the Participant vesting in a fraction of a share, such fractional share shall be rounded up to the next whole share.

If Participant is terminated for other than Cause or there is a change on control then the remaining unvested shares shall vest upon the termination date or the effective date of the change of control. If the Participant is terminated for Cause or voluntarily resigns from the Company or its Affiliates then the Participant's Award Shares that have not become vested as of the effective date of the termination shall be immediately forfeited, in which case neither the Company nor any Affiliate shall have any further obligations under this Agreement with respect to such forfeited shares.

#### Terms and Conditions of Distribution

. The Company shall distribute certificates 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 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 for the vested Award Shares to the Participant's estate. The Company shall distribute certificates 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 satisfy the required withholding amount by directing that the Company use for this purpose a portion of the Award Shares that would otherwise be distributed to him/her.

#### 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.

#### Delivery of Certificates

. Notwithstanding the provisions of Sections 4 and 5, 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.

### *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.

### *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 by will 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 shall be wholly ineffective, and shall be grounds for termination by the Administrator of all rights of the Participant and his/her beneficiary in and under the Agreement.

### *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 shareholder approval thereof, and to any guidelines the Administrator adopts from time to time. The Participant hereby acknowledges receipt of a copy of the Plan.

### *Dispute Resolution and Arbitration*

. In the event of any dispute or claim relating to or arising out of the terms and conditions of the Plan and the Agreement (including, without limitation, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Participant and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Pinellas County, Florida in accordance with its National Employment Dispute Resolution rules, as those rules are currently in effect (and not as they may be modified in the future). Participant acknowledges that by accepting this arbitration provision he is waiving any right to a jury trial in the event of such dispute. Notwithstanding the foregoing, this arbitration provision shall not apply to any disputes or claims relating to or arising out of the misuse or misappropriation of trade secrets or proprietary information.

### *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.

### *Sole Agreement*

. The RS Award is 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 RS Award conflict with the terms of the Plan, the Plan shall control. The Agreement is the entire agreement between the parties to it, and any and all prior oral and written representations are merged in the Agreement. The Agreement may be amended only by written agreement between the Participant and the Company.

*Counterparts*

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

[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.**

By: /s/ Bruce Lucas

Bruce Lucas  
Board Chairman and Chief Executive Officer

**PARTICIPANT:**

/s/ Kirk Lusk  
Kirk Lusk



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

This Restricted Stock Award Agreement (the "Agreement") is entered into as of November 4, 2015 (the "Award Date") between Heritage Insurance Holdings, Inc. (the "Company") and Rich Widdicombe (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:

**Grant**

. The Company hereby grants to the Participant a restricted stock award (the "RS Award") of 250,000 shares of Stock (the "Award Shares"). The RS Award shall be subject to the terms and conditions of the Plan and the Agreement.

**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.

**Rights as Shareholder**

. 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 and when dividends are payable on Stock to shareholders of record after the Award Date. If the Participant forfeits any rights he/she may have under the RS Award in accordance with Section 4, the Participant shall, on the day following the event of forfeiture: (i) cease to have any rights as a shareholder with respect to the Award Shares or any interest therein and, including rights to any dividends on such stock and (ii) Participant shall repay to the Company any dividends that were paid on any forfeited Award Shares. Neither unvested shares of 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 shares of Award Shares at a Company stockholder meeting.

**Vesting; Effect of Termination of Employment**

. The Participant's Award Shares shall vest in equal one fifth (1/5) installments on each of the first, second, third, fourth, and fifth anniversaries of the Award Date, provided the Participant remains continuously employed by, or in service as an employee of, the Company or its Affiliates until each such respective date. If the application of this Section would result in the Participant vesting in a fraction of a share, such fractional share shall be rounded up to the next whole share.

