SECURITIES & EXCHANGE COMMISSION EDGAR FILING

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

Form 10-K

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

For the fiscal year ended December 31, 2011

OR

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

Commission File Number
001-34126

Homeowners Choice, Inc.

(Exact name of Registrant as specified in its charter)

Florida	**20-5961396**
(State of Incorporation)	*(IRS Employer Identification No.)*

5300 West Cypress Street, Suite 100
Tampa, FL 33607
(Address, including zip code of principal executive offices)
(813) 405-3600
(Registrant's telephone number, including area code)

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

Title of Each Class	***Name of Each Exchange on Which Registered***
Common shares, no par value	NASDAQ Global Select Market
Common stock warrants	NASDAQ Global Market
7% Series A Cumulative Redeemable Preferred Stock, no par value	NASDAQ Capital Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐ (The registrant has not yet been phased into the interactive data requirements)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 229.10(f)(1) of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 229.10(f)(1) of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2011 was $33,577,402.

The number of shares outstanding of the registrant's common stock, no par value, on March 18, 2012 was 6,473,925.

DOCUMENTS INCORPORATED BY REFERENCE

None.

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

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PART I

ITEM 1 – *Business*

General

Homeowners Choice, Inc. is a holding company owning subsidiaries primarily engaged in the property and casualty insurance business. Homeowners Choice, Inc. was incorporated in Florida in 2006. The Company is authorized to underwrite homeowners' property and casualty insurance in the state of Florida through its wholly-owned subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc. (HCPC). Through HCPC and subsidiaries, primarily Homeowners Choice Managers, Inc., Southern Administration, Inc., Claddaugh Casualty Insurance Company, Ltd., and its subsidiary, HCPCI Holdings LLC, we currently provide property and casualty homeowners' insurance, condominium-owners' insurance, and tenants' insurance to individuals owning property in Florida. We offer these insurance products at competitive rates while pursuing profitability using selective underwriting criteria.

Homeowners Choice Managers, Inc. (HCM) acts as HCPC's exclusive managing general agent in the state of Florida. HCM currently provides underwriting policy administration, marketing, accounting and financial services to HCPC, and participates in the negotiation of reinsurance contracts. Southern Administration, Inc. provides policy administration services. Claddaugh Casualty Insurance Company Ltd. provides reinsurance coverage to HCPC. Homeowners Choice, Inc. subsidiaries also include TV Investment Holdings LLC, which is owned by HCI Holdings LLC, a wholly-owned subsidiary of Homeowners Choice, Inc. Both subsidiaries were organized in 2011. TV Investment Holdings LLC owns and operates a marina facility located in Florida. In addition, Homeowners Choice, Inc. subsidiaries include Unthink Technologies Private Limited, which is owned by HCI Technical Resources, Inc., a wholly owned subsidiary of Homeowners Choice, Inc. HCI Technical Resources, Inc. was organized in 2011 and acquired Unthink Technologies Private Limited, a software development firm located in India, in November 2011. Our financial information is set forth in Part II, Item 8.

Our principal executive offices are located at 5300 West Cypress Street, Suite 100, Tampa, Florida 33607, and our telephone number is (813) 405-3600.

We file annual, quarterly, and current reports with the Securities and Exchange Commission ("SEC"). These filings are accessible free of charge on our website, www.hcpci.com (click "SEC filings" at the "Investors" tab), as soon as reasonably practicable after they have been electronically filed with or furnished to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, which you can access via the SEC's website at www.sec.gov. In addition, these filings are accessible at the SEC's Public Reference Room, which is located at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

As of December 31, 2011 and 2010, we had total assets of $214.8 million and $140.9 million, respectively, and stockholders' equity of $63.8 million and $46.6 million, respectively. Our net income was approximately $10.0 million and $5.4 million, respectively, for the years ended December 31, 2011 and 2010. Income available to common stockholders was approximately $9.1 million and $5.4 million, respectively, for the years ended December 31, 2011 and 2010. Our results for the year ended December 31, 2011 include a bargain purchase gain of $936,000 ($575,000 net of tax), or $0.08 diluted earnings per common share. The bargain purchase gain relates to our business acquisition completed in April 2011.

Company History

We began operations in June of 2007 by participating in a “take-out program” through which we assumed insurance policies held by Citizens Property Insurance Corporation (“Citizens”), a Florida state-supported insurer. The take-out program is a legislatively mandated program designed to reduce the state’s risk exposure by encouraging private companies to assume policies from Citizens. Policies were assumed in eight separate assumption transactions which took place in July and November 2007, February, June, October and December 2008, December 2009, and December 2010. In November 2011, we completed an assumption transaction with HomeWise Insurance Company (“HomeWise”) through which we acquired the Florida policies of HomeWise. Substantially all of our premium revenue since inception comes from the policies acquired in these assumption transactions. We believe policy assumptions are an effective and attractive component of our long-term growth plan. The large pool of policies held by Citizens and the volume of policies we have been able to assume with each Citizens transaction have allowed us to grow significantly since inception. In addition, we have had the opportunity to evaluate other assumption transactions that allow us continued growth as evidenced by the recent HomeWise transaction. These assumptions have contributed immediate premium growth as well as cost efficiencies by minimizing or reducing our marketing and policy acquisition costs. In addition, the HomeWise assumption provided an opportunity to improve our geographic diversification throughout the state of Florida. We currently have approximately 119,000 policies in force. Our current policies in force represent approximately $225 million in annualized premiums.

Citizens requires us to offer renewals on the policies we acquire for a period of three years subsequent to the initial expiration of the assumed policies. The policyholders have the option to renew with us or they may ask their agent to place their coverage with another insurance company. With respect to the assumptions through December 31, 2009, policyholders could also elect to return to Citizens, i.e. opt out, prior to the policy renewal date. With respect to the December 31, 2010 assumption, the opt-out provision was limited to thirty days after the assumption date. We strive to retain these policies by offering competitive rates to our policyholders at premiums we consider commensurate with the risk.

We face various challenges to implementing our operating and growth strategies. Since we write policies that cover Florida homeowners, condominium owners, and tenants, we cover losses that may arise from, among other things, catastrophes, which could have a significant effect on our business, results of operations, and financial condition. To mitigate our risk of such catastrophic losses, we cede a portion of our exposure to reinsurers under catastrophe excess of loss reinsurance treaties. Even without catastrophic events, we may incur losses and loss adjustment expenses that deviate substantially from our estimates and that may exceed our reserves, in which case our net income and capital would decrease. Our operating and growth strategies may also be impacted by regulation of our business by the state of Florida, which must approve our policy forms and premium rates as well as monitor our insurance subsidiary’s ability to meet all requirements for regulatory compliance. Additionally, we compete with large, well-established insurance companies as well as other specialty insurers that, in most cases, possess greater financial resources, larger agency networks, and greater name recognition. See Item 1A, “Risk Factors,” below.

Beginning in 2011, we invested in waterfront property in Tierra Verde, Florida, which includes retail space, vacant land and a marina. We believe this acquisition strengthens and diversifies our property portfolio and business operations. In 2011, we also acquired an Indian domiciled software development company, which we believe will provide us with additional system design expertise that strengthens our ability to develop, enhance and maintain software applications for our insurance operations.

Competition

We operate in highly competitive markets where we face competition from national, regional and residual market insurance companies. Many of our competitors have larger financial capacities, greater resource availability, and more diversification in terms of insurance coverage. Our competitors include companies which market their products through agents, as well as companies which sell insurance directly to their customers. Large national insurers may have certain competitive advantages such as increased name recognition, increased loyalty of their customer base, and reduced policy acquisition costs. Additionally, as described in greater detail below in "Government Regulation," the Florida legislature may pass new laws impacting Citizens rates or expanding Citizens ability to compete against private insurers in the residential property insurance market. We may also face competition from new or temporary entrants in our niche markets. In some cases, such entrants may, because of inexperience, desire for new business or other reasons, price their insurance below ours. Although our pricing is inevitably influenced to some degree by that of our competitors, we believe that it is generally not in our best interest to compete solely on price. We compete on the basis of underwriting criteria, our independent agent network, and superior service to our agents and insureds. We believe recent trends in the competitive environment in Florida, such as a de-emphasis of Florida property risk by large national insurers and efforts by the state of Florida to reduce exposure at Citizens, bode well for our competitive position in the market.

Seasonality of Our Business

Our insurance business is seasonal as hurricanes and tropical storms typically occur during the period from June 1 through November 30 each year. With our reinsurance treaty year effective on June 1 each year, any variation in the cost of our reinsurance, whether due to changes in reinsurance rates or change in the total insured value of our policy base, will occur and be reflected in our financial results beginning June 1 each year.

Government Regulation

We are subject to the laws and regulations in Florida, and the regulations of any other states in which we may seek to conduct business in the future. The regulations cover all aspects of our business and are generally designed to protect the interests of insurance policyholders as opposed to the interests of shareholders. Such regulations relate to authorized lines of business, capital and surplus requirements, allowable rates and forms, investment parameters, underwriting limitations, transactions with affiliates, dividend limitations, changes in control, market conduct, maximum amount allowable for premium financing service charges and a variety of other financial and non-financial components of our business. Our failure to comply with certain provisions of applicable insurance laws and regulations could have a material adverse effect on our business, results of operations or financial condition. In addition, any changes in such laws and regulations, including the adoption of consumer initiatives regarding rates charged for coverage, could materially and adversely affect our operations or our ability to expand. Recent legislation, among other things, reduces anticipated reinsurance costs and expands the role of Citizens. Other provisions contained in the recent legislation prevent non-renewals and cancellation (except for material misrepresentation and non-payment of premium) and new restrictions on coverage were prohibited until January 2010. We are unaware of any other consumer initiatives which could have a material adverse effect on our business, results of operations or financial condition.

Certain states have recently adopted laws or are considering proposed legislation which, among other things, limit the ability of insurance companies to effect rate increases or to cancel, reduce or non-renew insurance coverage with respect to existing policies. As discussed above, the recent consumer initiatives with Florida's property insurers demonstrate the state's ability to adopt such laws or to effectuate these policies through interpretations of existing laws. Also, the Florida legislature may adopt additional laws of this type in the future, which may adversely affect our business. In most years, the Florida legislature considers bills affecting the residential property insurance market in Florida. Property insurance legislation passed in 2008 increases penalties on insurers for noncompliance with the insurance code, establishes a private cause of action relating to insurers' claims payment practices, and extends the notice period applicable to insurers' nonrenewals of certain residential policies. The legislature also revised procedures governing insurers' rate filings.

Most states, including Florida, require licensure and regulatory approval prior to the marketing of new insurance products. Typically, licensure review is comprehensive and includes a review of a company's business plan, solvency, reinsurance, character of its officers and directors, rates, forms and other financial and non-financial aspects of a company. The regulatory authorities may not allow entry into a new market by not granting a license or by withholding approval. In addition, regulatory authorities may preclude or delay our entry into markets by disapproving or withholding approval of our product filings. As a new insurance company, we are subject to examinations with respect to our first three years in business, which includes the years ended December 31, 2008, 2009 and 2010. The 2008 and 2009 examinations were completed prior to 2011. The 2010 examination is currently in progress.

All insurance companies must file quarterly and annual statements with certain regulatory agencies and are subject to regular and special examinations by those agencies. In accordance with the National Association of Insurance Commissioners, the Florida Office of Insurance Regulation ("FLOIR") intends to comply with recent initiatives recommending that all insurance companies under the same insurance holding company registration statement be subjected to concurrent triennial examinations. Our subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc., is subject to FLOIR examinations.

Environmental Matters

Our subsidiary, TV Investment Holdings, LLC, which owns waterfront property including a marina, is subject to regulation under various federal, state, and local laws concerning the environment, including laws addressing the discharge of pollutants into the air and water and the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. When we acquired this property in April 2011, we assumed the liability to complete a site assessment and remediation of environmental contamination that resulted from a petroleum release at the marina site in late 2009. We and our environmental consultants have assumed the remedial action work plan developed by prior management and its environmental consultant, which consists of completing the site assessment, performing soil excavation, and installing wells for collection of groundwater and soil samples throughout the monitoring phase of the project. We recorded a $150,000 liability at acquisition with respect to the planned remedial action and we do not anticipate our costs will exceed this amount. However, we could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws. This matter is described in Note 14 – "Commitments and Contingencies" to our consolidated financial statements under Item 8 on this Annual Report on Form 10-K.

Employees

We currently employ 190 full-time individuals including 68 employees located in Noida, India and 122 employees working primarily from our headquarters in Tampa, Florida.

ITEM 1A – *Risk Factors*

Our business is subject to a number of risks, including those described below, which could have a material effect on our results of operations, financial condition or liquidity and, additionally, could cause our operating results to vary significantly from period to period.

We currently conduct our insurance business in Florida only. Thus, any single catastrophic event or other condition affecting losses in Florida could adversely affect our financial condition and results of operations.

While we actively manage our exposure to catastrophic events through our underwriting process and the purchase of reinsurance, a single catastrophic event, destructive weather pattern, general economic trend, regulatory development or other condition specifically affecting the state of Florida could have a disproportionately adverse impact on our business, financial condition, and results of operations. In addition, the fact that our business is concentrated in the state of Florida subjects it to increased exposure to certain catastrophic events and destructive weather patterns such as hurricanes, tropical storms, and floods. Changes in the prevailing regulatory, legal, economic, political, demographic, competitive, and other conditions in the state of Florida could also make it less attractive for us to do business in Florida and would have a more pronounced effect on our business than it would on other insurance companies that are geographically diversified. Since our business is concentrated in this manner, the occurrence of one or more catastrophic events or other conditions affecting losses in the state of Florida could have an adverse effect on our business, financial condition, and results of operations.

Our results may fluctuate based on many factors including cyclical changes in the insurance industry.

The insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favorable underwriting profits. As premium levels increase, there may be new entrants to the market, which could then lead to a decrease in premium levels. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on our results of operations and cash flows. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance business significantly.

We cannot predict whether market conditions will improve, remain constant or deteriorate. Negative market conditions may impair our ability to write insurance at rates that we consider appropriate relative to the risk assumed. If we cannot write insurance at appropriate rates, our business would be materially and adversely affected.

We may be unable to attract and retain qualified personnel.

Our operations are highly dependent on the efforts of our senior executive officers, in particular, our Chief Executive Officer, Paresh Patel and our Chief Financial Officer, Richard Allen. The loss of their leadership, industry knowledge and experience could negatively impact our operations. With the exception of Mr. Patel and Mr. Allen, we have no employment agreements with any of our personnel nor do we have any guarantee of any employee’s ongoing service.

We do not have significant redundancy in our operations.

We conduct our business primarily from offices located in Tampa, Florida and the surrounding area where tropical storms could damage our facilities or interrupt our power supply. The loss or significant impairment of functionality in these facilities for any reason could have a material, adverse effect on our business as we do not have significant redundancies to replace either facility if functionality is impaired. We contract with a third party vendor to maintain complete daily backups of our systems, which are stored at the vendor's facility in Atlanta, Georgia. Access to these databases is strictly controlled and limited to authorized personnel. While we have implemented daily off-site backups, we have not fully tested our plan to recover data in the event of a disaster.

Our information technology systems may fail or suffer a loss of security which could adversely affect our business.

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

The development and expansion of our business is dependent upon the successful development and implementation of advanced computer and data processing systems. Because our insurance subsidiary intends to expand its business by writing additional voluntary policies, we are developing new information technology systems to handle and process an increased volume of voluntary policies. The failure of these systems to function as planned could slow our growth and adversely affect our future business volume and results of operations.

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

In addition, a security breach of our computer systems could damage our reputation or result in liability. We retain confidential business information in our computer systems. We may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. It is critical that these facilities and infrastructure remain secure. Despite the implementation of security measures, this infrastructure may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, we could be subject to liability if hackers were able to penetrate our network security or otherwise misappropriate confidential information.

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

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

our rate of premium growth and financial results.

Our ability to compete in the property and casualty insurance industry and our ability to expand our business may be negatively affected by the fact that we are a new company. As a company that has been in business for less than five years, we are not eligible to be rated by A.M. Best. While our insurance subsidiary has obtained a Demotech rating of “A Exceptional,” which is accepted by mortgage companies operating in the state of Florida, mortgage companies in other states may require homeowners to obtain property insurance from an insurance company with a certain minimum A.M. Best rating. As a result, the minimum A.M. Best rating requirement may also prevent us from expanding our business into other states in the near term, which may in turn limit our ability to compete with large, national insurance companies and certain regional insurance companies.

There are inherent limitations and risks related to our projections and our estimates of claims and loss reserves. If our actual losses exceed our loss reserves, our financial results, our ability to expand our business, and our ability to compete in the property and casualty insurance industry may be negatively affected. In addition, industry developments could further increase competition in our industry. These developments could include —

- an influx of new capital in the marketplace as existing companies attempt to expand their businesses and new companies attempt to enter the insurance business as a result of better pricing and/or terms;
- programs in which state-sponsored entities provide property insurance in catastrophe-prone areas or other alternative markets types of coverage;
- changes in Florida’s regulatory climate; and
- the passage of federal proposals for an optional federal charter that would allow some competing insurers to operate under regulations different or less stringent than those applicable to our insurance subsidiary.

These developments and others could make the property and casualty insurance marketplace more competitive by increasing the supply of insurance available.

If competition limits our ability to write new business at adequate rates, our future results of operations would be adversely affected.

If our actual losses from insureds exceed our loss reserves, our financial results would be adversely affected.

Our objective is to establish loss reserves that are adequate and represent management's best estimate; that is, the amounts initially recorded as reserves should approximate the ultimate cost to investigate and settle a specific claim. However, the process of establishing adequate reserves is complex and inherently uncertain, and the ultimate cost of a claim may vary materially from the amounts reserved. We regularly monitor and evaluate loss and loss adjustment expense reserve development to verify reserve adequacy.

Due to these uncertainties, the ultimate losses may vary materially from current loss reserves which could have a material adverse effect on our future financial condition, results of operations and cash flows.

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

We rely on our claims department to accurately evaluate and pay the claims made under our policies. Many factors could affect the ability of our claims department to accurately evaluate and pay claims, including the accuracy of our external independent adjusters as they make their assessments and submit their estimates of damages; the training, background, and experience of our claims representatives; the ability of our claims department to ensure consistent claims handling given the input by our external independent adjusters; the ability of our claims department to translate the information provided by our external independent adjusters into acceptable claims settlements; the ability of our claims department to maintain and update its claims handling procedures and systems as they evolve over time based on claims and geographical trends in claims reporting. Any failure to pay claims accurately could lead to material litigation, undermine our reputation in the marketplace, impair our corporate image and negatively affect our financial results.

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

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued and renewed, and our financial position and results of operations may be adversely affected.

If we are unable to expand our business because our capital must be used to pay greater than anticipated claims, our financial results may suffer.

Our future growth will depend on our ability to expand the number of insurance policies we write in Florida, to expand the kinds of insurance products we offer, and to expand the geographic markets in which we do business, all balanced by the insurance risks we choose to assume and cede. Our existing sources of funds include possible sales of our securities and our earnings from operations and investments. Unexpected catastrophic events in our market areas, such as the hurricanes experienced in Florida, may result in greater claims losses than anticipated, which could require us to limit or halt our growth while we redeploy our capital to pay these unanticipated claims unless we are able to raise additional capital.

We may require additional capital in the future which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that our present capital is insufficient to meet future operating requirements or to cover losses, we may need to raise additional funds through financings or curtail our growth. Based on our current operating plan, we believe current capital together with our anticipated retained earnings will support our operations. However, we cannot provide any assurance in that regard, since many factors will affect our capital needs and their amount and timing, including our growth and profitability, and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions and other unforeseeable developments. If we require additional capital, it is possible that equity or debt financing may not be available at all or may be available only on terms that are not favorable to us. In the case of equity financings, dilution to our shareholders could result, and in any case such securities may have rights, preferences and privileges that are senior to those of existing shareholders. If we cannot obtain adequate capital on favorable terms or at all, our business, financial condition or results of operations could be materially adversely affected. On March 25, 2011, we completed our preferred stock offering. The net proceeds from this offering were primarily used for general corporate purposes, which included contribution of capital to our insurance subsidiary and the acquisition of two businesses in 2011.

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

A portion of our income is, and likely will continue to be, generated by the investment of our company's capital and surplus, premiums and loss reserves. The amount of income so generated is a function of our investment policy, available investment opportunities, and the amount of capital and surplus, premium and loss reserves invested. As we continue to grow and to deploy our capital, the proportion of income invested will decrease, and investment income will make up a smaller percentage of our net revenue. At December 31, 2011, approximately 74% of our available cash was invested in money market accounts or in bank deposits (i.e., CDs) that generally mature in no more than thirteen months and approximately 26% was invested in fixed maturity and equity securities. We may alter our investment policy to accept higher levels of risk with the expectation of higher returns. Fluctuating interest rates and other economic factors make it impossible to estimate accurately the amount of investment income that will be realized. In fact, we may realize losses on our investments.

We have exposure to unpredictable catastrophes, which can materially and adversely affect our financial results.

We write insurance policies that cover homeowners, condominium owners, and tenants for losses that result from, among other things, catastrophes. We are therefore subject to claims arising out of catastrophes that may have a significant effect on our business, results of operations, and financial condition. Catastrophes can be caused by various events, including hurricanes, tropical storms, tornadoes, windstorms, earthquakes, hailstorms, explosions, power outages, fires and by man-made events, such as terrorist attacks. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Our policyholders are currently concentrated in Florida, which is especially subject to adverse weather conditions such as hurricanes and tropical storms. Therefore, although we attempt to manage our exposure to catastrophes through our underwriting process and the purchase of reinsurance protection, an especially severe catastrophe or series of catastrophes could exceed our reinsurance protection and may have a material adverse impact on our results of operations and financial condition. See the risk factor below entitled "Reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all and we risk non-collectability of reinsurance amounts due us from reinsurers with which we have contracted."

Industry trends, such as increased litigation against the insurance industry and individual insurers, the willingness of courts to expand covered causes of loss, rising jury awards, and the escalation of loss severity may contribute to increased costs and to the deterioration of the reserves of our insurance subsidiary.

Loss severity in the property and casualty insurance industry has continued to increase in recent years, principally driven by larger court judgments. In addition, many legal actions and proceedings have been brought on behalf of classes of complainants, which can increase the size of judgments. The propensity of policyholders and third party claimants to litigate and the willingness of courts to expand causes of loss and the size of awards may render our loss reserves inadequate for current and future losses.

Reinsurance coverage may not be available to us in the future at commercially reasonable rates or at all and we risk non-collectability of reinsurance amounts due us from reinsurers with which we have contracted.

Reinsurance is the practice of transferring part of an insurance company's liability and premium under an insurance policy to another insurance company. We use reinsurance arrangements to limit and manage the amount of risk we retain, to stabilize our underwriting results and to increase our underwriting capacity. The cost of such reinsurance is subject to prevailing market conditions beyond our control such as the amount of capital in the reinsurance market and natural and man-made catastrophes. We cannot be assured that reinsurance will remain continuously available to us in the amounts we consider sufficient and at prices acceptable to us. As a result, we may determine to increase the amount of risk we retain or look for other alternatives to reinsurance, which could in turn have a material adverse effect on our financial position, results of operations and cash flows.

With respect to the reinsurance treaties we currently have in effect, our ability to recover amounts due from reinsurers is subject to the reinsurance company's ability and willingness to pay and to meet their obligations to us. While we attempt to select financially strong reinsurers with an A.M. Best rating of "A-" or better and monitor from time to time their financial condition, we rely principally on A.M. Best, our broker, and other rating agencies in determining their ability to meet their obligations to us. Any failure on the part of any one reinsurance company to meet its obligations to us could have a material adverse effect on our financial condition or results of operations.

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

We utilize a number of strategies to mitigate our risk exposure, which include:

- engaging in vigorous underwriting;
- carefully evaluating terms and conditions of our policies;
- focusing on our risk aggregations by geographic zones and other bases; and
- ceding insurance risk to reinsurance companies.

However, there are inherent limitations in all of these tactics. We cannot provide assurance that an event or series of unanticipated events will not result in loss levels which could have a material adverse effect on our financial condition or results of operations.

The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or our results of operations.

Our underwriting process is designed to limit our exposure to known risks, including but not limited to exclusions relating to homes in close proximity to the coast line. Various provisions of our policies, such as limitations or exclusions from coverage which have been negotiated to limit our risks, may not be enforceable in the manner we intend.

In addition, the policies we issue contain conditions requiring the prompt reporting of claims to us and our right to decline coverage in the event of a violation of that condition. While our insurance product exclusions and limitations reduce the loss exposure to us and help eliminate known exposures to certain risks, it is possible that a court or regulatory authority could nullify or void an exclusion or legislation could be enacted modifying or barring the use of such endorsements and limitations in a way that would adversely effect our loss experience, which could have a material adverse effect on our financial condition or results of operations.

In the future, we may rely on independent agents to write our insurance policies, and if we are not able to contract with and retain independent agents, our revenues would be negatively affected.

In the future, we may begin writing a significant number of insurance policies through independent agents unrelated to the Citizens' take-out program. We refer to these policies as voluntary policies. Although voluntary policies comprise a minute percentage of our business, we expect to increase the number of voluntary policies we write as our business expands. An inability to sell our products through independent agents would negatively affect our revenues.

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

Our success depends on our ability to accurately price the risks we underwrite.

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

- the availability of sufficient reliable data and our ability to properly analyze available data;
- the uncertainties that inherently characterize estimates and assumptions;
- our selection and application of appropriate rating and pricing techniques;
- changes in legal standards, claim settlement practices, and restoration costs; and

- legislatively imposed consumer initiatives.

In addition, we could under price risks, which would negatively affect our profit margins. We could also overprice risks, which could reduce our sales volume and competitiveness. In either event, our profitability could be materially and adversely affected.

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

We currently intend to expand our product offerings by underwriting additional insurance products and programs, and marketing them through our independent agent network. Expansion of our product offerings will result in increases in expenses due to additional costs incurred in actuarial rate justifications, software and personnel. Offering additional insurance products will also require regulatory approval, further increasing our costs and potentially affecting the speed with which we will be able to pursue new market opportunities. We cannot assure you that we will be successful bringing new insurance products to our marketplace.

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

All states regulate insurance holding company systems. State statutes and administrative rules generally require each insurance company in the holding company group to register with the department of insurance in its state of domicile and to furnish information concerning the operations of the companies within the holding company system which may materially affect the operations, management or financial condition of the insurers within the group. As part of its registration, each insurance company must identify material agreements, relationships and transactions with affiliates, including without limitation loans, investments, asset transfers, transactions outside of the ordinary course of business, certain management, service, and cost sharing agreements, reinsurance transactions, dividends, and consolidated tax allocation agreements.

Insurance holding company regulations generally provide that transactions between an insurance company and its affiliates must be fair and equitable, allocated between the parties in accordance with customary accounting practices, and fully disclosed in the records of the respective parties. Many types of transactions between an insurance company and its affiliates, such as transfers of assets among such affiliated companies, certain dividend payments from insurance subsidiaries and certain material transactions between companies within the system may be subject to prior approval by, or prior notice to, state regulatory authorities. If we are unable to obtain the requisite prior approval for a specific transaction, we would be precluded from taking the action which could adversely affect our operations.

We currently operate only in the state of Florida. In the future, we may become authorized to transact business in other states and therefore will become subject to the laws and regulatory requirements of those states. These regulations may vary from state to state, and states occasionally may have conflicting regulations. Since Florida is our state of domicile, Florida laws will generally take precedence. Currently, the federal government's role in regulating or dictating the policies of insurance companies is limited. However, Congress, from time to time, considers proposals that would increase the role of the federal government in insurance regulation, either in addition to or in lieu of state regulation. The impact of any future federal insurance regulation on our insurance operations is unclear and may adversely impact our business or competitive position.

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

The insurance industry is highly regulated and supervised. Our insurance subsidiary is subject to the supervision and regulation of the state in which it is domiciled (Florida) and the state(s) in which it does business (currently only Florida). Such supervision and regulation is primarily designed to protect our policyholders rather than our shareholders. These regulations are generally administered by a department of insurance in each state and relate to, among other things —

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

The FLOIR and regulators in other jurisdictions where we may become licensed and offer insurance products conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may adversely affect or inhibit our ability to achieve some or all of our business objectives. These regulatory authorities also conduct periodic examinations into insurers' business practices. These reviews may reveal deficiencies in our insurance operations or differences between our interpretations of regulatory requirements and those of the regulators.

In addition, regulatory authorities have relatively broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, we follow practices based on our interpretations of regulations or practices that we believe may be generally followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us. This could adversely affect our ability to operate our business.

Finally, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could adversely affect our ability to operate our business, reduce our profitability and limit our growth.

Our marina operations are subject to regulation under various federal, state, and local laws concerning the environment, including laws addressing the discharge of pollutants into the air and water and the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites.

We could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions and third-party damage or personal injury claims, if in the future we were to violate or become liable under environmental laws. With respect to an existing environmental remediation plan we assumed in April 2011 when we acquired this property, there can be no assurance that the remediation plan will be successful or that the cost will not exceed the $150,000 accrued at acquisition. This matter is described in Note 14 – “Commitments and Contingencies” to our consolidated financial statements under Item 8 on this Annual Report on Form 10-K.

Our operations in India expose us to additional risks which could negatively impact our business, operating results, and financial condition.

Our India operations expose us to additional risks including currency exchange rate fluctuations and risks related to other challenges caused by distance, language, and compliance with Indian labor laws and other complex foreign and U.S. laws and regulations that apply to our India operations. These numerous and sometimes conflicting laws and regulations include anti-corruption laws, such as the Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees. Although policies and procedures are designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

ITEM 1B – *Unresolved Staff Comments*

None.

ITEM 2 – *Properties*

The Company has a lease for office space located in Clearwater, Florida. This lease commenced in July 2008 and requires the Company to make monthly rent payments of $12,500, which includes $2,500 for common area maintenance, to an entity owned by one of the Company's directors. The initial term of this agreement is for five years ending on July 15, 2013 and the lease may be extended for up to three additional five-year periods. In addition to this location, the Company leases office space in Noida, India effective with the Company's acquisition of Unthink Technologies Private Ltd. in November 2011. This non-cancelable lease, which was assumed by the Company at acquisition, requires the Company to pay base rent of approximately $3,200 per month throughout the lease term ending February 6, 2013. Rental expense under all facility leases was $239,000 and $191,000 during the years ended December 31, 2011 and 2010, respectively.

On June 1, 2010, the Company purchased property in Tampa, Florida. The property consists of 3.5 acres of land, a building with gross area of 122,000 square feet, and a three-story parking garage. This facility is used by the Company and its U.S. subsidiaries. Effective June 2011, the majority of the Company's U.S. employees are headquartered in the Tampa facility. In addition, the Company leases an aggregate of approximately 38,000 square feet to non-affiliates.

On April 20, 2011, the Company purchased property in Tierra Verde, Florida. The property consists of 7.1 acres of land, a dry rack storage building with gross area of 57,500 square feet, and three buildings with retail space having an aggregate gross area of 25,082 square feet. This marina facility is being operated by the Company. Approximately 55 % of the available retail space is leased to non-affiliates.

ITEM 3 – *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 consolidated financial position, results of operations or cash flows.

ITEM 4 – *Mine Safety Disclosures*

Not applicable.

PART II

ITEM 5 – *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market for Common Stock

Our common stock trades on the NASDAQ Global Select Market under the symbol "HCII." Our common stock warrants trade on the NASDAQ Global Market under the symbol "HCIIW." The following table represents the high and low sales prices for our common stock as reported by the NASDAQ Global Select Market and the high and low prices for our common stock warrants, as reported by the NASDAQ Global Market, for the periods indicated:

	Common Stock Price		Warrant Price	
	High	Low	High	Low
Calendar Quarter - 2011				
First Quarter	$8.70	7.81	0.90	0.60
Second Quarter	$8.24	6.27	0.80	0.30
Third Quarter	$7.00	6.05	0.69	0.24
Fourth Quarter	$8.24	6.07	0.75	0.25
Calendar Quarter - 2010				
First Quarter	$8.26	6.34	2.49	0.52
Second Quarter	$7.25	5.31	0.78	0.16
Third Quarter	$6.93	5.15	0.70	0.23
Fourth Quarter	$9.15	6.27	1.00	0.48

Holders

As of March 19, 2012, the market price for our common stock was $11.92 and there were 28 holders of record of our common stock. As of March 19, 2012, the market price for our common stock warrants was $1.83 and there were 1 holder of record of our warrants.

Dividends

The declaration and payment of dividends is at the discretion of our Board of Directors. Our ability to pay dividends depends on many factors, including the Company's operating results, financial condition, capital requirements, and legal and regulatory constraints and requirements on the payment of dividends, which are discussed in Note 15, "Regulatory Requirements and Restrictions," to the audited, consolidated financial statements, and such other factors as our Board of Directors deems relevant. The following table represents the frequency and amount of all cash dividends declared on common equity for the two most recent fiscal years:

Declaration Date	Payment Date	Date of Record	Per Share Amount
11/3/2010	12/20/2010	11/20/2010	$ 0.100
11/3/2010	12/20/2010	11/20/2010	$ 0.200
1/26/2011	3/18/2011	2/18/2011	$ 0.100
4/26/2011	6/17/2011	5/20/2011	$ 0.100
7/26/2011	9/16/2011	8/19/2011	$ 0.100
11/21/2011	12/16/2011	12/1/2011	$ 0.125
11/21/2011	12/16/2011	12/1/2011	$ 0.100

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

Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes our equity compensation plan as of December 31, 2011. We currently have no equity compensation plans not approved by stockholders.

Plan Category	A Number of Securities To be Issued Upon Exercise of Outstanding Options	B Weighted Average Exercise Price of Outstanding Options	C Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity Compensation Plans Approved by Stockholders	620,000	$2.97	4,804,800

Performance Graph

As a smaller reporting company as defined by Rule 229.10(f)(1) of the Exchange Act, we are not required to provide the information under this item and, because our stock was not publicly traded prior to July 30, 2008, we have elected not to provide the performance graph, which data typically encompasses a five-year period.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

ITEM 6 – *Selected Financial Data*

As a smaller reporting company as defined by Rule 229.10(f)(1) of the Exchange Act, we are not required to provide the information under this item and we have elected to exclude this information as our operating history does not cover the requisite five-year period.

ITEM 7 – *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report on Form 10-K. Unless the context requires otherwise, as used in this Form 10-K, the terms "HCI," "we," "us," "our," "the Company," "our company," and similar references refer to Homeowners Choice, Inc. and its subsidiaries.

Forward-Looking Statements

In addition to historical information, this annual report on Form 10-K contains forward-looking statements as defined under federal securities laws. Such statements involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances or achievements expressed or implied by the forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include but are not limited to the effect of governmental regulation; changes in insurance regulations; the frequency and extent of claims; uncertainties inherent in reserve estimates; catastrophic events; a change in the demand for, pricing of, availability or collectability of reinsurance; restrictions on our ability to change premium rates; increased rate pressure on premiums; changing rates of inflation; and other risks and uncertainties and other factors listed under Item 1A – "Risk Factors" and elsewhere in this annual report on Form 10-K and in our other Securities and Exchange Commission filings.

OVERVIEW

General

Homeowners Choice, Inc. is a property and casualty insurance holding company incorporated in Florida in 2006. Through our subsidiaries, we provide property and casualty homeowners' insurance, condominium-owners' insurance, and tenants' insurance to individuals owning property in Florida. We offer these insurance products at competitive rates, while pursuing profitability using selective underwriting criteria. Our principal revenues are earned premiums, which are reported net of reinsurance costs, and investment income. We cede a substantial portion of our earned premiums to reinsurers to mitigate risks primarily associated with hurricanes and other catastrophic events. Our principal expenses are claims from policyholders, policy acquisition costs, and other underwriting expenses. As of December 31, 2011, we had total assets of $214.8 million and stockholders' equity of $63.8 million. Our net income was approximately $10.0 million for the year ended December 31, 2011. Income available to common stockholders was approximately $9.1 million for the year ended December 31, 2011, or $1.34 earnings per diluted common share. Our results for the year ended December 31, 2011 include a bargain purchase gain of $936,000 ($575,000 net of tax), or $0.08 diluted earnings per common share. The bargain purchase gain relates to our business acquisition completed in April 2011.

We began operations in June of 2007 by participating in a "take-out program" through which we assumed insurance policies held by Citizens Property Insurance Corporation ("Citizens"), a Florida state-supported insurer. The take-out program is a legislatively mandated program designed to reduce the state's risk exposure by encouraging private companies to assume policies from Citizens. Policies were assumed in eight separate assumption transactions which took place in July and November 2007, February, June, October and December 2008, December 2009, and December 2010. In November 2011, we completed an assumption transaction with HomeWise Insurance Company ("HomeWise") through which we acquired the Florida policies of HomeWise. Substantially all of our premium revenue since inception has come from the policies acquired in these assumption transactions. Our current policies in force represent approximately $225 million in annualized premiums. Through the Citizens assumptions and HomeWise acquisition, we have been able to increase our geographic diversification within the state of Florida.

Citizens requires us to offer renewals on the policies we acquire for a period of three years subsequent to the initial expiration of the assumed policies. The policyholders have the option to renew with us or they may ask their agent to place their coverage with another insurance company. With respect to the assumptions through December 31, 2009, policyholders could also elect to return to Citizens, i.e. opt out, prior to the policy renewal date. With respect to the December 31, 2010 assumption, the opt-out provision was limited to thirty days from the assumption date. We strive to retain these policies by offering competitive rates to our policyholders at premiums we consider commensurate with the risk.

We face various challenges to implementing our operating and growth strategies. Since we write policies that cover Florida homeowners, condominium owners, and tenants, we cover losses that may arise from, among other things, catastrophes, which could have a significant effect on our business, results of operations, and financial condition. To mitigate our risk of such catastrophic losses, we cede a portion of our exposure to reinsurers under catastrophe excess of loss reinsurance treaties. Even without catastrophic events, we may incur losses and loss adjustment expenses that deviate substantially from our estimates and that may exceed our reserves, in which case our net income and capital would decrease. Our operating and growth strategies may also be impacted by regulation and supervision of our business by the state of Florida, which must approve our policy forms and premium rates as well as monitor our insurance subsidiary's ability to meet all requirements for regulatory compliance. Additionally, we compete with large, well-established insurance companies as well as other specialty insurers that, in most cases, possess greater financial resources, larger agency networks, and greater name recognition. We believe recent trends in the competitive environment in Florida however, such as a de-emphasis of Florida property risk by large national insurers and efforts by the state of Florida to reduce exposure at Citizens, bode well for our competitive position in the market.

Recent Developments

On January 16, 2012, the Company's Board of Directors declared a quarterly dividend of $0.15 per common share. The dividends were paid March 16, 2012 to stockholders of record on February 17, 2012.

Effective November 18, 2011, we acquired Unthink Technologies Private Ltd, a software development firm located in Noida, India. We believe this acquisition will provide us with additional system design expertise and strengthen our ability to develop, enhance and maintain software applications for our insurance operations.

Effective November 1, 2011, we assumed certain rights and obligations with respect to approximately 70,000 Florida homeowners insurance policies representing approximately $106 million in annual gross premiums under an assumption agreement with HomeWise Insurance Company ("HomeWise"), which is not affiliated with the Company. This assumption transaction accounted for $18.3 million of our 2011 gross premiums earned.

RESULTS OF OPERATIONS

The following table summarizes our results of operations for the years ended December 31, 2011 and 2010 (dollars in thousands, except per share amounts):

	Year Ended December 31,	
	2011	2010
Operating Revenue		
Gross premiums earned	$143,606	119,757
Premiums ceded	(56,360)	(57,322)
Net premiums earned	87,246	62,435
Net investment income	2,180	1,962
Realized investment gains	267	2,003
Policy fee income	1,438	1,464
Gain on bargain purchase	936	—
Other Income	2,772	751
Total operating revenue	94,839	68,615
Operating Expenses		
Losses and loss adjustment expenses	48,243	37,667
Policy acquisition and other underwriting expenses	18,129	14,878
Other operating expenses	12,062	7,484
Total operating expenses	78,434	60,029
Income before income taxes	16,405	8,586
Income taxes	6,441	3,164
Net income	9,964	5,422
Preferred stock dividends	(815)	—
Income available to common stockholders	$9,149	5,422
Ratios to Net Premiums Earned:		
Loss Ratio	55.30%	60.33%
Expense Ratio	34.61%	35.82%
Combined Ratio	89.91%	96.15%
Ratios to Gross Premiums Earned:		
Loss Ratio	33.59%	31.45%
Expense Ratio	21.02%	18.67%
Combined Ratio	54.61%	50.12%
Per Share Data:		
Basic earnings per share	$1.49	$0.88
Diluted earnings per share	$1.34	$0.81
Dividends per common share	$0.53	$0.30

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

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

Revenue

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

Premiums Ceded for the years ended December 31, 2011 and 2010 were $56.4 million and $57.3 million, respectively. Our premiums ceded represent amounts paid to reinsurers to cover losses from catastrophes that exceed the thresholds defined by our catastrophe excess of loss reinsurance treaties. Our reinsurance rates are based primarily on policy exposures reflected in gross premiums earned. Premiums ceded were 39.2% and 47.9% of gross premiums earned during the years ended December 31, 2011 and 2010, respectively. As a result of the HomeWise assumption completed in November 2011, we anticipate our reinsurance cost will range from 43% to 45% of gross premiums earned beginning in June 2012.

Net Premiums Earned for the years ended December 31, 2011 and 2010 were $87.2 million and $62.4 million, respectively, and reflect the gross premiums earned less reinsurance costs as described above. Net premiums earned increased by $24.8 million in 2011 as compared to 2010 as a result of the $23.8 million increase in gross premiums earned combined with a slight decrease of $1.0 million in premiums ceded.

Net Premiums Written during the years ended December 31, 2011 and 2010 totaled $130.9 million and $59.0 million, respectively. Net premiums written represent the premiums charged on policies issued during a fiscal period less reinsurance costs. The significant increase in 2011 as compared to 2010 is directly attributed to the HomeWise assumption completed in November 2011.

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

	Year Ended December 31,	
	2011	2010
Net Premiums Written	$130,889	58,960
(Increase) decrease in Unearned Premiums	(43,643)	3,475
Net Premiums Earned	$87,246	62,435

Net Investment Income for the years ended December 31, 2011 and 2010 was $2.2 million and $2.0 million, respectively. There were no other than temporary impairments recorded during the years ended December 31, 2011 and 2010.