If Participant ceases to be continuously employed as an employee for any reason and before all of his/her Award Shares have become vested under the Agreement, the Participant's Award Shares that have not become vested as of the effective date of the termination shall be immediately

forfeited, in which case neither the Company nor any Affiliate shall have any further obligations under this Agreement with respect to such forfeited shares. *Notwithstanding* the previous sentence, if the Participant has in effect an employment, retention, change of control, severance or similar agreement with the Company or any Affiliate that discusses the effect of the Participant's termination of employment or service on the RS Award, such agreement shall control.

#### Terms and Conditions of Distribution

. The Company shall distribute certificates 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 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 for the vested Award Shares to the Participant's estate. The Company shall distribute certificates 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 satisfy the required withholding amount by directing that the Company use for this purpose a portion of the Award Shares that would otherwise be distributed to him/her.

#### 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.

#### Delivery of Certificates

. Notwithstanding the provisions of Sections 4 and 5, 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.

#### 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.

#### 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 by will 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 shall be wholly ineffective, and shall be grounds for termination by the Administrator of all rights of the Participant and his/her beneficiary in and under the Agreement.

#### 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 shareholder approval thereof, and to any guidelines the Administrator adopts from time to time. The Participant hereby acknowledges receipt of a copy of the Plan.

#### Dispute Resolution and Arbitration

. In the event of any dispute or claim relating to or arising out of the terms and conditions of the Plan and the Agreement (including, without limitation, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Participant and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Pinellas County, Florida in accordance with its National Employment Dispute Resolution rules, as those rules are currently in effect (and not as they may be modified in the future). Participant acknowledges that by accepting this arbitration provision he is waiving any right to a jury trial in the event of such dispute. Notwithstanding the foregoing, this arbitration provision shall not apply to any disputes or claims relating to or arising out of the misuse or misappropriation of trade secrets or proprietary information.

#### 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.

#### Sole Agreement

. The RS Award is 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 RS Award conflict with the terms of the Plan, the Plan shall control. The Agreement is the entire agreement between the parties to it, and any and all prior oral and written representations are merged in the Agreement. The Agreement may be amended only by written agreement between the Participant and the Company.

#### Counterparts

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

[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.**

By: /s/ Bruce Lucas

Name: Bruce Lucas

Title: CEO

**PARTICIPANT:**

/s/ Rich Widdicombe

Rich Widdicombe

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

This Restricted Stock Award Agreement (the “Agreement”) is entered into as of February 12, 2018 (the “Award Date”) between Heritage Insurance Holdings, Inc. (the “Company”) and Timothy Moura (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:

**Grant**

. The Company hereby grants to the Participant a restricted stock award (the “RS Award”) of 50,000 shares of Stock (the “Award Shares”). The RS Award shall be subject to the terms and conditions of the Plan and the Agreement.

**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.

**Rights as Shareholder**

. 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 and when dividends are payable on Stock to shareholders of record after the Award Date. If the Participant forfeits any rights he/she may have under the RS Award in accordance with Section 4, the Participant shall, on the day following the event of forfeiture: (i) cease to have any rights as a shareholder with respect to the Award Shares or any interest therein and, including rights to any dividends on such stock and (ii) Participant shall repay to the Company any dividends that were paid on any forfeited Award Shares. Neither unvested shares of 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 shares of Award Shares at a Company stockholder meeting.

**Vesting; Effect of Termination of Employment**

. The Participant’s Award Shares shall vest:

- January 1, 2019 - 20%,
- January 1, 2020 - 20%,
- January 1, 2021 - 20%,
- January 1, 2022 - 20%, and
- January 1, 2023 - 20%,

provided the Participant remains continuously employed by, or in service as an employee of, the Company or its Affiliates until each such respective date. If the application of this Section would result in the Participant vesting in a fraction of a share, such fractional share shall be rounded up to the next whole share.