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

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

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

Other Income for the years ended December 31, 2011 and 2010 was $2.8 million and $0.8 million, respectively. During the year ended December 31, 2011, other income is primarily income from our marina operations and rental income from our Tampa office building. Our other income in 2010 is primarily rental income from our Tampa office building.

Expenses

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

Our losses and loss adjustment expense reserves (“Reserves”), which are more fully described below under “Critical Accounting Policies and Estimates,” are specific to homeowners insurance, which is our only line of business. These Reserves include both case reserves on reported claims and our reserves for incurred but not reported (“IBNR”) losses. At each period-end date, the balance of our Reserves is based on our best estimate of the ultimate cost of each claim for those known cases and the IBNR loss reserves are estimated based primarily on our historical experience. Our Reserves increased from $22.1 million at December 31, 2010 to $27.4 million at December 31, 2011. The $5.3 million increase in our Reserves during 2011 is comprised of $17.5 million in new reserves specific to the year ended December 31, 2011 offset by reductions of $8.8 million and $3.4 million in our Reserves for 2010 and 2009 and prior years, respectively. The $17.5 million in Reserves established for 2011 claims is due to the increase in our policy exposure, which resulted in an increase in the amount of reported losses in 2011. The decrease of $12.2 million specific to our 2010 and prior accident-year reserves is due to favorable development arising from lower than expected loss development during 2011 relative to expectations used to establish our Reserve estimates at the end of 2010. Factors that are attributable to this favorable development may include a lower severity of claims than the severity of claims considered in establishing our Reserves and actual case development may be more favorable than originally anticipated.

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

Other Operating Expenses for the years ended December 31, 2011 and 2010 were $12.1 million and $7.5 million, respectively. Such expenses include administrative compensation and related benefits, corporate insurance, professional fees, office lease and related expenses, information system expense, and other general and administrative costs. The $4.6 million increase is primarily attributable to increases in compensation and related expenses, expenses related to our real estate and marina operations, and other general administrative costs of $2.4 million, $1.4 million, and $0.8 million, respectively. As of December 31, 2011, we had 187 employees of which 68 were located in Noida, India and 119 were located primarily at our headquarters in Tampa, Florida. As of December 31, 2010 we had 76 employees.

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

Ratios:

The loss ratio applicable to the year ended December 31, 2011 (loss and loss adjustment expenses related to net premiums earned) was 55.3% compared to 60.3% for the year ended December 31, 2010. Our loss ratio was positively impacted by a significant increase in our gross premiums earned during 2011 (see *Gross Premiums Earned* above).

The expense ratio applicable to the year ended December 31, 2011 (policy acquisition and other underwriting expenses related to net premiums earned plus compensation, employee benefits, and other operating expenses) was 34.6% compared to 35.8% for the year ended December 31, 2010. The decrease in our expense ratio is attributable to the significant increase in our gross premiums earned as we experienced an increase in our policy acquisition and other underwriting expenses during 2011 (see *Policy Acquisition and Other Underwriting Expenses* above).

The combined loss and expense ratio (total of all expenses related to net premiums earned) is the key measure of underwriting performance traditionally used in the property and casualty industry. A combined ratio under 100% generally reflects profitable underwriting results. A combined ratio over 100% generally reflects unprofitable underwriting results. Our combined ratio for the year ended December 31, 2011 was 89.9% compared to 96.2% for the year ended December 31, 2010.

Due to the impact our reinsurance costs have on net premiums earned from period to period, our management believes the combined loss and expense ratio measured to gross premiums earned is more relevant in assessing overall performance. The combined loss and expense ratio to gross premiums earned for the year ended December 31, 2011 was 54.6% compared to 50.1% for the year ended December 31, 2010.

Seasonality of Our Business

Our insurance business is seasonal as hurricanes and tropical storms typically occur during the period from June 1 through November 30 each year. With our reinsurance treaty year effective on June 1 each year, any variation in the cost of our reinsurance, whether due to changes in reinsurance rates or changes in the total insured value of our policy base, will occur and be reflected in our financial results beginning June 1 each year.

LIQUIDITY AND CAPITAL RESOURCES

Since inception, our liquidity requirements have been met through issuance of our common and preferred stock and funds from operations. We expect our future liquidity requirements will be met by funds from operations, primarily the cash received by our insurance subsidiary from premiums written and investment income.

Our insurance subsidiary requires liquidity and adequate capital to meet ongoing obligations to policyholders and claimants and to fund operating expenses. In addition, we attempt to maintain adequate levels of liquidity and surplus to manage any differences between the duration of our liabilities and invested assets. In the insurance industry, cash collected for premiums from policies written is invested, interest and dividends are earned thereon, and loss and loss adjustment expenses are paid out over a period of years. This period of time varies by the circumstances surrounding each claim. A substantial portion of our losses and loss expenses are fully settled and paid within 90 days of the claim receipt date. Additional cash outflow occurs through payments of underwriting costs such as commissions, taxes, payroll, and general overhead expenses.

We believe that we maintain sufficient liquidity to pay our insurance subsidiary's claims and expenses, as well as satisfy commitments in the event of unforeseen events such as reinsurer insolvencies, inadequate premium rates, or reserve deficiencies. We maintain a comprehensive reinsurance program at levels management considers adequate to diversify risk and safeguard our financial position.

In the future, we anticipate our primary use of funds will be to pay claims and operating expenses.

Preferred Stock

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

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

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

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

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

Cash Flows

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

Cash Flows for the Year ended December 31, 2011

Net cash provided by operating activities for the year ended December 31, 2011 was approximately $56.0 million, which consisted primarily of cash received from net written premiums less cash disbursed for operating expenses and losses and loss adjustment expenses. Net cash used in investing activities of $17.0 million was primarily due to our business acquisitions completed in 2011 of $5.3 million, the purchases of fixed maturity and equity securities of $37.8 million offset by the proceeds from sales of fixed maturity and equity securities of $27.9 million, time deposit redemptions of $1.6 million, and the purchase of $3.3 million in property and equipment. Net cash provided by financing activities totaled $6.4 million, which was primarily due to $11.3 million from the issuance of preferred stock and $0.8 million related to stock options exercised offset by $3.8 million in cash dividends paid and $1.9 million used to repurchase our common shares.

Cash Flows for the Year ended December 31, 2010

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

Investments

The main objective of our investment policy is to maximize our after-tax investment income with a minimum of risk given the current financial market. Our excess cash is invested primarily in money market accounts, time deposits (i.e. CDs maturing in more than twelve months), and fixed maturity and equity security available-for-sale investments.

At December 31, 2011, we have $39.8 million of available-for-sale investments, which are carried at fair value. Changes in the general interest rate environment affect the returns available on new fixed maturity investments. While a rising interest rate environment enhances the returns available on new investments, it reduces the market value of existing fixed maturity investments and thus the availability of gains on disposition. A decline in interest rates reduces the returns available on new fixed maturity investments but increases the market value of existing fixed maturity investments, creating the opportunity for realized investment gains on disposition.

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

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2011 and 2010, we had no off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

CONTRACTUAL OBLIGATIONS

As a smaller reporting company as defined by Rule 229.10(f)(1) of the Exchange Act, we are not required to provide the information under this item.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments to develop amounts reflected and disclosed in our financial statements. Material estimates that are particularly susceptible to significant change in the near term are related to our losses and loss adjustment expenses, which include amounts estimated for claims incurred but not yet reported. We base our estimates on various assumptions and actuarial data that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates.

We believe our accounting policies specific to premium revenue recognition, losses and loss adjustment expenses, reinsurance, deferred policy acquisition costs, deferred tax assets and liabilities, and stock-based compensation expense involve our most significant judgments and estimates material to our consolidated financial statements.

Premium Revenue. Premium revenue is earned on a daily pro-rata basis over the term of the policies. Unearned premiums represent the portion of the premium related to the unexpired policy term.

Reserves for Losses and Loss Adjustment Expenses. We establish reserves for the estimated total unpaid costs of losses including loss adjustment expenses (LAE). Unless otherwise specified below, the term “loss reserves” shall encompass reserves for both losses and LAE. Loss reserves reflect management’s best estimate of the total cost of (i) claims that have been incurred, but not yet paid, and (ii) claims that have been “incurred but not yet reported” (“IBNR”). Loss reserves established by us are not an exact calculation of our liability. Rather, loss reserves represent management’s best estimate of our company’s liability based on application of actuarial techniques and other projection methodology and taking into consideration other facts and circumstances known at the balance sheet date. The process of establishing loss reserves is complex and necessarily imprecise, as it involves using judgment that is affected by many variables such as past loss experience, current claim trends and the prevailing social, economic and legal environments. The impact of both internal and external variables on ultimate loss and LAE costs is difficult to estimate. Our exposure is impacted by both the risk characteristics of the physical locations where we write policies, such as hurricane and tropical storm-related risks, as well as risks associated with varying social, judicial and legislative characteristics in Florida, the state in which we operate. In determining loss reserves, we give careful consideration to all available data and actuarial analyses, and this process involves significant judgment.

The liability for losses and LAE represents estimates of the ultimate unpaid cost of all losses incurred, including losses for claims that have not yet been reported to our insurance company. The amount of loss reserves for reported claims is based primarily upon a case-by-case evaluation of the kind of risk involved, knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss. The amounts of loss reserves for unreported claims and LAE are determined using historical homeowners insurance information as adjusted to current conditions. Inflation is ordinarily implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results over multiple years.

Reserves are closely monitored and are recalculated periodically using the most recent information on reported claims and a variety of actuarial techniques. Specifically, claims management personnel complete weekly and ongoing reviews of existing reserves, new claims, changes to existing case reserves, and paid losses with respect to the current and prior years. In addition, a claims committee of our board of directors meets periodically to review any major claims. As we develop historical data regarding paid and incurred losses, we use this data to develop expected ultimate loss and loss adjustment expense ratios. We then apply these expected loss and loss adjustment expense ratios to earned premium to derive a reserve level for our homeowners line of business. In connection with the determination of these reserves, we will also consider other specific factors such as recent weather-related losses, trends in historical paid losses, and legal and judicial trends regarding liability. Most of our business was assumed from Citizens and HomeWise. Therefore, we use the loss ratio method, among other methods, to project an ultimate loss expectation, and then the related loss history must be regularly evaluated and loss expectations updated, with the possibility of variability from the initial estimate of ultimate losses.

When a claim is reported to us, our claims personnel establish a “case reserve” for the estimated amount of the ultimate payment. This estimate reflects an informed judgment based upon general insurance reserving practices and on the experience and knowledge of the estimator. The individual estimating the reserve considers the nature and value of the specific claim, the severity of injury or damage, location, and the policy provisions relating to the type of loss. Case reserves are adjusted by us as more information becomes available. It is our policy to settle each claim as expeditiously as possible.

We maintain IBNR reserves to provide for already incurred claims that have not yet been reported and subsequent development on reported claims. The IBNR reserve is determined by estimating our insurance company’s ultimate net liability for both reported and IBNR claims and then subtracting the case reserves and payments made to date for reported claims.

Loss Reserve Estimation Methods. We apply the following general methods in projecting loss and LAE reserves:

- Reported loss development;
- Paid loss development;
- Loss ratio method; and
- Average outstanding and open claims.

The results of the reserve calculations using these methods were similar, and therefore, we relied on an average of the four methods.

Description of Ultimate Loss Estimation Methods. The reported loss development method relies on the assumption that, at any given state of maturity, ultimate losses can be predicted by multiplying cumulative reported losses (paid losses plus case reserves) by a cumulative development factor. The validity of the results of this method depends on the stability of claim reporting and settlement rates, as well as the consistency of case reserve levels. Case reserves do not have to be adequately stated for this method to be effective; they only need to have a fairly consistent level of adequacy at all stages of maturity. Because of our limited loss experience, we select loss development factors based on industry data found in current A.M. Best's Aggregates and Averages – Property/Casualty – United States & Canada. We assume that our loss development patterns will be reasonably consistent with industry averages, and use the selected factors to project the ultimate losses.

The paid loss development method is mechanically identical to the reported loss development method described above. The paid method does not rely on case reserves or claim reporting patterns in making projections.

The validity of the results from using a loss development approach can be affected by many conditions, such as internal claim department processing changes, a shift between single and multiple claim payments, legal changes, or variations in our mix of business from year to year. Also, since the percentage of losses paid for immature years is often low, development factors are volatile. A small variation in the number of claims paid can have a leveraging effect that can lead to significant changes in estimated ultimate losses. Therefore, ultimate values for immature accident years are often based on alternative estimation techniques.

The loss ratio method used by us relies on the assumption that remaining unreported losses are a function of the total expected losses rather than a function of currently reported losses. The expected loss ratio is multiplied by earned premium to produce ultimate losses. Paid losses are then subtracted from this estimate to produce expected unreported losses.

The loss ratio method is most useful as an alternative to other models for immature accident years. For these immature years, the amounts reported or paid may be small and unstable, and therefore, not predictive of future development. Therefore, future development is assumed to follow an expected pattern that is supported by more stable historical data or by emerging trends. This method is also useful when changing reporting patterns or payment patterns distort the historical development of losses.

Finally, we employ the average outstanding and open claims method. We segregate our claims according to when they were assumed and conduct a detailed review in order to estimate average future development of open claims and average projected loss on IBNR claims. We combine this estimate with our open claims in order to derive an estimate of expected unreported losses. Paid losses are added to this estimate in order to derive an estimate of ultimate losses. This method is based on the assumption that future IBNR claims and the average severity of open claims and IBNR claims can be reasonably estimated from the experience available.

While the property and casualty industry has incurred substantial aggregate losses from claims related to asbestos-related illnesses, environmental remediation, product and mold, and other uncertain or environmental exposures, we have not experienced significant losses from these types of claims.

Currently, our estimated ultimate liability is calculated monthly using these principles and procedures applicable to the lines of business written. However, because the establishment of loss reserves is an inherently uncertain process, we cannot be certain that ultimate losses will not exceed the established loss reserves and have a material adverse effect on our results of operations and financial condition. Changes in estimates, or differences between estimates and amounts ultimately paid, are reflected in the operating results of the period during which such adjustments are made.

Our reported results, financial position and liquidity would be affected by likely changes in key assumptions that determine our net loss reserves. Management does not believe that any reasonably likely changes in the frequency of claims would affect our loss reserves. However, management believes that a reasonably likely increase or decrease in the severity of claims could impact our net loss reserves. The table below summarizes the effect on net loss reserves and equity in the event of reasonably likely changes in the severity of claims considered in establishing loss and loss adjustment expense reserves. The range of reasonably likely changes in the severity of our claims was established based on a review of changes in accident year development and applied to loss reserves as a whole. The selected range of changes does not indicate what could be the potential best or worst case or likely scenarios:

Year Ended December 31, 2011		
Change in Reserves	Reserves	Percentage change in equity, net of tax
-10.0%	24,682	2.63%
-7.5%	25,367	1.97%
-5.0%	26,053	1.31%
-2.5%	26,738	0.66%
Base	**27,424**	**--**
2.5%	28,110	- 0.66%
5.0%	28,795	- 1.31%
7.5%	29,481	- 1.97%
10.0%	30,166	- 2.63%

Reinsurance. In the normal course of business, we seek to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. The Company contracts with a number of well-known and rated reinsurers to secure its annual reinsurance coverage, which becomes effective June 1st each year. We purchase reinsurance each year taking into consideration maximum projected losses and reinsurance market conditions. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. Reinsurance premiums and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income.

Deferred policy acquisition costs. Deferred policy acquisition costs ("DAC") for the years ended December 31, 2011 and 2010 primarily represent commissions paid to outside agents at the time of collection of the policy premium, salaries, premium taxes, and commissions with respect to assumed reinsurance and are amortized over the life of the related policy in relation to the amount of gross premiums earned. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value, which gives effect to the gross premium earned, related investment income, unpaid losses and LAE and certain other costs expected to be incurred as the premium is earned.

DAC is reviewed to determine if it is recoverable from future income, including investment income. If such costs are determined to be unrecoverable, they are expensed at the time of determination. The amount of DAC considered recoverable could be reduced in the near term if the estimates of total revenues discussed above are reduced or permanently impaired as a result of the disposition of a line of business. The amount of amortization of DAC could be revised in the near term if any of the estimates discussed above are revised (see Accounting Standards Update No. 2010-26 under Note 2 – "Recent Accounting Pronouncements" to the consolidated financial statements).

Income Taxes. We account for income taxes in accordance with Accounting Standards Codification ("ASC") Topic 740 – "Income Taxes" ("ASC 740"). ASC 740 results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. We determine deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Valuation allowances are provided against assets that are not likely to be realized. We have elected to classify interest and penalties as income tax expense as permitted by current accounting standards.

Stock-Based Compensation. We account for our stock option plan under the fair value recognition provisions of ASC Topic 718 – "Compensation – Stock Compensation," ("ASC 718") which requires the measurement and recognition of compensation for all stock-based awards made to employees and directors including stock options and restricted stock issuances based on estimated fair values. Under the fair value recognition provisions of ASC 718, we recognize stock-based compensation in the consolidated statements of earnings on a straight-line basis over the vesting period. We use the Black-Scholes option pricing model, which requires the following variables for input to calculate the fair value of each stock award on the option grant date: 1) expected volatility of our stock price, 2) the risk-free interest rate, 3) expected term of each award, 4) expected dividends, and 5) an expected forfeiture rate.

ITEM 7A – *Quantitative and Qualitative Disclosures About Market Risk*

As a smaller reporting company as defined by Rule 229.10(f)(1) of the Exchange Act, we are not required to provide the information under this item.

ITEM 8 – *Financial Statements and Supplementary Data*

Index to Financial Statements

Report of Independent Registered Public Accounting Firm

Homeowners Choice, Inc.
Tampa, Florida:

We have audited the accompanying consolidated balance sheets of Homeowners Choice, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 25, 2012

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands, except share amounts)

	At December 31, 2011	At December 31, 2010
Assets		
Investments:		
Fixed maturity securities, available-for-sale, at fair value (amortized cost $34,147 and $28,456)	$ 34,642	28,564
Equity securities, available-for-sale, at fair value	5,207	884
Time deposits	12,427	14,033
Other investments	6,483	--
Total investments	58,759	43,481
Cash and cash equivalents	100,355	54,849
Accrued interest and dividends receivable	408	180
Premiums receivable	12,222	5,822
Assumed reinsurance balances receivable	1,687	26
Prepaid reinsurance premiums	14,169	17,787
Deferred policy acquisition costs	12,321	9,407
Property and equipment, net	10,499	7,755
Goodwill	161	--
Deferred income taxes	2,368	584
Other assets	1,869	1,057
Total assets	$214,818	140,948
Liabilities and Stockholders' Equity		
Losses and loss adjustment expenses	27,424	22,146
Unearned premiums	108,677	65,034
Advance premiums	2,132	1,114
Accrued expenses	3,478	2,385
Income taxes payable	4,956	310
Dividends payable	218	--
Other liabilities	4,103	3,330
Total liabilities	150,988	94,319
Commitments and contingencies (Notes 1, 6, 14 and 15)		
Stockholders' equity:		
7% Series A cumulative convertible preferred stock (liquidation preference $10.00 per share), no par value, 1,500,000 shares authorized, 1,247,700 shares issued and outstanding in 2011	--	--
Preferred stock (no par value, 18,500,000 shares authorized, no shares issued or outstanding)	--	--
Common stock, (no par value, 40,000,000 shares authorized, 6,202,485 and 6,205,396 shares issued and outstanding in 2011 and 2010)	--	--
Additional paid-in capital	29,636	18,606
Retained earnings	33,986	28,065
Accumulated other comprehensive income (loss)	208	(42)
Total stockholders' equity	63,830	46,629
Total liabilities and stockholders' equity	$214,818	140,948

See accompanying Notes to Consolidated Financial Statements.

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings
(Dollars in thousands, except per share amounts)

	Year Ended December 31, 2011	2010
Revenue		
Gross premiums earned	$143,606	119,757
Premiums ceded	(56,360)	(57,322)
Net premiums earned	87,246	62,435
Net investment income	2,180	1,962
Realized investment gains	267	2,003
Policy fee income	1,438	1,464
Gain on bargain purchase	936	--
Other	2,772	751
Total revenue	94,839	68,615
Expenses		
Losses and loss adjustment expenses	48,243	37,667
Policy acquisition and other underwriting expenses	18,129	14,878
Other operating expenses	12,062	7,484
Total expenses	78,434	60,029
Income before income taxes	16,405	8,586
Income taxes	6,441	3,164
Net income	9,964	5,422
Preferred stock dividends	(815)	--
Income available to common stockholders	$9,149	5,422
Basic earnings per common share	$1.49	0.88
Diluted earnings per common share	$1.34	0.81
Dividends per common share	$0.53	0.30

See accompanying Notes to Consolidated Financial Statements.

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2011 and 2010
(Dollars in thousands, except share amounts)

	Preferred Stock		Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balance at December 31, 2009	--	$ --	6,456,635	$ --	21,164	24,520	(306)	45,378
Net Income	--	--	--	--	--	5,422	--	5,422
Change in unrealized loss on available-for-sale securities, net of income taxes	--	--	--	--	--	--	264	264
Comprehensive income								5,686
Excess tax benefit from stock options exercised	--	--	--	--	301	--	--	301
Repurchases and retirement of common stock	--	--	(511,239)	--	(3,596)	--	--	(3,596)
Exercise of common stock options	--	--	260,000	--	650	--	--	650
Common stock dividends	--	--	--	--	--	(1,877)	--	(1,877)
Stock-based compensation	--	--	--	--	87	--	--	87
Balance at December 31, 2010	--	--	6,205,396	--	18,606	28,065	(42)	46,629
Net Income	--	--	--	--	--	9,964	--	9,964
Change in unrealized loss on available-for-sale securities, net of income taxes	--	--	--	--	--	--	250	250
Comprehensive income								10,214
Proceeds from sale of preferred stock (net of offering costs of $1,170)	1,247,700	--	--	--	11,307	--	--	11,307
Exercise of common stock options	--	--	245,883	--	564	--	--	564
Excess tax benefit from stock options exercised	--	--	--	--	265	--	--	265
Common stock dividends	--	--	--	--	--	(3,229)	--	(3,229)
Preferred stock dividends	--	--	--	--	--	(814)	--	(814)
Repurchases and retirement of common stock		--	(248,794)	--	(1,887)	--	--	(1,887)
Warrants issued in connection with assumption transaction	--	--	--	--	754	--	--	754
Stock-based compensation	--	--	--	--	27	--	--	27
Balance at December 31, 2011	1,247,700	$ --	6,202,485	$ --	29,636	33,986	208	63,830

See accompanying Notes to Consolidated Financial Statements.

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Year Ended December 31, 2011	2010
Cash flows from operating activities:		
Net income	$ 9,964	5,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	27	87
Amortization of premiums (discounts) on investments in fixed maturity securities	172	(28)
Depreciation and amortization	576	178
Deferred income taxes (benefit)	(1,984)	1,690
Realized gains on sales of investments	(267)	(2,003)
Gain on bargain purchase	(936)	--
Changes in operating assets and liabilities:		
Premiums receivable	(6,400)	(923)
Assumed reinsurance balances receivable	(1,661)	19,499
Advance premiums	1,018	401
Prepaid reinsurance premiums	3,618	(10,582)
Accrued interest and dividends receivable	(228)	(4)
Other assets	82	(99)
Deferred policy acquisition costs	(2,914)	1,089
Losses and loss adjustment expenses	5,278	2,968
Unearned premiums	43,643	(3,475)
Income taxes payable	4,646	143
Accrued expenses and other liabilities	1,399	1,768
Net cash provided by operating activities	56,033	16,131
Cash flows from investing activities:		
Cash consideration paid for acquired business	(5,309)	--
Purchase of other investments	(205)	--
Purchase of property and equipment, net	(3,144)	(7,534)
Purchase of fixed maturity securities	(31,170)	(31,921)
Purchase of equity securities	(6,625)	(5,384)
Proceeds from sales of fixed maturity securities	25,741	29,116
Proceeds from sales of equity securities	2,155	4,515
Redemption of time deposits, net	1,606	(526)
Decrease in short-term investments, net	--	11,521
Net cash used in investing activities	(16,951)	(213)
Cash flows from financing activities:		
Net proceeds from the issuance of preferred stock	11,307	--
Proceeds from the exercise of common stock options	564	650
Cash dividends paid	(3,825)	(1,877)
Repurchases of common stock	(1,887)	(3,596)
Excess tax benefit from common stock options exercised	265	301
Net cash provided by (used in) financing activities	6,424	(4,522)
Net increase in cash and cash equivalents	45,506	11,396
Cash and cash equivalents at beginning of year	54,849	43,453
Cash and cash equivalents at end of year	$ 100,355	54,849

See accompanying Notes to Condensed Consolidated Financial Statements.

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Year Ended December 31, 2011	2010
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$3,451	790
Cash paid for interest	$ --	--
Non-cash operating, financing and investing activities:		
Unrealized gain on investments in available for sale securities, net of tax	$ 250	264
Common stock warrants issued for outside services	$ 754	--
Fair value of net assets acquired in connection with business acquisition	$5,723	--
Transfer of securities held-to-maturity to securities available-for-sale	$ --	1,900

See accompanying Notes to Condensed Consolidated Financial Statements.

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

Organization and Business. The accompanying consolidated financial statements include the accounts of Homeowners Choice, Inc. and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Homeowners Choice, Inc. is an insurance holding company, which through its subsidiaries and contractual relationships with independent agents controls substantially all aspects of the insurance underwriting, distribution and claims process. The Company is authorized to underwrite homeowners' property and casualty insurance in the state of Florida through its wholly-owned subsidiary, Homeowners Choice Property & Casualty Insurance Company, Inc. (HCPC).

Homeowners Choice Managers, Inc. (HCM), a wholly-owned subsidiary, acts as HCPC's exclusive managing general agent in the state of Florida. HCM currently provides underwriting policy administration, marketing, accounting and financial services to HCPC, and participates in the negotiation of reinsurance contracts. Southern Administration, Inc., a wholly-owned subsidiary, provides policy administration services. Claddaugh Casualty Insurance Company Ltd. ("Claddaugh"), a wholly-owned subsidiary, provides reinsurance coverage to HCPC. Homeowners Choice, Inc. subsidiaries also include TV Investment Holdings LLC, which is owned by HCI Holdings LLC, a wholly-owned subsidiary of Homeowners Choice, Inc. TV Investment Holdings LLC owns and operates a marina facility located in Florida. HCI Technical Resources, Inc., a wholly-owned subsidiary, owns Unthink Technologies Private Limited, the Company's Indian subsidiary, which provides software development services to the Company. HCPCI Holdings LLC, a wholly-owned subsidiary of HCPC, owns and manages the Company's real estate holdings.

Prior to November 2011, nearly all of the Company's customers were obtained through participation in a "takeout program" with Citizens Property Insurance Corporation ("Citizens"), a Florida state supported insurer. The customers were obtained in eight separate assumption transactions completed in July and November 2007, February, June, October and December 2008, December 2009, and December 2010. The Company is required to offer renewals on the policies acquired for a period of three years subsequent to the initial expiration of the assumed policies. During the first full year after assumption, such renewals are required to have rates that are equivalent to or less than the rates charged by Citizens. In November 2011, the Company completed an assumption transaction with HomeWise Insurance Company, Inc. ("HomeWise") through which the Company assumed the Florida policies of HomeWise. Substantially all of the Company's premium revenue since inception comes from these assumptions.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 1 – Summary of Significant Accounting Policies, continued

Acquisition Accounting. The Company accounts for business combinations using the acquisition method, which requires an allocation of the purchase price of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the net tangible and intangible assets acquired. In the event the net assets acquired exceed the purchase price, the Company will recognize a gain on bargain purchase.

Use of Estimates. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ materially from these estimates. Material estimates that are particularly susceptible to significant change in the near term are related to loss and loss adjustment expenses.

Cash and Cash Equivalents. The Company considers all short-term highly liquid investments with original maturities of less than three months to be cash and cash equivalents. At December 31, 2011 and 2010, cash and cash equivalents consist of cash on deposit with financial institutions and securities brokerage firms.

Time Deposits. Time deposits consist of certificates of deposit with initial maturities ranging from one to five years.

Short-term Investments. Short-term investments consist of certificates of deposit with maturities less than one year.

Investments. Securities may be classified as either trading, held to maturity or available for sale. Held-to-maturity securities are reported at amortized cost. The Company's available-for-sale securities are carried at fair value. Temporary changes in the fair value of available-for-sale securities are excluded from earnings and reported in stockholders' equity as a component of accumulated other comprehensive income (loss), net of deferred income taxes. Realized investment gains and losses are recorded on the trade date and are determined using the specific identification method. Investment income is recognized as earned and discounts or premiums arising from the purchase of securities are recognized in investment income using the interest method over the estimated remaining term of the security.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 1 – Summary of Significant Accounting Policies, continued

As part of the Company's investment strategy, put and call options are purchased or sold on various equity securities the Company is willing to buy or sell. The premiums received are recorded as a liability until such time as the options are exercised or expire. Upon exercise, the value of the premium will adjust the basis of the underlying security bought or sold. Options that expire are recorded as income in the period they expire. With respect to these written option contracts, the Company includes the net gain or loss in the amount reported for realized investments gains in the Consolidated Statements of Earnings. In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 815, "Derivatives and Hedging," in the event the Company has open option contracts at the end of the reporting period, these options are marked to fair value through earnings. There were no option contracts outstanding at December 31, 2011 or 2010.

The Company reviews all securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such review. When the fair value of any investment is lower than its cost, an assessment is made to determine whether the decline is temporary or other-than-temporary. If the decline is determined to be other-than-temporary, the investment is written down to fair value and an impairment charge is recognized in earnings in the period in which the Company makes such determination. For a debt security that the Company does not intend to sell and it is not more likely than not that the Company will be required to sell before recovery of its amortized cost, only the credit loss component of the impairment is recognized in earnings, while the impairment related to all other factors is recognized in other comprehensive income. The Company considers various factors in determining whether an individual security is other-than-temporarily impaired (see Note 3 – "Investments").

Other investments consist primarily of real estate purchased during 2011 (see Note 3 – "Investments" and Note 5 – "Business Acquisitions"). Real estate and the related depreciable assets are carried at cost, net of accumulated depreciation, which is allocated over the estimated useful life of the asset using the straight-line method of depreciation. Real estate is evaluated for impairment when events or circumstances indicate the carrying value of the real estate may not be recoverable.

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 1 – Summary of Significant Accounting Policies, continued

Deferred policy acquisition costs. Deferred policy acquisition costs ("DAC") for the years ended December 31, 2011 and 2010 primarily represent commissions paid to outside agents at the time of collection of the policy premium, salaries, premium taxes, and commissions with respect to assumed reinsurance and are amortized over the life of the related policy in relation to the amount of gross premiums earned. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value, which gives effect to the premium earned, related investment income, unpaid loss and LAE and certain other costs expected to be incurred as the premium is earned.

DAC is reviewed to determine if it is recoverable from future income, including investment income. If such costs are determined to be unrecoverable, they are expensed at the time of determination. The amount of DAC considered recoverable could be reduced in the near term if the estimates of total revenues discussed above are reduced or permanently impaired as a result of the disposition of a line of business. The amount of amortization of DAC could be revised in the near term if any of the estimates discussed above are revised (see Accounting Standards Update No. 2010-26 under Note 2 – "Recent Accounting Pronouncements").

Property and Equipment. Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life. Expenditures for improvements are capitalized to the property accounts. Replacements and maintenance and repairs that do not improve or extend the life of the respective assets are expensed as incurred.

Goodwill. Goodwill is not amortized. Rather, the Company is required to test goodwill for impairment at least annually or sooner in the event there are changes in circumstances indicating the asset may be impaired. The Company's goodwill relates to a business acquisition completed in the fourth quarter of 2011 for which the allocation of the purchase price is preliminary at December 31, 2011. The Company plans to perform its goodwill impairment test in the fourth quarter of each year beginning with the fourth quarter in 2012. Thus, the Company did not recognize any impairment charges in the years ended December 31, 2011 or 2010.

Impairment of Long-Lived Assets. Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company assesses the recoverability of long-lived assets by determining whether the assets can be recovered from undiscounted future cash flows. Recoverability of long-lived assets is dependent upon, among other things, the Company's ability to maintain profitability, so as to be able to meet its obligations when they become due. In the opinion of management, based upon current information and projections, long-lived assets will be recovered over the period of benefit.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 1 – Summary of Significant Accounting Policies, continued

Losses and Loss Adjustment Expenses. Reserves for losses and loss adjustment expenses ("LAE") are determined by establishing liabilities in amounts estimated to cover incurred losses and LAE. Such reserves are determined based on the assessment of claims reported and the development of pending claims. These reserves are based on individual case estimates for the reported losses and LAE and estimates of such amounts that are incurred but not reported. Changes in the estimated liability are charged or credited to earnings as the losses and LAE are settled.

The estimates of unpaid losses and LAE are subject to trends in claim severity and frequency and are continually reviewed. As part of the process, the Company reviews historical data and considers various factors, including known and anticipated regulatory and legal developments, changes in social attitudes, inflation and economic conditions. As experience develops and other data becomes available, these estimates are revised, as required, resulting in increases or decreases to the existing unpaid losses and LAE. Adjustments are reflected in the results of operations in the period in which they are made and the liabilities may deviate substantially from prior estimates.

Reinsurance. In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. The Company contracts with a number of well-known and rated reinsurers to secure its annual reinsurance coverage, which becomes effective June 1st each year. We purchase reinsurance each year taking into consideration maximum projected losses and reinsurance market conditions. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. Reinsurance premiums and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income. Prepaid reinsurance premiums represent the unexpired portion of premiums ceded to reinsurers.

Premium Revenue. Premium revenue is earned on a daily pro-rata basis over the term of the policies. Unearned premiums represent the portion of the premium related to the unexpired policy term.

Policy Fees. Policy fees represent nonrefundable application fees for insurance coverage, which are intended to reimburse a portion of the costs incurred to underwrite the policy. The fees and related costs are recognized when the policy is written.

Foreign Currency. The functional currency of the Company's Indian subsidiary is the U.S. dollar. As such, the monetary assets and liabilities of this subsidiary are remeasured into U.S. dollars at the exchange rate in effect on the balance sheet date. Non-monetary assets and liabilities are remeasured using historical rates. Expenses recorded in the local currency are remeasured at the prevailing exchange rate. Exchange gains and losses resulting from these remeasurements are included in the results of operations.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 1 – Summary of Significant Accounting Policies, continued

Income Taxes. The Company accounts for income taxes in accordance with ASC Topic 740 – "Income Taxes" ("ASC 740"). ASC 740 results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than fifty percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. As of December 31, 2011, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

The Company has elected to classify interest and penalties as income tax expense as permitted by current accounting standards.

Fair Value of Financial Instruments. The carrying amounts for the Company's cash and cash equivalents and short-term investments approximate their fair values at December 31, 2011 and 2010 due to their short-term nature. Fair value for securities are based on the framework for measuring fair value established by ASC Topic 820, Fair Value Measurements and Disclosures (see Note 3 – "Investments").

Stock-Based Compensation. The Company accounts for stock-based compensation under the fair value recognition provisions of ASC Topic 718 – "Compensation – Stock Compensation," which requires the measurement and recognition of compensation for all stock-based awards made to employees and directors including stock options and restricted stock issuances based on estimated fair values. In accordance with ASC Topic 718, the Company recognizes stock-based compensation in the consolidated statements of earnings on a straight-line basis over the vesting period.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 1 – Summary of Significant Accounting Policies, continued

Earnings Per Share. Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings per share is computed based on the weighted-average number of shares outstanding plus the effect of outstanding stock options and warrants, computed using the treasury stock method, and preferred stock using the if-converted method.

Reclassifications. Certain reclassifications of prior year amounts have been made to conform to the current year presentation.

Note 2 – Recent Accounting Pronouncements

Accounting Standards Update No. 2011-12. In December 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-12 ("ASU 2011-12"), *Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 ("ASU 2011-05").* Stakeholders raised concerns that the new presentation requirements about reclassifications of items out of accumulated other comprehensive income would be difficult for preparers and may add unnecessary complexity to financial statements. In addition, it is difficult for some stakeholders to change systems in time to gather the information for the new presentation requirements by the effective date of Update 2011-05. All other requirements in ASU 2011-05 are not affected by this update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in ASU 2011-12 are effective on a retrospective basis for public entities for annual periods beginning after December 15, 2011, and interim periods within those years. An entity should provide the disclosures required by ASU 2011-12 retrospectively for all comparative periods presented. The Company does not expect the adoption of ASU 2011-12 will have a material impact on its consolidated financial statements.

Accounting Standards Update No. 2011-11. In December 2011, the FASB issued ASU No. 2011-11 ("ASU 2011-11"), *Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities.* The objective of ASU 2011-11 is to enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with Section 210-20-45 or Section 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The amendments in ASU 2011-11 are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by ASU 2011-11 retrospectively for all comparative periods presented. The Company does not expect the adoption of ASU 2011-11 will have a material impact on its consolidated financial statements.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 2 – Recent Accounting Pronouncements, continued

Accounting Standards Update No. 2011-09. In September 2011, the FASB issued ASU No. 2011-09 ("ASU 2011-09"), *Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80), Disclosure about an Employer's Participation in a Multiemployer Plan.* The objective of ASU 2011-09 is to improve the transparency of financial reporting with respect to an employer's participation in a multiemployer pension plan or other multiemployer postretirement benefit plan by requiring each participating employer to provide additional separate, quantitative and qualitative disclosures. The additional disclosures will increase awareness about the commitments that an employer has made to a multiemployer pension plan and the potential future cash flow implications of an employer's participation in the plan. For public entities, the amendments in ASU 2011-09 are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. The amendments in ASU 2011-09 should be applied retrospectively for all periods presented. The Company does not expect the adoption of ASU 2011-09 will have a material impact on its consolidated financial statements.

Accounting Standards Update No. 2011-08. In September 2011, the FASB issued ASU No. 2011-08 ("ASU 2011-08"), *Intangibles – Goodwill and Other (Topic 350), Testing Goodwill for Impairment.* The objective of ASU 2011-08 is to simplify how entities test goodwill for impairment. The amendments in ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in ASU 2011-08, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of ASU 2011-08 will have a material impact on its consolidated financial statements.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 2 – Recent Accounting Pronouncements, continued

Accounting Standards Update No. 2011-05. In June 2011, the FASB issued ASU No. 2011-05 ("ASU 2011-05"), *Comprehensive Income (Topic 220), Presentation of Comprehensive Income.* The objective of ASU 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To achieve this goal and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the consolidated statement of changes in stockholders' equity. The amendments in ASU 2011-05 require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The Company does not expect the adoption of ASU 2011-05 will have a material impact on its consolidated financial statements.

Accounting Standards Update No. 2011-04. In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04"), *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs."* The objective of ASU 2011-04 is to provide clarification of Topic 820 and, also, to ensure that fair value has the same meaning in U.S. generally accepted accounting principles ("GAAP") and in international financial reporting standards ("IFRSs") and that their respective fair value measurement and disclosure requirements are generally the same. Thus, this update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. The amendment is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. Early application is not permitted. The Company does not expect the adoption of ASU 2011-04 will have a material impact on its consolidated financial statements.

Accounting Standards Update No. 2010-26. In October 2010, the FASB issued ASU No. 2010-26 ("ASU 2010-26"), *Financial Services – Insurance (ASC Topic 944), Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.* The objective of the amendments in ASU 2010-26 is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments in ASU 2010-26 specify which costs should be capitalized. The amendments in ASU 2010-26 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and can be applied prospectively upon adoption. Retrospective or prospective application is permitted. Early adoption is permitted, but only at the beginning of an entity's annual reporting period. The Company will adopt ASU 2010-26 in January 2012 and expects to adopt this standard prospectively. As such, the Company expects to recognize additional amortization expense in the first quarter of 2012 of between $1.0 and $1.4 million pre-tax with a corresponding decrease in deferred acquisition costs.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 3 – Investments

The Company holds investments in fixed maturity securities as well as equity securities, which are classified as available for sale. At December 31, 2011 and 2010, the amortized cost, gross unrealized gains and losses, and estimated fair value of the Company's available-for-sale securities by security type were as follows (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
December 31, 2011				
Fixed Maturity Securities:				
U.S. Treasury and U.S. government agencies	$ 509	47	--	556
Corporate bonds	10,199	58	(417)	9,840
Commercial mortgage-backed securities	10,574	314	(14)	10,874
State, municipalities, and political subdivisions	9,982	393	(3)	10,372
Other	2,883	117	--	3,000
Total	$34,147	929	(434)	34,642
Equity securities	$ 5,364	133	(290)	5,207
December 31, 2010				
Fixed Maturity Securities:				
U.S. Treasury and U.S. government agencies	$8,044	88	(37)	8,095
Corporate bonds	12,192	149	(75)	12,266
Commercial mortgage-backed securities	7,756	40	(53)	7,743
Other	464	5	(9)	460
Total	$28,456	282	(174)	28,564
Equity securities	$ 1,061	12	(189)	884

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 3 – Investments, continued

The scheduled maturities of fixed maturity securities at December 31, 2011 are as follows (in thousands):

	Amortized Cost	Fair Value
Available-for-sale		
Due in one year or less	$ 1,009	1,010
Due after one year through five years	10,148	9,793
Due after five years through ten years	6,835	7,075
Due after ten years	5,581	5,890
Commercial mortgage-backed securities	10,574	10,874
	$34,147	34,642

Proceeds received, and the gross realized gains and losses from sales of available for sale securities, for the year ended December 31, 2011 and 2010 were as follows (in thousands):

	Proceeds	Gross Realized Gains	Gross Realized Losses
Year ended December 31, 2011			
Fixed maturity securities	$ 25,741	545	(110)
Equity securities*	$ 2,155	122	(290)
Year ended December 31, 2010			
Fixed maturity securities	$ 29,116	1,828	(17)
Equity securities*	$ 4,515	369	(177)

*Amounts reported for the year ended December 31, 2011 and 2010 include the gross realized gains and losses from equity option contracts. During the years ended December 31, 2011 and 2010, the Company entered into equity contracts for exchange traded call and put options to meet certain investment objectives. With respect to these option contracts, the Company received net proceeds of $89,000 and $391,000, respectively, and realized gains of $49,000 and $327,000, respectively, during the years ended December 31, 2011 and 2010. Such gains are included in the realized investment gains in the Consolidated Statements of Earnings. There were no open option contracts at December 31, 2011 and 2010.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 3 – Investments, continued

Other-than-temporary Impairment ("OTTI")

The Company regularly reviews its individual investment securities for OTTI. The Company considers various factors in determining whether each individual security is other-than-temporarily impaired, including:

- the financial condition and near-term prospects of the issuer, including any specific events that may affect its operations or earnings;
- the length of time and the extent to which the market value of the security has been below its cost or amortized cost;
- general market conditions and industry or sector specific factors;
- nonpayment by the issuer of its contractually obligated interest and principal payments; and
- the Company's intent and ability to hold the investment for a period of time sufficient to allow for the recovery of costs.