If Participant ceases to be continuously employed as an employee for any reason and before all of his/her Award Shares have become vested under the Agreement, the Participant's Award Shares that have not become vested as of the effective date of the termination shall be immediately forfeited, in which case neither the Company nor any Affiliate shall have any further obligations under this Agreement with respect to such forfeited shares. Notwithstanding the previous sentence, if the Participant's employment is terminated by the Company without cause, the Participant's Award Shares that have not become vested as of the effective date of the termination shall become immediately vested on that date. If the Company undergoes a change in control and the Participant remains employed by the successor entity, the dollar value of the Participant's unvested Award Shares as of the date of such change in control shall be held in escrow and distributed to the Participant according to the vesting schedule outlined under this section of the Agreement. If the Participant's employment is terminated as a result of the change in control, the Participant's Award Shares that have not become vested as of the effective date of termination shall become immediately vested on that date.

#### *Terms and Conditions of Distribution*

. The Company shall distribute certificates 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 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 for the vested Award Shares to the Participant's estate. The Company shall distribute certificates 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 satisfy the required withholding amount by directing that the Company use for this purpose a portion of the Award Shares that would otherwise be distributed to him/her.

#### *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.

#### *Delivery of Certificates*

. Notwithstanding the provisions of Sections 4 and 5, 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.

#### *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.

#### *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 by will 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 shall be wholly ineffective, and shall be grounds for termination by the Administrator of all rights of the Participant and his/her beneficiary in and under the Agreement.

#### *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 shareholder approval thereof, and to any guidelines the Administrator adopts from time to time. The Participant hereby acknowledges receipt of a copy of the Plan.

#### *Dispute Resolution and Arbitration*

. In the event of any dispute or claim relating to or arising out of the terms and conditions of the Plan and the Agreement (including, without limitation, any claims of breach of contract, wrongful termination or age, sex, race or other discrimination), Participant and the Company agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Pinellas County, Florida in accordance with its National Employment Dispute Resolution rules, as those rules are currently in effect (and not as they may be modified in the future). Participant acknowledges that by accepting this arbitration provision he is waiving any right to a jury trial in the event of such dispute. Notwithstanding the foregoing, this arbitration provision shall not apply to any disputes or claims relating to or arising out of the misuse or misappropriation of trade secrets or proprietary information.

#### *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.

*Sole Agreement*

. The RS Award is 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 RS Award conflict with the terms of the Plan, the Plan shall control. The Agreement is the entire agreement between the parties to it, and any and all prior oral and written representations are merged in the Agreement. The Agreement may be amended only by written agreement between the Participant and the Company.

Counterparts

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

[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.**

By: /s/ Bruce Lucas

Bruce Lucas  
Board Chairman and Chief Executive Officer

**PARTICIPANT:**

/s/ Timothy Moura  
Timothy Moura

## FIRST AMENDMENT TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT, dated as of May 17, 2019 (this “Amendment”), to the Credit Agreement referenced below 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”). All capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement (as defined below).

RECITALS

WHEREAS, the Borrower, the Guarantors, the Lenders and Regions Bank, as Administrative Agent and Collateral Agent, entered into that certain Credit Agreement, dated as of December 14, 2018 (as amended, modified, supplemented, increased, extended, restated, refinanced and/or replaced from time to time, the “Credit Agreement”); and

WHEREAS, the Credit Parties and the Administrative Agent desire to correct the technical omission in the Credit Agreement identified in Section 3 below;

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:

1. Introductory Paragraph: Recitals. 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.
2. Definitions. All capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement.
3. Technical Amendment to Credit Agreement. Pursuant to sub-clause (C) of Section 11.4(c) of the Credit Agreement, Section 2.6(c) of the Credit Agreement is hereby amended to correct a technical omission by inserting the text “, and ending with the close of the Fiscal Quarter ending September 30, 2023, with the outstanding principal balance of the Term Loan A payable in full on the Term Loan A Maturity Date” immediately after the text “unless accelerated sooner pursuant to Section 9” and prior to the period at the end of such sub-clause.
4. Condition Precedent. This Amendment shall be effective upon receipt by the Administrative Agent of counterparts of this Amendment duly executed by the Borrower, the Administrative Agent and the Collateral Agent.
5. Miscellaneous.

This ~~A~~ Amendment shall be deemed to be, and is, a Credit Document.