Securities with gross unrealized loss positions at December 31, 2011, aggregated by investment category and length of time the individual securities have been in a continuous loss position, are as follows (in thousands):

	Less than Twelve Months		Twelve Months or Greater		Total	
As of December 31, 2011	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**
Fixed maturity securities						
Corporate Bonds	$(417)	5,112	--	--	(417)	5,112
States, municipalities and political subdivisions	(3)	2,449	--	--	(3)	2,449
Commercial mortgage-backed securities	(14)	612	--	--	(14)	612
Total fixed maturity securities	(434)	8,173	--	--	(434)	8,173
Equity securities	(201)	2,696	(89)	87	(290)	2,783
Total available-for-sale securities	$(635)	10,869	(89)	87	(724)	10,956

The Company believes there were no fundamental issues such as credit losses or other factors with respect to any of its available-for-sale securities. The unrealized losses on investments in fixed maturity securities were caused by interest rate changes. It is expected that the securities would not be settled at a price less than the par value of the investments. In determining whether equity securities are other than temporarily impaired, the Company considers its intent and ability to hold a security for a period of time sufficient to allow for the recovery of cost. Because the decline in fair value is attributable to changes in interest rates or market conditions and not credit quality, and because the Company has the ability and intent to hold its available-for-sale investments until a market price recovery or maturity, the Company does not consider any of its investments to be other-than-temporarily impaired at December 31, 2011.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 3 – Investments, continued

Other investments consist primarily of real estate and the related assets and operations of the marina facility acquired in 2011 (see Note 5 – "Business Acquisitions"). Operating activities related to the Company's real estate investment include leasing of office and retail space to tenants, wet and dry boat storage, and fuel services with respect to marina clients and other recreational boaters.

Other invested assets consist of the following as of December 31, 2011 (in thousands):

Building	$1,418
Land	4,438
Land improvements	283
Other	404
Total, at cost	6,543
Less accumulated depreciation and amortization	(60)
Other investments	$6,483

Investment income is summarized as follows (in thousands):

	Year ended December 31,	
	2011	2010
Time deposits	$538	530
Short-term investments	--	94
Fixed maturity securities	1,517	1,112
Cash and cash equivalents	125	226
	$2,180	1,962

The following time deposits and short-term investments exceeded 10% of consolidated stockholders' equity at December 31, 2010 (in thousands):

Name of Financial Institution	
Paradise Bank	$ 5,260
Regions Bank	8,773
	$ 14,033

At December 31, 2011, the Company had $7.0 million in time deposits at Regions Bank which exceeded 10% of consolidated stockholders' equity at December 31, 2011. At December 31, 2010, the Company had one single investment in U.S. Treasury notes exceeding 10% of consolidated stockholders' equity. This investment was carried at its $4.7 million fair value and included in investments in fixed maturity securities at December 31, 2010.

In addition, at December 31, 2011 and 2010, cash and cash equivalents included $62.8 million and $14.7 million, respectively, on deposit at one national bank. At December 31, 2011 and 2010, the Company also had an aggregate of $18.0 million and $16.4 million, respectively, in cash on deposit at two custodial firms.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 4 – Fair Value Measurements

Fair values of the Company's available-for-sale fixed maturity securities are determined in accordance with ASC Topic 820, *Fair Value Measurements and Disclosure*, using valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either directly or indirectly, such as quoted prices for similar securities. In those instances where observable inputs are not available, fair values are measured using unobservable inputs. Unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the security and are developed based on the best information available in the circumstances. Fair value estimates derived from unobservable inputs are significantly affected by the assumptions used, including the discount rates and the estimated amounts and timing of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets and are not necessarily indicative of the amounts that would be realized in a current market exchange.

The fair values for fixed maturity securities that do not trade on a daily basis are determined by management, utilizing prices obtained from an independent pricing service and information provided by brokers. Management reviews the assumptions and methods utilized by the pricing service and then compares the relevant data and pricing to broker-provided data. The Company gains assurance of the overall reasonableness and consistent application of the assumptions and methodologies and compliance with accounting standards for fair value determination through ongoing monitoring of the reported fair values.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets.
Level 2 – Other inputs that are observable for the asset, either directly or indirectly.
Level 3 – Inputs that are unobservable.

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 4 – Fair Value Measurements, continued

The following table presents information about the Company's available-for-sale securities measured at fair value as of December 31, 2011 and December 31, 2010, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2011				
Fixed maturity securities				
U.S. Treasury and U.S. government agencies	$ 556	--	--	556
Corporate bonds	9,840	--	--	9,840
Commercial mortgage-backed securities	--	10,874	--	10,874
State, municipalities, and political subdivisions	10,372	--	--	10,372
Other	2,735	265	--	3,000
Total fixed maturity securities	23,503	11,139	--	34,642
Equity securities	5,207	--	--	5,207
Total available-for-sale securities	$28,710	11,139	--	39,849

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2010				
Fixed maturity securities				
U.S. Treasury and U.S. government agencies	$ 8,095	--	--	8,095
Corporate bonds	12,266	--	--	12,266
Commercial mortgage-backed securities	--	7,743	--	7,743
Other	--	460	--	460
Total fixed maturity securities	20,361	8,203	--	28,564
Equity securities	884	--	--	884
Total available-for-sale securities	$21,245	8,203	--	29,448

With respect to the Company's business acquisitions completed in 2011 (see Note 5 – "Business Acquisitions"), all assets acquired and liabilities assumed were valued based on Level 3 measurements. Property, plant and equipment related to the April 2011 acquisition was valued based on an external appraisal using the sales comparison approach and other unobservable inputs. The environmental liability was valued based on third party estimates to complete the site assessment and remediation plan. The November 2011 acquisition was valued using the market approach and other unobservable inputs. The carrying amounts of all other assets and liabilities approximated their fair values at the acquisition date.

There were no transfers between Level 1, 2 or 3 during the years ended December 31, 2011 and 2010.

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 5 -- Business Acquisitions

Effective April 20, 2011, the Company, through its subsidiary, TV Investment Holdings LLC, acquired the assets and operations of Tierra Verde Marina Holdings ("TVMH"). The property consists primarily of land, land improvements, retail buildings, and a marina facility. Operating activities at acquisition include leasing of office and retail space to 11 tenants, wet and dry boat storage for approximately 150 clients, and fuel services with respect to marina clients and other recreational boaters. The Tierra Verde, Florida property and operations were purchased for $5.1 million through a foreclosure sale conducted by the Pinellas County Clerk of the Circuit Court. The Company's primary reason for the acquisition was to strengthen its property portfolio through diversification and quality of assets owned.

The fair value of the net assets acquired was approximately $5.7 million, which exceeded the $5.1 million purchase price. As a result, the Company recognized a gain on bargain purchase in the amount of $936,000 ($575,000 net of tax), which is included in operations for the year ended December 31, 2011. The recorded gain is subject to adjustment as the Company will continue to evaluate the purchase price allocation with respect to certain of the liabilities assumed at acquisition. There were no intangibles acquired with respect to this acquisition.

Effective November 18, 2011, the Company, through its subsidiary, HCI Technical Resources LLC, acquired 99.9% of Unthink Technologies Private Ltd. ("Unthink"), a software development company located in India, for $199,000 in cash. The fair value of the net assets acquired was $38,000. The Company recorded $161,000 of goodwill in connection with this acquisition. The goodwill, which is attributable to the workforce of the acquired business, is not expected to be deductible for tax purposes. Management believes this acquisition will provide the Company with additional system design expertise that strengthens the Company's ability to develop, enhance and maintain software applications for our insurance operations.

The following table summarizes the Company's preliminary allocation of the net consideration paid to the fair value of the assets acquired and liabilities assumed at April 20, 2011 for the acquisition of TVMH and at November 18, 2011 for the acquisition of Unthink (in thousands):

	TVMH	Unthink	Total
Property, plant and equipment	$6,338	66	6,404
Other assets	132	15	147
Environmental liability (Note 14)	(150)	--	(150)
Deferred tax liability	(361)	--	(361)
Other liabilities	(274)	(43)	(317)
Fair value of net assets acquired	5,685	38	5,723
Gain on bargain purchase, net of tax of $361	(575)	--	(575)
Goodwill	--	161	161
Cash consideration paid	$5,110	199	5,309

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 5 -- Business Acquisitions, continued

For the years ended December 31, 2011 and 2010, the effects of the acquisitions were not material to the Company's condensed consolidated financial statements and basic and diluted earnings per share and, as such, pro forma information has not been presented.

For the year ended December 31, 2011, the acquired businesses contributed a combined $1.9 million in revenues and $0.4 million of net income inclusive of the net gain on bargain purchase.

Note 6 -- Property and Equipment, net

Property and equipment, net consists of the following (in thousands):

	At December 31, 2011	2010
Building	$5,883	5,883
Land	1,241	1,241
Computer hardware and software	729	508
Office and furniture and equipment	778	253
Tenant and leasehold improvements	2,418	--
Other	184	138
Total, at cost	11,233	8,023
Less accumulated depreciation and amortization	(734)	(268)
Property and equipment, net	$10,499	7,755

The Company has a lease for office space located in Clearwater, Florida. This lease commenced in July 2008 and requires the Company to make monthly rent payments of $12,500, which includes $2,500 for common area maintenance, to an entity owned by one of the Company's directors. The initial term of this agreement is for five years ending on July 15, 2013 and the lease may be extended for up to three additional five-year periods. In addition to this location, the Company leases office space in Noida, India effective with the Company's acquisition of Unthink in November 2011. This non-cancelable lease, which was assumed by the Company at acquisition, requires the Company to pay base rent of approximately $3,200 per month throughout the lease term ending February 6, 2013. Rental expense under all facility leases was $239,000 and $191,000 during the years ended December 31, 2011 and 2010, respectively.

Lease commitments at December 31, 2011 are as follows:

Year Ended December 31,	Amount (in thousands)
2012	189
2013	98
Total:	$287

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 6 -- Property and Equipment, net, continued

On June 1, 2010, the Company purchased property in Tampa, Florida for a total purchase price of $7.1 million. The property consists of 3.5 acres of land, a building with gross area of 122,000 square feet, and a three-story parking garage valued at $1.2 million, $5.3 million, and $0.6 million, respectively. This facility is used by the Company and its subsidiaries. In addition, the Company leases space to non-affiliates, which includes space occupied by tenants under lease agreements assumed by the Company at acquisition.

Rental income due under non-cancellable operating leases for all properties and other investments owned at December 31, 2011 are as follows:

Year Ended December 31,	Amount (in thousands)
2012	825
2013	734
2014	527
2015	393
2016	253
Total:	$2,732

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 7 -- Reinsurance

The Company cedes a portion of its homeowners insurance exposure to other entities under reinsurance agreements called catastrophe excess of loss reinsurance treaties. The Company remains liable with respect to claims payments in the event that any of the reinsurers are unable to meet their obligations under the reinsurance agreements. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company contracts with a number of well-known and rated reinsurers to secure its annual reinsurance coverage, which becomes effective June 1st each year. We purchase reinsurance each year taking into consideration maximum projected losses and reinsurance market conditions.

The impact of the catastrophe excess of loss reinsurance treaties on premiums written and earned is as follows (in thousands):

	Year Ended December 31,	
	2011	2010
Premiums Written		
Direct	$125,145	114,599
Assumed	62,104	1,683
Gross written	187,249	116,282
Ceded	(56,360)	(57,322)
Net premiums written	130,889	58,960
Premiums Earned		
Direct	$119,756	104,621
Assumed	23,850	15,136
Gross earned	143,606	119,757
Ceded	(56,360)	(57,322)
Net premiums earned	$ 87,246	62,435

During the years ended December 31, 2011 and 2010, there were no recoveries pertaining to reinsurance contracts that were deducted from losses incurred. At December 31, 2011 and 2010, prepaid reinsurance premiums related to 18 reinsurers and there were no amounts receivable with respect to reinsurers. Thus, there were no concentrations of credit risk associated with reinsurance receivables and prepaid reinsurance premiums as of December 31, 2011 and 2010.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 8 -- Losses and Loss Adjustment Expenses

The liability for losses and loss adjustment expenses ("LAE") is determined on an individual case basis for all claims reported. The liability also includes amounts for unallocated expenses, anticipated future claim development and losses incurred, but not reported.

Activity in the liability for unpaid losses and LAE is summarized as follows (in thousands):

	Year Ended December 31,	
	2011	2010
Balance, beginning of year	$22,146	19,178
Incurred related to:		
Current year	43,613	37,432
Prior years	4,630	235
Total incurred	48,243	37,667
Paid related to:		
Current year	(26,132)	(19,477)
Prior years	(16,833)	(15,222)
Total paid	(42,965)	(34,699)
Balance, end of year	$27,424	22,146

The Company writes insurance in the state of Florida, which could be exposed to hurricanes or other natural catastrophes. Although the occurrence of a major catastrophe could have a significant effect on our monthly or quarterly results, the Company believes that such an event would not be so material as to disrupt the overall normal operations of the Company. However, the Company is unable to predict the frequency or severity of any such events that may occur in the near term or thereafter.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 9 -- Income Taxes

A summary of income taxes is as follows (in thousands):

	Year Ended December 31, 2011	2010
Current:		
Federal	$7,220	1,238
State	1,196	236
Foreign	9	--
Total current taxes	8,425	1,474
Deferred:		
Federal	(1,715)	1,449
State	(269)	241
Total deferred taxes	(1,984)	1,690
Income taxes	$ 6,441	3,164

The reasons for the differences between the statutory Federal income tax rate and the effective tax rate are summarized as follows (dollars in thousands):

	Years Ended December 31, 2011		2010	
	Amount	%	Amount	%
Income taxes at statutory rate	$5,785	35.0%	$3,005	35.0%
Increase (decrease) in income taxes resulting from:				
State income taxes, net of federal tax benefit	599	3.6	313	3.6
Stock-based compensation	7	--	13	.2
Other	50	.7	(167)	(1.9)
Income taxes	$6,441	39.3%	$3,164	36.9%

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 9 -- Income Taxes, continued

The Company has no uncertain tax positions or unrecognized tax benefits that, if recognized, would impact the effective income tax rate. The tax years ending December 31, 2010, 2009, and 2008 remain subject to examination by our major taxing jurisdictions. There have been no interest or penalties recognized for the years ended December 31, 2011 and 2010.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of our net deferred income tax asset are as follows (in thousands):

	At December 31,	
	2011	2010
Deferred income tax assets:		
Unearned premiums	$ 6,768	3,262
Losses and loss adjustment expenses	756	610
Organizational costs	118	129
Stock-based compensation	252	355
Accrued expenses	466	19
Unrealized net loss on securities available for sale	--	27
Deferred tax assets	8,360	4,402
Deferred tax liabilities:		
Property and equipment	(943)	(123)
Deferred policy acquisition costs	(4,870)	(3,690)
Unrealized net gain on securities available for sale	(131)	--
Other	(48)	(5)
Deferred tax liabilities	(5,992)	(3,818)
Net deferred income tax asset	$ 2,368	584

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 9 -- Income Taxes, continued

A valuation allowance is established if, based upon the relevant facts and circumstances, management believes any portion of the tax assets will not be realized. Although realization of deferred income tax assets is not certain, management believes it is more likely than not that deferred tax assets will be realized. As a result, the Company did not have a valuation allowance established as of December 31, 2011 or 2010.

Note 10 -- Net Earnings Per Share

A summary of the numerator and denominator of the basic and fully diluted earnings per common share is presented below (dollars and shares in thousands, except per share amounts):

	For the Year Ended December 31, 2011			For the Year Ended December 31, 2010		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Net income	$9,964	--		$5,422	--	
Less: Preferred stock dividends	(815)	--		--	--	
Basic Earnings Per Share						
Income available to common stockholders	9,149	6,132	$1.49	5,422	6,179	$0.88
Effect of Dilutive Securities						
Common stock options	--	352		--	495	
Convertible preferred stock	815	961		--	--	
Diluted Earnings Per Share						
Income available to common stockholders and assumed conversions	$9,964	7,445	$1.34	$5,422	6,674	$0.81

For the years ended December 31, 2011 and 2010, 2,738,335 and 1,738,335 warrants to purchase 1,405,001 and 905,001 shares of common stock, respectively, were excluded from the computation of diluted earnings per share because the exercise price of $9.10 exceeded the average market price of the Company's common stock. There were no preferred shares outstanding in 2010.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 11 -- Stockholders' Equity

Common Stock

Effective March 18, 2009, the Company's Board of Directors authorized a plan to repurchase up to $3.0 million (inclusive of commissions) of the Company's common shares. The repurchase plan allowed the Company to repurchase shares from time to time through March 19, 2010. This repurchase plan was supplemented in December 2009 upon approval by the Board of Directors to extend the repurchase authority by an additional $3.0 million and continue until the repurchase plan is terminated by the Company or the maximum number of dollars has been expended. During the year ended December 31, 2011, the Company repurchased and retired a total of 83,594 shares at an average price of $8.23 per share and a total cost, inclusive of fees and commissions, of $693,000, or $8.29 per share. During the year ended December 31, 2010, the Company repurchased and retired a total of 311,239 shares at an average price of $7.00 per share and a total cost, inclusive of fees and commissions, of $2,196,392, or $7.06 per share. As of March 28, 2011, the maximum amount designated for repurchases under this plan was expended and the share repurchase program was terminated. The Company also repurchased 165,200 shares of common stock during the year ended December 31, 2011 from certain related parties (see Note 16 – "Related Party Transactions").

Common Stock Warrants

At December 31, 2011, the Company has reserved 1,405,001 shares of common stock for issuance upon the exercise of its common stock warrants. A summary of the warrants outstanding at December 31, 2011 is presented below:

	Number Of Warrants Issued	Number of Common Shares Issuable Upon Conversion of Warrants
Warrants issued with IPO units	1,666,668	833,334
Warrants issued to the Company's placement agents net of forfeitures and repurchases	71,667	71,667
Warrants outstanding at December 31, 2010	1,738,335	905,001
Warrants issued in 2011	1,000,000	500,000
Warrants outstanding at December 31, 2011	2,738,335	1,405,001

The warrants issued prior to 2011 may be exercised at an exercise price equal to $9.10 per share on or before July 30, 2013. At any time after January 30, 2009 and before the expiration of the warrants, the Company at its option may cancel the warrants in whole or in part, provided that the closing price per share of the Company's common stock has exceeded $11.38 for at least ten trading days within any period of twenty consecutive trading days, including the last trading day of the period. The placement agents also have the option to effect a cashless exercise in which the warrants would be exchanged for the number of shares which is equal to the intrinsic value of the warrant divided by the current value of the underlying shares. In connection with the HomeWise assumption transaction in November 2011, the Company issued 1,000,000 warrants, which may be exercised to purchase 500,000 shares of the Company's common stock at a per share exercise price of $9.10.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 11 --Stockholders' Equity, continued

The fair value of warrants issued in 2011 was estimated on the date of issuance using the following assumptions and the Black-Scholes option pricing model:

Expected volatility	52%
Risk-free interest rate	.23%
Dividend yield	5.00%
Expected life (in years)	1.75
Per share grant date fair value of warrants issued	$0.754

The $754,000 aggregate value of the warrants is a policy acquisition cost, which the Company is amortizing over the expected policy term of the policies assumed in the transaction. The warrants, the issuance of which is not registered or required to be registered under the Securities Act of 1933, are exercisable for a term beginning on November 1, 2011 through July 31, 2013 unless cancelled earlier at the Company's option under the terms specified by the warrant agreement.

Preferred Stock

During the year ended December 31, 2011, the Company designated 1,500,000 shares of the Company's preferred stock as Series A cumulative convertible preferred stock ("Series A Preferred").

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

Shareholders of Series A Preferred may convert all or any portion of their shares, at their option, at any time, into shares of the Company's common stock at an initial conversion rate of one share of common stock for each share of Series A Preferred, which is equivalent to an initial conversion price of $10.00 per share; provided, however, that the Company may terminate this conversion right on or after March 31, 2014, if for at least twenty trading days within any period of thirty consecutive trading days, the market price of the Company's common stock exceeds the conversion price of the Series A Preferred by more than 20% and our common stock is then traded on the New York Stock Exchange, the NASDAQ Global Select Market, the NASDAQ Global Market, the NASDAQ Capital Market, or the NYSE Amex. Under certain circumstances, the Company will be required to adjust the conversion rate. The initial conversion price of $10.00 per share is subject to proportionate adjustment in the event of stock splits, reverse stock splits, stock dividends, or similar changes with respect to the Company's common stock.

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

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 11 -- Stockholders' Equity, continued

In addition, the Company is authorized to issue up to an additional 18,500,000 shares of preferred stock, no par value. The authorized but unissued and undesignated preferred stock may be issued in one or more series and the shares of each series shall have such rights as determined by the Company's Board of Directors subject to the rights of the holders of the Series A Preferred.

On December 14, 2011, the Company's Board of Directors declared a cash dividend on its Series A Preferred shares in the amount of $0.05833 per share for each of the months of December 2011, and January and February 2012. The December 2011 dividend is payable January 27, 2012 to shareholders of record at the close of business on January 3, 2012. The January 2012 dividend is payable February 27, 2012 to shareholders of record at the close of business on February 2, 2012. The February 2012 dividend is payable March 27, 2012 to shareholders of record at the close of business on March 1, 2012.

Note 12 -- Comprehensive Income

The components of comprehensive income are as follows (in thousands):

	Year Ended December 31,	
	2011	**2010**
Net income	$9,964	5,422
Other comprehensive income:		
Change in unrealized gain on investments:		
Unrealized gain arising during the year	674	2,431
Reclassification adjustment for realized gains	(267)	(2,003)
Net change in unrealized gain	407	428
Deferred income taxes on above changes	(157)	(164)
Other comprehensive income	250	264
Comprehensive income	$10,214	5,686

Note 13 -- Stock-Based Compensation

Stock Option Plan

The Company accounts for stock-based compensation under the fair value recognition provisions of ASC Topic 718 – "Compensation – Stock Compensation."

The Company's 2007 Stock Option and Incentive Plan (the "Plan") provides for granting of stock options to employees, directors, consultants, and advisors of the Company. Under the Plan, options may be granted to purchase a total of 6,000,000 shares of the Company's common stock. At December 31, 2011, options to purchase 4,804,800 shares are available for grant under the Plan. The options vest over periods ranging from immediately vested to five years and are exercisable over the contractual term of ten years.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 13 -- Stock-Based Compensation, continued

A summary of the activity in the Company's stock option plan is as follows (dollars in thousands, except per share amounts):

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	1,130,000	$2.66		
Exercised	(260,000)	2.50		
Outstanding at December 31, 2010	870,000	$2.71	6.5 years	$4,675
Issued	30,000	6.30		
Forfeited	(24,800)	2.50		
Exercised	(255,200)	2.50		
Outstanding at December 31, 2011	620,000	$2.97	5.7 years	$3,122
Exercisable at December 31, 2011	586,800	$2.81	5.5 years	$3,053

At December 31, 2011 and 2010, there was approximately $46,000 and $50,000, respectively, of total unrecognized compensation expense related to nonvested stock-based compensation arrangements granted under the plan. The Company expects to recognize the remaining compensation expense over a weighted-average period of twenty five (25) months. During the year ended December 31, 2011, a total of 255,200 options were exercised, which includes 30,000 options exercised and net settled by surrender of 9,317 shares. During the year ended December 31, 2010, a total of 260,000 options were exercised. The total fair value of shares vesting and recognized as compensation expense was approximately $27,000 and $87,000, respectively, for the years ended December 31, 2011 and 2010. There were no associated income tax benefits recognized in the years ended December 31, 2011 and 2010. The total intrinsic value of options exercised during the years ended December 31, 2011 and 2010 was $1,184,000 and $1,097,000, respectively, and the income tax benefit recognized was $265,000 and $301,000, respectively.

No options were granted during the year ended December 31, 2010. In 2011, 30,000 options were granted on August 26, 2011, with fair value estimated on the date of grant using the following assumptions and the Black-Scholes option pricing model:

Dividend yield	6.3%
Expected volatility	53.3%
Risk-free interest rate	.97%
Expected life (in years)	5
Per share grant date fair value of options issued	$1.70

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 14 -- Commitments and Contingencies

The Company is party to claims and legal actions arising routinely in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the consolidated financial position or liquidity.

As a direct premium writer in the state of Florida, the Company is required to participate in certain insurer pools and associations under Florida statutes 631.57(3) (A). Participation in these pools is based on written premium by line of business to total premiums written statewide by all insurers. Participation may result in assessments against the Company. For the years ended December 31, 2011 and 2010, HCPC paid assessments to the Florida Hurricane Catastrophe Fund (FHCF) amounting to $1,592,000 and $987,000, respectively. Additionally, HCPC paid assessments to Citizens of $1,604,000 and $1,382,000, respectively, for the years ended December 31, 2011 and 2010. These assessments are recorded as a surcharge in premium billings to insureds. As of December 31, 2011 and 2010, the surcharge rate in effect for FHCF was 1.3% and 1.0%, respectively. As of December 31, 2011 and 2010, the surcharge rate in effect for Citizens was 1.0% and 1.4%, respectively.

In connection with the Company's April 20, 2011 acquisition of the marina property located in Pinellas County, Florida (see Note 5 – "Business Acquisitions"), the Company assumed the liability to complete a site assessment and remediation of environmental contamination that resulted from a petroleum release at the marina site in late 2009. The Company and its environmental consultants have assumed the remedial action work plan developed by prior management and its environmental consultant, which consists of completing the site assessment, performing soil excavation, and installing wells for collection of groundwater and soil samples throughout the monitoring phase of the project. At acquisition, the Company recorded a liability of $150,000 with respect to the planned remedial action. Such liability was determined based on reasonably estimable costs of completing the actions defined in the existing ongoing work plan. As of December 31, 2011, a total of $28,000 has been expended with respect to the site assessment and the remaining $122,000 accrued at acquisition is included in other liabilities in the accompanying condensed consolidated balance sheets. Although the Company has accrued all reasonably estimable costs of completing the actions defined in the current ongoing work plan, it is possible that additional testing and additional environmental monitoring and remediation will be required in the near future as part of the Company's ongoing discussions with the Florida Department of Health, the agency contracted by the Florida Department of Environmental Protection to administer cases of petroleum contamination in Pinellas County, in which case additional expenses could significantly exceed the current estimated liability. However, based on information known at December 31, 2011, the Company does not expect that such additional expenses would have a material adverse effect on the liquidity or financial condition of the Company.

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HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 15 -- Regulatory Requirements and Restrictions

The Florida Insurance Code (the "Code") requires HCPC to maintain capital and surplus equal to the greater of 10% of its liabilities or a statutory minimum as defined in the Code. At December 31, 2011, HCPC is required to maintain a minimum capital and surplus of $12.0 million. At December 31, 2011 and 2010, HCPC's statutory capital and surplus was $46.5 million and $31.1 million, respectively. For the years ended December 31, 2011 and 2010, HCPC had a statutory net loss of $4.3 million and $2.3 million, respectively. Statutory surplus differs from stockholders' equity reported in accordance with generally accepted accounting principles primarily because policy acquisition costs are expensed when incurred. In addition, the recognition of deferred tax assets is based on different recoverability assumptions.

As of December 31, 2011 and 2010, HCPC had a cash deposit with the Insurance Commissioner of the state of Florida, in the amount of $300,000, to meet regulatory requirements. At December 31, 2011 and 2010, there were no material permitted statutory accounting practices utilized by HCPC.

Under Florida law, a domestic insurer may not pay any dividend or distribute cash or other property to its stockholders except out of that part of its available and accumulated capital and surplus funds which is derived from realized net operating profits on its business and net realized capital gains. A Florida domestic insurer may not make dividend payments or distributions to stockholders without prior approval of the Florida Office of Insurance Regulation if the dividend or distribution would exceed the larger of (1) the lesser of (a) 10.0% of its capital surplus or (b) net income, not including realized capital gains, plus a two year carry forward, (2) 10.0% of capital surplus with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains or (3) the lesser of (a) 10.0% of capital surplus or (b) net investment income plus a three year carry forward with dividends payable constrained to unassigned funds minus 25% of unrealized capital gains. At December 31, 2011 and 2010, no dividends are available to be paid by HCPC.

The Bermuda Monetary Authority requires Claddaugh to maintain minimum capital and surplus of $2.0 million. At December 31, 2011 and 2010, Claddaugh's statutory capital and surplus was $8.8 million and $4.5 million, respectively. Claddaugh's statutory net profit was $4.3 million and $4.9 million, respectively, for the years ended December 31, 2011 and 2010.

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 16 -- Related Party Transactions

One of the Company's directors received a consulting fee and software license fees for development and use of the Company's premium administration application software. Under this arrangement, the Company incurred fees of $181,000 and $359,000 for the years ended December 31, 2011 and 2010, respectively. Effective June 30, 2011, all rights to the software license were assigned to the Company in exchange for a one-time payment of $50,000. Such payment was made to the Company's director who developed and licensed the software to the Company. The related software license and consulting agreements were terminated coincident with this exchange.

One of the Company's directors is a partner at a law firm that manages certain of the Company's corporate legal matters. Fees incurred with respect to this law firm for the years ended December 31, 2011 and 2010 were approximately $232,000 and $266,000, respectively.

As discussed in Note 6, the Company leases office space under an operating lease agreement with one director. The lease requires annual base rental payments of approximately $150,000. Lease payments on this property for each of the years ended December 31, 2011 and 2010 totaled $160,000.

Effective January 20, 2010, the Company repurchased and retired a total of 200,000 shares of the Company's common stock at a price of $7.00 per share for a total cost of $1,400,000. Such shares were repurchased under a stock purchase agreement with one of the Company's directors at a price below the $7.95 market value of the Company's common stock on the date of the transaction. Such repurchases were not part of a publicly announced plan or program. In addition, the Company paid a $10,000 consulting fee during 2010 to this director for investment advisory services.

Effective April 4, 2011, the Company repurchased and retired a total of 80,000 shares of the Company's common stock at a price of $8.00 per share for a total cost of $640,000. Such shares were repurchased under a stock purchase agreement with one of the Company's directors at a price below the $8.20 market value of the Company's common stock on the date of the transaction. Such repurchases were not part of a publicly announced plan or program.

Effective June 27, 2011, the Company repurchased and retired a total of 85,200 shares of the Company's common stock at a price of $6.50 per share for a total cost of $553,800. Such shares were repurchased under a stock purchase agreement with the Company's former Chief Executive Officer at a price below the $6.96 market value of the Company's common stock on the date of the transaction. Such repurchases were not part of a publicly announced plan or program.

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 17 -- Condensed Financial Information of Homeowners Choice, Inc.

Condensed financial information of Homeowners Choice, Inc. is as follows (in thousands):

Balance Sheets

	At December 31, 2011	2010
Assets		
Cash and cash equivalents	$ 1	416
Short-term investments	--	2,074
Investment in subsidiaries	88,421	60,366
Property and equipment, net	950	214
Deferred income taxes	348	265
Other assets	1,428	374
Total assets	$91,148	63,709
Liabilities and Stockholders' Equity		
Accrued expenses and other liabilities	1,778	290
Income taxes payable	1,605	3,562
Dividends payable	218	--
Due to related parties	23,717	13,228
Total liabilities	27,318	17,080
Total stockholders' equity	63,830	46,629
Total liabilities and stockholders' equity	$91,148	63,709

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 17 -- Condensed Financial Information of Homeowners Choice, Inc. (continued)

Statements of Earnings

	Year Ended December 31,	
	2011	2010
Net investment income	$ 75	80
Other income	66	45
Other operating expenses	(2,428)	(1,427)
Loss before income tax benefit and equity in earnings of subsidiaries	(2,287)	(1,302)
Income tax benefit	846	485
Net loss before equity in earnings of subsidiaries	(1,441)	(817)
Equity in earnings of subsidiaries	11,405	6,239
Net income	$9,964	5,422

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 17 -- Condensed Financial Information of Homeowners Choice, Inc. (continued)

Statements of Cash Flows

	Year Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net income	$9,964	5,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	27	87
Depreciation and amortization	214	84
Equity in earnings of subsidiaries	(11,405)	(6,239)
Deferred income taxes	(83)	136
Increase in other assets	(348)	(226)
Increase in accrued expenses and other liabilities	1,488	38
Decrease in income taxes receivable	--	674
(Decrease) increase in income taxes payable	(1,957)	3,562
Increase in due to related parties	10,489	6,267
Net cash provided by operating activities	8,389	9,805
Cash flows from investing activities:		
Purchase of short-term investments	--	(80)
Redemption of short-term investments	2,074	--
Purchase of property and equipment, net	(900)	(44)
Dividends received from subsidiary	--	4,800
Investment in subsidiaries	(16,400)	(9,889)
Net cash used in investing activities	(15,226)	(5,213)
Cash flows from financing activities:		
Repurchases of common stock	(1,887)	(3,596)
Dividends paid to stockholders	(3,826)	(1,877)
Proceeds from the exercise of stock options	563	650
Proceeds from the sale of preferred stock,net of costs	11,307	--
Excess tax benefit from stock options exercised	265	301
Net cash provided by (used in) financing activities	6,422	(4,522)
Net (decrease) increase in cash and cash equivalents	(415)	70
Cash and cash equivalents at beginning of year	416	346
Cash and cash equivalents at end of year	$ 1	416

(continued)

HOMEOWNERS CHOICE, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Note 18 -- Subsequent Event

On January 16, 2012, the Company's Board of Directors declared a quarterly dividend of $0.15 per common share. The dividends were paid March 16, 2012 to stockholders of record on February 17, 2012.

(continued)

ITEM 9 – *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

ITEM 9A – *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report (December 31, 2011), as is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Our disclosure controls and procedures are intended to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the principal executive officer and principal financial officer to allow timely decisions regarding required disclosures.

Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over our financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2011, our internal control over financial reporting was effective.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to the final ruling of the Securities and Exchange Commission that permits us to provide only management's report in this Annual Report.

Changes in Internal Control Over Financial Reporting

During our most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B – *Other Information*

None.

PART III

ITEM 10 – *Directors, Executive Officers and Corporate Governance*

Directors and Executive Officers

The following table provides information with respect to our directors and executive officers:

Name	Age	Position
Richard R. Allen	65	Chief Financial Officer
George Apostolou[1][2]	61	Director
Andrew L. Graham	54	Vice President, General Counsel and Corporate Secretary
Sanjay Madhu	45	Director, Division President – Real Estate Operations, and Vice President of Investor Relations
Harish M. Patel[1]	55	Director
Paresh Patel	49	Chairman and Chief Executive Officer
Gregory Politis[3]	59	Director
Anthony Saravanos[1][2]	41	Director
Martin A. Traber[2][3]	66	Director
Scott R. Wallace	60	Division President – Property and Casualty

(1) Member of the Audit Committee.
(2) Member of the Governance and Nominating Committee.
(3) Member of the Compensation Committee.

Richard R. Allen has served as the Chief Financial Officer of our company since November 2006 and also serves as a director of our subsidiary, Claddaugh Casualty Insurance Company, Ltd. Mr. Allen has over thirty years of experience in property/casualty insurance finance and management to include agency/broker relations, reinsurance and financial controls and reporting and third party administration. He has held various positions with several insurance companies as Chief Financial Officer, Controller and Senior Accounting Manager. From 1999 to 2005, Mr. Allen served as the Internal Auditor of Anthem Blue Cross and Blue Shield. From 1996 to 1998, Mr. Allen served as Controller for Symons International Group. From 1994 to 1996, Mr. Allen served as Controller/Treasurer of Coronet Insurance. In addition, Mr. Allen served as the Budget/Cost Manager of Bankers Life and Casualty from 1982 to 1990, and as the Controller of Bankers Standard Insurance Company, an affiliate of CIGNA, from 1969 to 1981. He has experience in forensic accounting and has participated as a consultant in numerous projects with state insurance departments. Mr. Allen earned his Bachelor of Science Degree from Quincy University in Quincy, Illinois.

George Apostolou has been a director of the Company since May 2007. Born in Erithri-Attikis, Greece, Mr. Apostolou moved to the United States in 1971 and earned his state of Florida Contractors License in 1983. In 1987, he established George Apostolou Construction Corporation and has since built more than 200 commercial buildings, including government services buildings, churches, office buildings and retail centers. George Apostolou Construction Corporation is not affiliated with Homeowners Choice, Inc. In addition to contracting, Mr. Apostolou has been involved in the development and investment of many commercial projects and now owns more than 20 properties in the Tampa Bay area.

Mr. Apostolou brings considerable business, management and real estate experience to the Board of Directors. We expect Mr. Apostolou's business and management experience will enhance oversight of the company's business performance. Moreover, real estate experience has become increasingly important to the Company as it makes and considers significant real estate investments. Mr. Apostolou also serves on our audit committee and our governance and nominating committee. His business experience gives him a fundamental understanding of financial statements and business operations. Important also, Mr. Apostolou has a substantial personal investment in the Company and he played a large role in bringing initial investors to the Company.

Andrew L. Graham has served as our General Counsel since June 1, 2008 and also currently serves as our Corporate Secretary. Mr. Graham served from 1999 to 2007 in various capacities, including General Counsel, for Trinsic, Inc. (previously named Z-Tel Technologies, Inc.), a publicly-held provider of communications services headquartered in Tampa, Florida. Since 2011, Mr. Graham has served on the Internal Audit Committee of Hillsborough County, Florida. From 2007 to 2011, he served on the Board of Trustees of Hillsborough Community College. Mr. Graham holds a Bachelor of Science degree from Florida State University and a Juris Doctor, as well as a Master of Laws (L.L.M.) in Taxation, from the University of Florida College of Law.

Sanjay Madhu has been a director of our company since May 2007 and he currently serves as our Division President – Real Estate Operations and Vice President of Investor Relations. Mr. Madhu has served as Division President of Real Estate Operations since June 2011 and as our Director of Investor Relations since February 2008. He also served as our Vice President for marketing from 2008 to 2011. As an owner and manager of commercial properties, Mr. Madhu has been president of 5th Avenue Group LC since 2002 and President of Forrest Terrace LC since 1999. In addition, Mr. Madhu is an investor in banking and health maintenance organizations. He has also been President of The Mortgage Corporation Network (correspondent lenders) since 1996. Prior to that, Mr. Madhu was Vice President, mortgage division, First Trust Mortgage & Finance, from 1994 to 1996; Vice President, residential first mortgage division, Continental Management Associates Limited, Inc., from 1993 to 1994; and President, S&S Development, Inc. from 1991 to 1993. None of the foregoing companies is an affiliate of Homeowners Choice, Inc. He attended Northwest Missouri State University, where he studied marketing and management.

Mr. Madhu brings considerable business, marketing and real estate experience to the Board of Directors. Real estate experience has become increasingly important to the Company as it makes and considers significant real estate investments. In addition, Mr. Madhu has a substantial personal investment in the Company.

Harish M. Patel was appointed on April 9, 2011 by our Board of Directors to fill a vacancy among our Class A directors and to serve on the company's audit committee. Harish Patel has no familial relationship to Paresh Patel, our Chief Executive Officer and Chairman of the Board. From 1976 to 1987, Mr. Patel served in various capacities, including as director of sales, director of operations and director at large, for Colorama Photo Processing Laboratories, a family-owned photo processing business located in London, England which pioneered the provision of next day and same day photo processing services to retail outlets in Central London and later provided those services to other regions of the United Kingdom. From 1987 to 1992, Mr. Patel served in various capacities, including as director at large, for Colorama Pharmaceuticals Ltd., a family-owned start-up venture which distributed pharmaceuticals to the client base of the photo processing company. From 1992 to 2005, he served as director for Kwik Photo Retail Stores, a London-based, operator of stand-alone and in-store retail photo processing labs. During his tenure, that company expanded from 23 company-owned stores to over 100 outlets. In addition he established and managed a United States-based data processing subsidiary for that company. Since 2006, he has served as a director for Medenet, Inc. a medical software company based in St. Petersburg, Florida. None of the foregoing companies are affiliated with our Company. Mr. Patel holds a Bachelors Degree in Business Administration from South Bank Polytechnic.

Mr. Patel brings a wide range of business and management experience to the Board of Directors. We expect Mr. Patel's business and management experience will enhance oversight of the Company's business performance and financial disclosure. We believe also the knowledge he has gained from his experiences, in particular his knowledge of software systems and health care, will be valuable as the Company considers and seeks growth opportunities. Also important, Mr. Patel has a substantial personal investment in the Company.

Paresh Patel is currently Chairman and Chief Executive Officer of the Company. Mr. Patel is a founder of the Company. He has been a director of the Company since its inception and has served as the Chairman of our Board since May 2007. He was appointed as Chief Executive Officer in 2011. Mr. Patel developed and continues to oversee development of the company's policy administration systems. Since 2006, Mr. Patel has served also as president of Scorpio Systems, Inc., a software development company of which he is the sole owner. (See Item 13 "Certain Relationships and Related Transactions, and Director Independence.") Since 2011, Mr. Patel has served as chairman of the board of First Home Bancorp, Inc., a bank holding company in Seminole, Florida. He is a founder of NorthStar Bank in Tampa, Florida and from 2006 to 2010 served on the board of directors of its parent company, NorthStar Holding Company. As a private investor from 2000 to 2006, Mr. Patel used statistical and probability techniques to develop and implement a system for managing money as a business to generate cash flow. Before that, Mr. Patel was director of customer care and billing with Global Crossing from 1998 to 2000. In that position, Mr. Patel defined business processes and systems, hired and trained department staff and led the merger of the customer care and billing systems with those of that company's acquisitions. As an independent consultant from 1991 to 1998, Mr. Patel worked with large international telephone companies. Mr. Patel holds bachelor's and master's degrees in Electronic Engineering from the University of Cambridge in United Kingdom.