The ~~B~~ Borrower (on behalf of itself and the other Credit Parties) (i) acknowledges and consents to all of the terms and conditions of this Amendment, (ii) agrees that, except as expressly set forth herein, this Amendment, and all documents executed in connection herewith, do not operate to reduce or discharge its obligations under the Credit Agreement or the other Credit Documents, or any certificates, documents, agreements and instruments executed in connection therewith, (iii) affirms all of its obligations under the Credit Documents, (iv) agrees that this Amendment shall in no manner impair or otherwise adversely affect any of the Liens granted in, or pursuant to, the Credit Documents, and (v) affirms that each of the Liens granted in or pursuant to the Credit Documents are valid and subsisting.

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 Borrower and each other Credit Party has taken all necessary action to authorize the execution, delivery and performance of this Amendment;

this Amendment 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 (A) bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar Laws affecting creditors' rights generally, and (B) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity); and

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, delivery or performance by the Borrower of this Amendment.

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 (*e.g.*, "pdf" or "tif" format) shall be effective as delivery of a manually executed counterpart of this Amendment.

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.

*[Signature Pages Follow]*

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to Credit Agreement to be duly executed as of the date first written above.

BORROWER:

HERITAGE INSURANCE HOLDINGS, INC.,  
a Delaware corporation

By: /s/ Kirk Lusk  
Name: Kirk Lusk  
Title: Chief Financial Officer

GUARANTORS:

CONTRACTORS ALLIANCE NETWORK, LLC,  
a Florida limited liability company

By: /s/ Kirk Lusk  
Name: Kirk Lusk  
Title: Chief Financial Officer

FIRST ACCESS INSURANCE GROUP, LLC,  
a Florida limited liability company

By: /s/ Kirk Lusk  
Name: Kirk Lusk  
Title: Chief Financial Officer

HERITAGE INSURANCE CLAIMS, LLC,  
a Florida limited liability company

By: /s/ Kirk Lusk  
Name: Kirk Lusk  
Title: Chief Financial Officer

HERITAGE MGA, LLC,  
a Florida limited liability company

By: /s/ Kirk Lusk  
Name: Kirk Lusk  
Title: Chief Financial Officer

*[Signature Pages Continue]*

a Delaware corporation

By: /s/ Kirk Lusk

Name: Kirk Lusk

Title: Chief Financial Officer

NBIC HOLDINGS, INC.,  
a Delaware corporation

By: /s/ Kirk Lusk

Name: Kirk Lusk

Title: Chief Financial Officer

NBIC SERVICE COMPANY, INC.,  
a Rhode Island corporation

By: /s/ Kirk Lusk

Name: Kirk Lusk

Title: Chief Financial Officer

SKYE LANE PROPERTIES, LLC,  
a Florida limited liability company

By: /s/ Kirk Lusk

Name: Kirk Lusk

Title: Chief Financial Officer

ZEPHYR ACQUISITION COMPANY,  
a Delaware corporation

By: /s/ Kirk Lusk

Name: Kirk Lusk

Title: Chief Financial Officer

*[Signature Pages Continue]*

HI HOLDINGS, INC.,  
a Hawaii corporation

By: /s/ Bruce Lucas  
Name: Bruce Lucas  
Title: Chief Executive Officer

*[Signature Pages Continue]*

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

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ADMINISTRATIVE  
AGENT:

REGIONS BANK,  
as Administrative Agent and Collateral Agent

By: /s/ Andrew Staszsky

Name: Andrew Staszsky

Title: Vice President

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

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

I, Bruce Lucas, 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 8, 2020

By: /s/ BRUCE LUCAS

Bruce Lucas

*Chairman and 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 8, 2020

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, 2020, as filed with the Securities and Exchange Commission (the “Report”), I, Bruce Lucas, the Chairman and 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 8, 2020

By: /s/ BRUCE LUCAS

Bruce Lucas

*Chairman and 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, 2020, 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 8, 2020

By: /s/ KIRK LUSK

Kirk Lusk

*Chief Financial Officer*

*(Principal Financial and Accounting Officer)*