Mr. Patel brings to the Board of Directors considerable experience in business, management, systems and technology, and because of those experiences and his education, he possesses analytical and technology skills which are considered of importance to the operations of company, the oversight of its performance and the evaluation of its future growth opportunities. Furthermore, his performance as Chief Executive Officer has indicated an in depth understanding of the company's insurance business. He is a founder of the company and has a substantial personal investment in the company.

Gregory Politis is a founder of the Company and has been a director since its inception. Mr. Politis has been in the real estate business since 1974 and is president of Xenia Management Corporation, a real estate portfolio management company he established in 1988. Mr. Politis has interests in 39 real estate developments in the Miami-Dade County, Orlando, Greater Tampa Bay and Montreal, Canada areas. Xenia Management Corporation is not affiliated with Homeowners Choice, Inc. (See Item 13 "Certain Relationships and Related Transactions, and Director Independence.") During his career, Mr. Politis has developed and retained ownership of retail, industrial and commercial office spaces, with a primary focus on buildings housing federal and state government agencies. He was a founding member of Hellenic American Board of Entrepreneurs and a recipient of the Building Owners and Managers Association (BOMA) Building of the Year Award. Mr. Politis has served as a director of NorthStar Bank and Florida Bank.

Mr. Politis brings considerable business, management and real estate experience to the Board of Directors. We expect his business and management experience will enhance oversight of the company's business performance. Moreover, real estate experience has become increasingly important to the company as it makes and considers significant real estate investments. Mr. Politis serves on the company's investment committee, compensation committee, governance and nominating committee as well as the chair for the building committee. His business experience gives him a fundamental understanding of business operations. Important also, Mr. Politis has a substantial personal investment in the Company.

Anthony Saravanos has been a director of the Company since May 2007. Since 2005, Mr. Saravanos has been vice president of The Boardwalk Company, a full-service real estate company located in Palm Harbor, Florida. The Boardwalk Company is not affiliated with Homeowners Choice, Inc. Since 2001, he has been managing partner of several commercial property entities with a combined total of 13 properties in Florida and New York. Since 2011, Mr. Saravanos has served on the board of directors of First Home Bank in Seminole, Florida. From 1997 to 2001, he served as district manager, marketing and sales, for DaimlerChrysler Motors Corporation, Malvern, Pennsylvania. Mr. Saravanos graduated from Ursinus College, Collegeville, Pennsylvania, with a double major in Economics and Spanish. He earned a master's degree in Business Administration with an emphasis in marketing from Villanova University, Villanova, Pennsylvania. At Villanova he was inducted into the Beta Gama Sigma Honor Society. Mr. Saravanos also attended Quanaouac Institute, Cuernavaca, Mexico, for intensive Spanish studies and a cultural immersion program. A licensed real estate broker, Mr. Saravanos is a Certified Commercial Investment Member. He was named #1 Top Producer for 2010 by the Florida Gulfcoast Commercial Association of Realtors.

He brings considerable business, management, finance, marketing and real estate experience and business education to the Board of Directors. Real estate experience has become increasingly important to the company as it makes and considers significant real estate investments. Mr. Saravanos also serves on our audit committee. His financial sophistication is evidenced by his business education and his work experiences. For example, as a district manager for DaimlerChrysler Motors Corporation he was required to read, understand and analyze financial information. His ability to analyze financial information is considered of importance in enhancing oversight of the Company's performance, monitoring its financial disclosure and evaluating growth opportunities. Important also, Mr. Saravanos has a substantial personal investment in the Company and he played a large role in bringing initial investors to the Company.

Martin A. Traber is a founder of the company. He has been a director of the Company since its inception. Since 1994 Mr. Traber has been a partner of Foley & Lardner LLP, in Tampa, Florida, representing clients in securities and corporate law transactions. Mr. Traber earned a Bachelor of Arts and a Juris Doctor from Indiana University. Mr. Traber is a founder of NorthStar Bank in Tampa, Florida and from 2007 to 2011 served as a member of the Board of Directors of that institution. Mr. Traber serves on the Board of Directors of Exeter Trust Company, Portsmouth, New Hampshire and JHS Capital Holdings, Tampa, Florida, and on the Advisory Board of Platinum Bank, Tampa, Florida.

Mr. Traber brings considerable legal, financial and business experience to the Board of Directors. He has counseled and observed numerous businesses in a wide range of industries. The knowledge gained from his observations and his knowledge and experience in business transactions and securities law are considered of importance in monitoring the Company's performance and when we consider and pursue business acquisitions and financial transactions. Mr. Traber also serves on the governance and nominating committee and our compensation committee. As a corporate and securities lawyer he has a fundamental understanding of governance principles and business ethics. His knowledge of other businesses and industries is useful in determining management and director compensation. Important also, Mr. Traber has a substantial personal investment in the Company.

Scott R. Wallace has agreed to serve as our Division President — Property and Casualty commencing in mid April 2012. Mr. Wallace has over 30 years of property and casualty insurance and reinsurance experience. Since 2007, he has served as the president, chief executive officer and executive director of Citizens Property Insurance Corporation, Florida's state backed property insurer, where he was responsible for management and operations of Florida's largest homeowners insurance company. Before becoming president, he served from 2006 to 2007 as Citizens' senior vice president of operations. During 2005, Mr. Wallace served as a consultant to Fairway Holdings, a managing general agency. From 1992 to 2005, he served in various executive roles at W.R. Berkley Corporation, a multi-billion dollar New York Stock Exchange-listed insurance holding company. Mr. Wallace holds a bachelor of Science degree in marketing from Arizona State University.

Board Classification

Our board of directors is divided into three classes each consisting of three directors. All directors within a class have the same three-year term of office. The class terms expire at successive annual meetings so that each year a class of directors is elected. The current terms of director classes expire in 2012 (Class A directors), 2013 (Class B directors), and 2014 (Class C directors). Harish Patel and Martin Traber are Class A directors whose present terms continue until the 2012 annual meeting. George Apostolou, Parish Patel, and Gregory Politis are Class B directors whose present terms continue until 2013. Sanjay Madhu and Anthony Saravanos are Class C directors whose present terms continue until 2014. There have been no material changes to our procedures by which security holders may recommend nominees to our board of directors since we last outlined the procedures in our proxy filed in April of 2011.

Audit Committee

The Company has a separately-designated standing audit committee established in accordance with the Securities and Exchange Act of 1934. The Audit Committee's responsibilities include the following:

- assisting our Board of Directors in its oversight of the quality and integrity of our accounting, auditing, and reporting practices;
- overseeing the work of our internal accounting and auditing processes;
- discussing with management our processes to manage business and financial risk,
- making appointment, compensation, and retention decisions regarding, and overseeing the independent auditor engaged to prepare or issue audit reports on our financial statements;
- establishing and reviewing the adequacy of procedures for the receipt, retention and treatment of complaints received by our company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- reviewing and discussing with management and the independent auditors our annual and quarterly financial statements and related disclosures; and
- conducting an appropriate review and approval of all related party transactions for potential conflict of interest situations on an ongoing basis.

The Audit Committee is composed of three members: Anthony Saravanos, its chairman, Harish M. Patel and George Apostolou. Since our common shares are listed on The NASDAQ Global Select Market, we are governed by its listing standards. Accordingly, each member of the Audit Committee is an "independent director" as defined by Rule 5605(a)(2) of The Nasdaq Stock Market LLC and meets the criteria for independence set forth in Rule 10A-3(b)(1) of the Securities and Exchange Commission. The Board of Directors has determined that Mr. Saravanos is an audit committee financial expert. The Audit Committee met formally 4 times during 2011 and otherwise acted by unanimous written consent. The Board of Directors has adopted a written Audit Committee Charter. A current copy of the charter is available on our website www.hcpci.com. Click "Investors" and then "Corporate Governance."

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3, 4, and 5 filed for the year 2011, we believe that all of our directors, officers, and 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them. In addition all such forms were filed timely.

Code of Ethics

We have adopted a code of ethics applicable to all employees and directors, including our Chief Executive Officer and Chief Financial Officer. We have posted the text of our code of ethics to our Internet web site: www.hcpci.com. Select “Investors” from the left and then select “Corporate Governance” and then “Code of Conduct.” We intend to disclose any change to or waiver from our code of ethics by posting such change or waiver to our Internet web site within the same section as described above.

ITEM 11 – *Executive Compensation*

SUMMARY COMPENSATION TABLE

The following table provides summary information concerning compensation for services rendered in all capacities awarded to, earned by or paid to our “named executive officers,” which for a smaller reporting company means our Chief Executive Officer, our two most highly compensated executive officers who served as executive officers at December 31, 2011 and one additional individual who would be the most highly compensated individual had he been serving as executive officer at December 31, 2011.

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards[2]	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Francis McCahill, III	2011	$112,500	$ 85,000	—	—	—	—	$ 8,580 [3]	$206,080
Chief Executive Officer [1]	2010	$200,000	$155,000	—	—	—	—	$ 15,840 [3]	$370,840
Richard R. Allen	2011	$155,857	$ 10,000	—	—		—	—	$165,857
Chief Financial Officer	2010	$145,000	$ 15,000	—	—	—	—	—	$160,000
Paresh Patel	2011	$250,200	$185,000	—	—	—	—	$ 264,801 [4]	$700,001
Chief Executive Officer	2010	—	$285,000[5]	—	—	—	—	$ 337,000 [4]	$622,000
Sanjay Madhu	2011	$155,274	$ 10,000	—	—	—	—	—	$165,274
Vice President of Marketing and Investor Relations	2010	$144,000	$ 22,000	—	—	—	—	—	$166,000

(1) Mr. McCahill served as a director and as the Company’s Chief Executive Officer until his resignation, which was effective June 30, 2011.

(2) There were no options granted by the Company to executive officers in 2011 or 2010.

(3) This amount represents a housing allowance paid to Mr. McCahill for lodging near to our headquarters.

(4) The 2011 amount represents $180,801 paid to Scorpio Systems, Inc. for consulting services, $50,000 paid to Scorpio Systems, Inc. for the purchase of software rights, and $34,000 in directors’ fees paid prior to July 1, 2011, the effective date of Mr. Patel’s employment as chief executive officer. The 2010 amount represents $300,000 paid to Scorpio Systems, Inc. for consulting services and $37,000 in directors’ fees earned or paid in cash. Scorpio Systems, Inc. is owned and controlled by Mr. Patel (See Item 13 — “Certain Relationships and Related Transactions, and Director Independence”).

(5) This amount represents directors' fees earned or paid in cash. Mr. Patel was awarded this amount individually as a bonus by the Board of Directors.

Employment Agreements

Certain executives' compensation and other arrangements are set forth in employment agreements. These employment agreements are described below.

Francis X. McCahill, III. On May 1, 2007, we entered into an employment agreement with Mr. Francis X. McCahill, III, our President and Chief Executive Officer. The agreement continues until Mr. McCahill's death or disability. Under the terms of the agreement, Mr. McCahill was entitled to a base salary of $200,000 through December 31, 2010. In February 2011, Mr. McCahill's base salary was increased to $225,000 retroactive to January 1, 2011. He is also eligible to receive an annual bonus, which may be granted at the sole discretion of the Board of Directors. Mr. McCahill is entitled to participate in all of our pension, life insurance, health insurance, disability insurance and other benefit plans on the same basis as our other employee officers participate. The agreement provides that, if we terminate Mr. McCahill's employment without cause then he will be entitled to severance compensation in the amount of his base salary and his health and welfare benefits for the 6-month period following the date of termination. The agreement provides that if Mr. McCahill's employment is terminated due to death or disability, he will be entitled to any unpaid base salary owing to him up through and including the date of termination. If we terminate Mr. McCahill's employment for cause, he will only be entitled to the unpaid base salary owing to him up through and including the date of termination. If Mr. McCahill chooses to terminate his employment, he will only be entitled to the unpaid base salary owing to him up through and including the date of termination. The agreement provides that during the time of his employment and ending two years from the termination of the agreement, he may not solicit our customers and will not engage in or own any business that is competitive with us. Mr. McCahill resigned from all offices and directorships within the company effective June 30, 2011.

Richard R. Allen. On May 1, 2007, we entered into an employment agreement with Mr. Richard R. Allen, our Chief Financial Officer. The agreement continues until Mr. Allen's death or disability. Under the terms of the agreement, Mr. Allen is entitled to a base salary of $170,000. He is also eligible to receive an annual bonus, which may be granted at the sole discretion of the Board of Directors. Mr. Allen is entitled to participate in all of our pension, life insurance, health insurance, disability insurance and other benefit plans on the same basis as our other employee officers participate. The agreement provides that, if we terminate Mr. Allen's employment without cause then he will be entitled to severance compensation in the amount of his base salary and his health and welfare benefits for the 6-month period following the date of termination. The agreement provides that if Mr. Allen's employment is terminated due to death or disability, he will be entitled to any unpaid base salary owing to him up through and including the date of termination. If we terminate Mr. Allen's employment for cause, he will only be entitled to the unpaid base salary owing to him up through and including the date of termination. If Mr. Allen chooses to terminate his employment, he will only be entitled to the unpaid base salary owing to him up through and including the date of termination. The agreement provides that during the time of his employment and ending two years from the termination of the agreement, he may not solicit customers and will not engage in or own any business that is competitive with us.

Paresh Patel. Effective July 1, 2011, we entered into an employment agreement with Mr. Paresh Patel. Under the agreement, Mr. Patel began serving as our chief executive officer on July 1, 2011. The agreement has a three year term and renews automatically for successive one year periods unless either party delivers 90 days' notice of non-renewal. Mr. Patel will be entitled to a base annual salary of $500,000, plus benefits upon substantially the same terms applicable to other company executives. Mr. Patel will be entitled to severance payments of not less than one year's base salary if the company non-renews the employment or terminates the employment without good cause. Mr. Patel's employment agreement provides that in the event he is terminated without good cause and within three years of a change in control of the Company, Mr. Patel will be entitled to receive a one-time, lump sum severance payment (due upon termination) equal to 2.9 times the total amount of Mr. Patel's annual base salary. If we terminate Mr. Patel's employment for cause, he will only be entitled to the unpaid base salary and accrued vacation owing to him up through and including the date of termination. If Mr. Patel chooses to terminate his employment, he will only be entitled to the unpaid base salary and accrued vacation owing to him up through and including the date of termination. The agreement contains restrictions on competition and protections for confidential information.

During 2011, we had a consulting agreement and a license agreement with Scorpio Systems, Inc., which is controlled by Paresh Patel. Effective June 30, 2011, all rights to the software license were assigned to the Company in exchange for a one-time payment of $50,000 (See Item 13 -- "Certain Relationships and Related Transactions, and Director Independence").

Outstanding Equity Awards at Year End 2011

The following table sets forth information regarding outstanding stock option awards held by our named executive officers at December 31, 2011, including the number of shares underlying both exercisable and unexercisable portions of each option as well as the exercise price and expiration date of each outstanding option.

Name	Number of Securities Underlying Unexercised Options — Exercisable	Number of Securities Underlying Unexercised Options — Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date
Francis McCahill, III*	—	—	—	—	—
Richard R. Allen	16,800 (1)	3,200	—	$2.50	05/31/2017
Andrew L. Graham	—	—	—	—	—
Paresh Patel	60,000 (2)	—	—	$2.50	07/31/2017
Paresh Patel	60,000 (3)	—	—	$2.50	05/31/2017
Sanjay Madhu	—	—	—	—	—

*Mr. McCahill served as a director and as the Company's Chief Executive Officer until his resignation, which was effective June 30, 2011.

(1) Vest annually over a 5 year period which commenced May 30, 2007.

(2) Became vested and exercisable when the company's market price reached $7.50 per share.

(3) Vest monthly in 5,000 share increments commencing June 1, 2007.

Potential Payments upon Termination or Change-in-Control

At December 31, 2011, Mr. Patel and Mr. Allen are the only named executive officers due compensation in the event of the termination of employment. Mr. Patel may be entitled to compensation when termination is associated with a change in control. The amount of compensation payable to such named executive officers upon voluntary termination, involuntary termination without cause, termination with cause and termination in the event of permanent disability or death of the executive is set forth above under “Employment Agreements.”

Director Compensation

The following table sets forth information with respect to compensation earned by each of our directors (other than “named executive officers”) during the fiscal year ended December 31, 2011.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards (3)(4)	Non-Equity Deferred Compensation Earnings	Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
George Apostolou	$ 56,500	—	—	—	—	—	$ 56,500
Krishna Persaud[1]	$ 45,000	—	—	—	—	—	$ 45,000
Gregory Politis	$ 56,500	—	—	—	—	—	$ 56,500
Martin A. Traber	$ 56,500	—	—	—	—	—	$ 56,500
Anthony Saravanos	$ 56,500	—	—	—	—	—	$ 56,500
Harish Patel[2]	$ 23,889	—	$51,012	—	—	—	$ 74,901

(1) Mr. Persaud declined to seek re-election to the company’s Board of Directors effective April 9, 2011.

(2) Mr. Harish Patel was appointed on April 9, 2011 by our Board of Directors to fill a vacancy among our Class A directors.

(3) This amount was calculated utilizing the fair value recognition provisions of Accounting Standards Codification Topic 718 – “Compensation – Stock Compensation,” which requires the measurement and recognition of compensation for all stock-based awards made to employees and directors, including stock options and restricted stock issuances, based on estimated fair values. The assumptions used in calculating this amount are discussed in Note 13 to our consolidated financial statements under Item 8 on this Annual Report on Form 10-K.

(4) The aggregate number of stock options outstanding for each director (other than named executive officers) as of December 31, 2011 was as follows.

	Options
George Apostolou	--
Krishna Persaud	--
Gregory Politis	90,000
Martin A. Traber	140,000
Anthony Saravanos	30,000
Harish Patel	30,000

During the first quarter of 2011, directors were entitled to cash directors’ fees of $5,000 plus $1,000 per meeting attended. Beginning with the second quarter of 2011, directors were entitled to cash directors’ fees of $12,500 per quarter. Each non-employee director at May 30, 2007 was awarded the right to purchase 30,000 shares at $2.50 per share. Those options vest over three years and expire May 31, 2017. Founders Gregory Politis and Martin A. Traber each received additional options to purchase 160,000 shares at $2.50 per share. Those options vest monthly in 5,000 share increments commencing June 1, 2007. On August 26, 2011, newly elected director Harish Patel was awarded the right to purchase 30,000 shares at $6.30 per share. His options vest in three equal annual installments beginning April 20, 2012.

Compensation Policies Relating to Risk Management

The Board of Directors has identified no compensation policies or practices that are reasonably likely to have material adverse effect on the company.

ITEM 12 – *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The following table sets forth information regarding the beneficial ownership of our common stock as of March 18, 2012 by—

- each person who is known by us to beneficially own more than 5% of our outstanding common stock,
- each of our directors and named executive officers, and
- all directors and named executive officers as a group.

The number and percentage of shares beneficially owned are based on 6,473,925 common shares outstanding as of March 18, 2012. Information with respect to beneficial ownership has been furnished by each director, officer or beneficial owner of more than 5% of our common stock. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, which generally require that the individual have voting or investment power with respect to the shares. In computing the number of shares beneficially owned by an individual listed below and the percentage ownership of that individual, shares underlying options, warrants and convertible securities held by each individual that are exercisable or convertible within 60 days of March 18, 2012, are deemed owned and outstanding, but are not deemed outstanding for computing the percentage ownership of any other individual. Except as otherwise indicated in the footnotes to this table, or as required by applicable community property laws, all individuals listed have sole voting and investment power for all shares shown as beneficially owned by them. Unless otherwise indicated in the footnotes, the address for each principal shareholder is Homeowner’s Choice, Inc., 5300 West Cypress Street, Suite 100, Tampa, Florida 33607.

Name and Address of Beneficial Owners	Beneficially Owned: Number of Shares	Beneficially Owned: Percent
Farnam Street Partners, L.P. (1)	284,370	4.45%
Executive Officers and Directors		
Paresh Patel(2)	534,406	8.13%
Richard R. Allen (3)	20,450	* %
Sanjay Madhu(4)	117,950	1.85 %
George Apostolou (5)	144,500	2.26%
Harish M. Patel(6)	74,000	1.16%
Gregory Politis(7)	390,000	6.02%
Anthony Sarvanos(8)	113,600	1.77%
Martin A. Traber (9)	238,680	3.67%
Andrew L. Graham(10)	2,500	* %
All Executive Officers and Directors as a Group (9 individuals)	1,636,086	24.88%

* Less than 1.0%

(1) This information is based solely on Schedule 13G filed with the Securities and Exchange Commission on February 14, 2012 by Farnam Street Partners, L.P., 3033 Excelsior Boulevard, Suite 300, Minneapolis, Minnesota 55416.

(2) Includes 284,000 shares held by Paresh & Neha Patel, 120,000 shares issuable pursuant to options that are currently exercisable or become exercisable within 60 days, 10,000 shares issuable pursuant to conversion privileges with respect to Homeowners Choice, Inc. Series A preferred shares, and 57,406 shares issuable pursuant to warrants that are currently exercisable or become exercisable within 60 days. Of the shares issuable pursuant to warrants 54,956 are issuable to Mr. Patel's individual retirement account.

(3) Includes 450 shares held by Richard & Fatemeh Allen and 20,000 shares issuable pursuant to options that are currently exercisable or become exercisable within 60 days.

(4) Includes 110,000 shares held by Universal Finance & Investments, LLC, voting and investment power over which is held by Mr. Madhu, 2,100 shares held in Mr. Madhu's individual retirement account, 3,000 shares held in the individual retirement account of Stacy Madhu, and 200 shares held by Mr. Madhu's son and includes 2,650 shares issuable pursuant to warrants that are currently exercisable or become exercisable within 60 days. Of the shares issuable pursuant to warrants, 1,050 shares are issuable to Mr. Madhu's individual retirement account, 1,500 shares are issuable to the individual retirement account of Stacy Madhu and 100 shares are issuable to Mr. Madhu's son.

(5) Includes 105,000 shares held by George & Poppe Apostolou, 5,000 shares issuable pursuant to conversion privileges with respect to Homeowners Choice, Inc. Series A preferred shares held by Apostolou-Berset, LLC, and 1,500 shares issuable pursuant to warrants that are currently exercisable or become exercisable within 60 days.

(6) Includes 57,000 shares held by Harish and Khyati Patel, 10,000 shares issuable pursuant to options that are currently exercisable or become exercisable within 60 days, and 7,000 shares issuable pursuant to warrants that are currently exercisable or become exercisable within 60 days.

(7) Includes 200,000 shares held by Gregory & Rena Politis and 90,000 shares issuable pursuant to options that are currently exercisable or become exercisable within 60 days.

(8) Includes 80,000 shares held by HC Investment LLC, voting and investment power over which is held by Mr. Saravanos, 800 shares held by Anthony & Maria Saravanos, 800 shares held by Mr. Saravanos as custodian for his niece, Eliana Tuite, and 800 shares held by Mr. Saravanos as custodian for his nephew, Nolan Tuite, and includes 30,000 shares issuable pursuant to options that are currently exercisable or become exercisable within 60 days and 1,200 shares issuable pursuant to warrants that are currently exercisable or become exercisable within 60 days. Of the shares issuable pursuant to warrants, 400 shares are issuable to Anthony & Maria Saravanos, 400 shares are issuable to Mr. Saravanos as custodian for his niece, Eliana Tuite, and 400 shares are issuable to Mr. Saravanos as custodian for his nephew, Nolan Tuite.

(9) Includes 112,997 shares issuable pursuant to options that are currently exercisable or become exercisable within 60 days.

(10) Includes 500 shares issuable pursuant to warrants that are currently exercisable or become exercisable within 60 days.

Securities authorized for issuance under equity compensation plans are summarized under Part II – Item 5 of this Form 10-K.

ITEM 13 – *Certain Relationships and Related Transactions, and Director Independence*

Office Lease

On April 8, 2008, we entered into a lease with Xenia Management LLC, a company owned and operated by Gregory Politis, one of our directors. The lease is for 6,000 square feet of office space and 1,498 square feet of common area, in Clearwater, Florida. The lease commenced in July 2008 and requires us to make monthly lease payments of $12,500, which includes $2,500 for common area maintenance. The initial term of the lease will expire July 15, 2013. We, at our option, may renew the initial term of the lease for three additional periods of five years each by providing written notice of renewal at least six calendar months before the end of the initial five year term. If we renew the lease, the monthly lease payments will increase by approximately 15% in each successive five year renewal period.

Software License Agreement

Prior to July 1, 2011, we licensed our policy administration software from Scorpio Systems, Inc., a company owned and operated by Paresh Patel, the Chairman of our Board of Directors. The license agreement was effective as of November 1, 2007. The license agreement was perpetual unless terminated by either party upon six months' written notice or by Scorpio Systems, Inc. upon thirty days' written notice to us within three months following the occurrence of a change in control of our company. Under the terms of the license agreement, Scorpio Systems, Inc. granted us an exclusive, perpetual, nontransferable, worldwide license to use the software in connection with policy administration services performed with regard to insurance policies issued by our company or any of our wholly-owned subsidiaries. In exchange for the license, we agreed to pay to Scorpio Systems, Inc. a license fee of one dollar per policy generated as a new policy issued or a paid renewal policy. For 2011, the license fees totaled $30,801. Effective June 30, 2011, all rights to the software license were assigned to the Company in exchange for a one-time payment of $50,000. The related software license and consulting agreements were terminated coincident with this exchange (see "Consulting Agreement" below).

Consulting Agreement

On June 1, 2007, we entered into a consulting agreement with Scorpio Systems, Inc., a company owned and operated by Paresh Patel, our Chief Executive Officer and Chairman of our Board of Directors.

Under the terms of the agreement, Scorpio Systems, Inc. provided us with business advice, information and consultation regarding the insurance industry. In consideration for these services, we agreed to pay a monthly fee of $25,000 to Scorpio Systems, Inc. and reimburse Scorpio Systems, Inc. for its reasonable and customary business expenses incurred in the performance of its services. This consulting agreement was terminated effective June 30, 2011 (see “Software License Agreement” above). For 2011 consulting fees totaling $150,000 were paid to Scorpio Systems, Inc. with respect to this agreement.

Legal Services

One of our directors, Martin A. Traber, is a partner at the law firm of Foley & Lardner LLP, and since our inception in 2007, the firm has provided legal representation to us on certain matters, including our 2008 initial public offering. During 2011, Foley & Lardner LLP billed us approximately $232,000. Such amount includes fees billed in connection with our preferred stock offering and represents less than 1% of Foley’s fee revenue. These services were provided on an arms’-length basis, and paid for at fair market value. We believe that such services were performed on terms at least as favorable to us as those that would have been realized in transactions with unaffiliated entities or individuals.

Stock Repurchases

On April 4, 2011, the Company repurchased from one of our directors, Krishna Persaud, 80,000 shares of the Company’s common stock at a price of $8.00 per share for a total cost of $640,000. Such shares were repurchased under a stock purchase agreement with one of the Company’s directors at a price below the $8.20 market value of the Company’s common stock on the date of the transaction. Such repurchases were not part of a publicly announced plan or program.

Effective June 27, 2011, the Company repurchased and retired a total of 85,200 shares of the Company’s common stock at a price of $6.50 per share for a total cost of $553,800. Such shares were repurchased under a stock purchase agreement with the Company’s former Chief Executive Officer, Francis McCahill, at a price below the $6.96 market value of the Company’s common stock on the date of the transaction. Such repurchases were not part of a publicly announced plan or program.

Policies for Approval or Ratification of Transactions with Related Persons

Our policy for approval or ratification of transactions with related persons is for those transactions to be reviewed and approved by the Audit Committee. That policy is set forth in the Audit Committee Charter. Our practice is that such transactions are approved by a majority of disinterested directors. The policy sets forth no standards for approval. Directors apply their own individual judgment and discretion in deciding such matters.

DIRECTOR INDEPENDENCE

Our Board of Directors has determined directors George Apostolou, Harish Patel, Gregory Politis, Anthony Saravanos, and Martin Traber are each an “independent director” as defined by Rule 5605(a)(2) of The Nasdaq Stock Market LLC and meets the criteria for independence set forth in Rule 10A-3(b)(1) of the Securities and Exchange Commission. Our Board of Directors has established standing Audit, Compensation, and Governance and Nominating committees, each of which is comprised solely of independent directors.

ADVERSE INTERESTS

We are not aware of any material proceedings in which an executive officer or director is a party adverse to the company or has a material interest adverse to the company.

ITEM 14 – *Principal Accounting Fees and Services*

The following table sets forth the aggregate fees for services related to the years ended December 31, 2011 and 2010 provided by Hacker, Johnson & Smith PA, our principal accountant:

	2011	2010
Audit Fees (a)	$121,000	115,000
All Other Fees (b)	20,000	25,000
Total	$141,000	$140,000

(a) Audit Fees represent fees billed for professional services rendered for the audit of our annual financial statements, review of our quarterly financial statements included in our quarterly reports on Form 10-Q, and audit services provided in connection with other statutory and regulatory filings.

(b) All Other Fees represent fees billed for services provided to us not otherwise included in the categories above, primarily fees related to the review of our registration statement in connection with our preferred stock offering.

PART IV

ITEM 15 – *Exhibits, Financial Statements and Schedules*

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) Consolidated Financial Statements: See Index to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K.

(2) Financial Statement Schedules:

Any supplemental information we are required to file with respect to our property and casualty insurance operations is included in Part II, Item 8 of this Form 10-K.

(3) Exhibits: See the exhibit listing set forth below:

The following documents are filed as part of this report:

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation, with amendments. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 29, 2011.
3.2	Bylaws as amended April 16, 2009. Incorporated by reference to the correspondingly numbered exhibit to our Current Report on Form 8-K filed April 23, 2009.
4.1	Form of Common Stock Certificate. Incorporated by reference to the correspondingly numbered exhibit to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-150513) filed August 6, 2008.
4.2	Warrant Agreement dated July 30, 2008 between Homeowners Choice, Inc. and American Stock Transfer & Trust Company. Incorporated by reference to the correspondingly numbered exhibit to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-150513) filed August 6, 2008.
4.3	Form of Warrant Certificate. Incorporated by reference to the correspondingly numbered exhibit Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-150513) filed August 6, 2008.

4.4 Warrant Agreement dated July 30, 2008 between Homeowners Choice, Inc. and Anderson & Strudwick, Incorporated. Incorporated by reference to the correspondingly numbered exhibit to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-150513) filed August 6, 2008.

4.5 Form of Warrant Certificate issued to Anderson & Strudwick. Incorporated. Incorporated by reference to the correspondingly numbered exhibit to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-150513) filed August 6, 2008.

4.6 Form of Unit Certificate. Incorporated by reference to the correspondingly numbered exhibit to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-150513) filed August 6, 2008.

4.7 Warrant Agreement dated July 30, 2008, between Homeowners Choice, Inc. and GunnAllen Financial, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-150513) filed August 6, 2008.

4.8 Letter Agreement dated August 1, 2008 among Homeowners Choice, Inc., Anderson & Strudwick, Incorporated and GunnAllen Financial, Inc., whereby we waive certain cancellation rights under warrants issued to the other parties. Incorporated by reference to the correspondingly numbered exhibit to our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1 (File No. 333-150513) filed August 6, 2008.

4.9 See Exhibits 3.1 and 3.2 of this report for provisions of the Articles of Incorporation, as amended, and our Bylaws, as amended, defining certain rights of security holders. See also Exhibits 10.6 and 10.7 defining certain rights of the recipients of stock options and other equity-based awards.

4.10 Specimen 7% Series A Cumulative Preferred Stock Certificate Incorporated by reference to Exhibit 4.2 to Form 8-A filed March 25, 2011.

10.1 Executive Agreement dated May 1, 2007 between Homeowners Choice, Inc. and Francis X. McCahill, III. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.

10.2 Executive Agreement dated May 1, 2007 between Homeowners Choice, Inc. and Richard R. Allen. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.

10.3 Placement Agreement dated March 25, 2011 between Homeowners Choice, Inc. and Anderson & Strudwick, Incorporated. Incorporated by reference to exhibit 1.1 to our Form 8-K filed March 31, 2011.

10.4 Executive Employment Agreement dated July 1, 2011 between Homeowners Choice, Inc. and Paresh Patel. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.

10.5 Consulting Agreement dated June 1, 2007 between Homeowners Choice, Inc. and Scorpio Systems, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended. See amendment to Consulting Agreement at Exhibit 10.12.

10.6 Homeowners Choice, Inc. 2007 Stock Option and Incentive Plan. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 29, 2008.

10.7 Form of Incentive Stock Option Agreement. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.

10.9 Software License Agreement executed April 8, 2008 with an effective date of November 1, 2007 by and between Homeowners Choice, Inc. and Scorpio Systems, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.

10.10 PR-M Non-Bonus Assumption Agreement dated December 1, 2007 by and between Homeowners Choice Property & Casualty Insurance Company, Inc. and Citizens Property Insurance Corporation. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-K filed March 30, 2010.

10.12 Amendment dated August 21, 2008 to Consulting Agreement dated June 1, 2007 between Homeowners Choice, Inc. and Scorpio Systems, Inc. Incorporated by reference to Exhibit 10.12 to Form 8-K filed August 21, 2008.

10.13 Excess Catastrophe Reinsurance Contract effective June 1, 2011 by Homeowners Choice Property & Casualty Insurance Company, Inc. and Subscribing Reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.

10.14 Reinstatement Premium Protection Agreement effective June 1, 2011 by Homeowners Choice Property & Casualty Insurance Company, Inc. and Subscribing Reinsurers. Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.

10.15 Aggregate Excess Catastrophe Reinsurance Agreement dated June 1, 2011 by Homeowners Choice Property & Casualty Insurance Company, Inc. and Subscribing Reinsurers (Layer A). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.

10.16 Aggregate Excess Catastrophe Reinsurance Agreement dated June 1, 2011 by Homeowners Choice Property & Casualty Insurance Company, Inc. and Subscribing Reinsurers (Layer B). Portions of this exhibit have been omitted pursuant to a request for confidential treatment. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.

10.17 Form of indemnification agreement for our officers and directors. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2009.

10.18 Lease Agreement dated April 8, 2008 between 2340 Drew St, LLC and Homeowners Choice, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Registration Statement on Form S-1 (File No. 333-150513), originally filed April 30, 2008, effective July 24, 2008, as amended.

10.19	Reimbursement Contract effective June 1, 2011 between Homeowners Choice Property & Casualty Insurance Company and the State Board of Administration which administers the Florida Hurricane Catastrophe Fund. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.
10.20	Separation Agreement dated June 17, 2011 between Francis X. McCahill, II and Homeowners Choice, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.
10.21	Bill of Sale and Assignment dated July 1, 2011 by Scorpio Systems, Inc. to Homeowners Choice, Inc. Incorporated by reference to the correspondingly numbered exhibit to our Form 10-Q filed August 12, 2011.
10.22	All other perils reinsurance agreement effective January 1, 2012 through May 31, 2012 by and between Homeowners Choice Property & Casualty Insurance Company, Inc. and various reinsurers.
10.23	Retention bonus agreement dated February 16, 2012 between Homeowners Choice, Inc. and Paresh Patel.
10.24	Executive Employment Agreement dated March 8, 2012 between Homeowners Choice, Inc. and Scott R. Wallace.
10.25	Assumption Agreement dated November 2, 2011 by and between Homeowners Choice Property & Casualty Insurance Company, Inc. and HomeWise Insurance Company.
21	Subsidiaries of Homeowners Choice, Inc.
23	Consent of Hacker, Johnson, & Smith PA.
31.1	Certification of the Chief Executive Officer
31.2	Certification of the Chief Financial Officer
32.1	Written Statement of the Chief Executive Officer Pursuant to 18 U.S.C.ss.1350
32.2	Written Statement of the Chief Financial Officer Pursuant to 18 U.S.C.ss.1350

101.INS	XBRL Instance Document.[1]
101.SCH	XBRL Taxonomy Extension Schema.[1]
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.[1]
101.DEF	XBRL Definition Linkbase.[1]
101.LAB	XBRL Taxonomy Extension Label Linkbase.[1]
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.[1]

(1) Pursuant to Rule 406T of U.S. Securities and Exchange Commission Regulation S-T, the interactive data files on Exhibit 101 of this report are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, who has signed this report on behalf of the Company and in the capacities and on the dates indicated:

HOMEOWNERS CHOICE, INC.

March 30, 2012	By	/s/ Paresh Patel Paresh Patel Chief Executive Officer (Principal Executive Officer)
March 30, 2012	By	/s/ Richard R. Allen Richard R. Allen Chief Financial Officer (Principal Financial and Accounting Officer)
March 30, 2012	By	/s/ Paresh Patel Paresh Patel Chairman of the Board of Directors
March 30, 2012	By	/s/ George Apostolou George Apostolou, Director
March 30, 2012	By	/s/ Sanjay Madhu Sanjay Madhu, Director
March 30, 2012	By	/s/ Harish M. Patel Harish M. Patel, Director
March 30, 2012	By	/s/ Gregory Politis Gregory Politis, Director
March 30, 2012	By	/s/ Anthony Saravanos Anthony Saravanos, Director
March 30, 2012	By	/s/ Martin A. Traber Martin A. Traber, Director

A signed original of this document has been provided to Homeowners Choice, Inc. and will be retained by Homeowners Choice, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 10.22

ALL OTHER PERILS EXCESS CATASTROPHE REINSURANCE CONTRACT

Effective: January 1, 2012

issued to

HOMEOWNERS CHOICE PROPERTY & CASUALTY INSURANCE COMPANY
Tampa, Florida
and
any other insurance companies which are now or
hereafter come under the ownership, control or management of
Homeowners Choice, Inc.

Effective: January 1, 2012
HCI_102_12

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TIGERRISK PARTNERS

ALL OTHER PERILS EXCESS CATASTROPHE
REINSURANCE CONTRACT
Effective: January 1, 2012
(hereinafter referred to as the “contract”)

issued to

HOMEOWNERS CHOICE PROPERTY & CASUALTY INSURANCE COMPANY
Tampa, Florida
and
any other insurance companies which are now or
hereafter come under the ownership, control or management of
Homeowners Choice, Inc.
(hereinafter referred to collectively as the “Company”)

by

THE SUBSCRIBING REINSURER(S)
EXECUTING THE INTERESTS AND LIABILITIES
AGREEMENT(S) ATTACHED HERETO
(hereinafter referred to as the “Reinsurer”)

ARTICLE 1 - BUSINESS COVERED

This Contract is to indemnify the Company in respect of its net excess liability as a result of any loss or losses which may occur during the term of this Contract under any policies, contracts and binders of insurance or reinsurance (hereinafter called “policies”) assumed from HomeWise Insurance Company, Tampa, Florida, in force at the effective date hereof, covering business classified by the Company as property business, including but not limited to Dwelling Fire and Homeowners business, subject to the terms, conditions and limitations hereinafter set forth.

ARTICLE 2 - TERM

A. This Contract shall become effective at 12:01 a.m., Local Standard Time, January 1, 2012, with respect to losses arising out of loss occurrences commencing at or after that time and date, and shall remain in force until 12:01 a.m., Local Standard Time, June 1, 2012. “Local Standard Time” as used herein shall mean local standard time at the location where the loss occurrence commences.

B. If this Contract is terminated or expires while a loss occurrence covered hereunder is in progress, the Reinsurer's liability hereunder shall, subject to the other terms and conditions of this Contract, be determined as if the entire loss occurrence had occurred prior to the termination or expiration of this Contract, provided that no part of such loss occurrence is claimed against any renewal or replacement of this Contract.

C. Notwithstanding the provisions of paragraph A above, the Company may reduce or terminate a Subscribing Reinsurer's percentage share in this Contract at any time by giving written notice to the Subscribing Reinsurer in the event any of the following circumstances occur. The effective date of reduction or termination shall be the date selected by the Company, which may be a date that is retroactively applied up to a maximum of 65 days prior to the date of public announcement for subparagraphs 1 through 5 below or upon discovery for subparagraphs 6 through 8 below, subject to the condition that such selected date must be the last day of a calendar month:

1. The Subscribing Reinsurer's policyholders' surplus (or its equivalent under the Subscribing Reinsurer's accounting system) as reported in such financial statements of the Subscribing Reinsurer as designated by the Company, has been reduced by 20.0% of the amount of surplus (or the applicable equivalent) at any date during the prior 12-month period (including the 12-month period prior to the inception of this Contract); or

2. The Subscribing Reinsurer's A.M. Best's rating has been assigned or downgraded below A- and/or its Standard & Poor's rating has been assigned or downgraded below BBB+; or

3. The Subscribing Reinsurer has become merged with, acquired by or controlled by any other entity or unaffiliated individual(s) not controlling the Subscribing Reinsurer's operations at the inception of this Contract; or

4. A State Insurance Department or other legal authority has ordered the Subscribing Reinsurer to cease writing business; or

5. The Subscribing Reinsurer has become insolvent or has been placed into liquidation, receivership, supervision, administration, winding-up or under a scheme of arrangement, or similar proceedings (whether voluntary or involuntary) or proceedings have been instituted against the Subscribing Reinsurer for the appointment of a receiver, liquidator, rehabilitator, supervisor, administrator, conservator or trustee in bankruptcy, or other agent known by whatever name, to take possession of its assets or control of its operations; or

6. The Subscribing Reinsurer has reinsured its entire liability under this Contract without the Company's prior written consent, except that this provision shall not apply to any inter-company reinsurance or inter-company pooling arrangements entered into by the Subscribing Reinsurer; or

7. The Subscribing Reinsurer has ceased assuming new or renewal property and casualty treaty reinsurance business; or

8. The Subscribing Reinsurer has hired an unaffiliated runoff claims manager that is compensated on a contingent basis or is otherwise provided with financial incentives based on the quantum of claims paid.

ARTICLE 3 - EXCLUSIONS

A. This Contract does not apply to and specifically excludes the following:

1. All excess of loss reinsurance assumed by the Company.

2. Reinsurance assumed by the Company under obligatory reinsurance agreements, except intercompany reinsurance between the Company and its affiliates and agency reinsurance where the policies involved are to be re-underwritten in accordance with the underwriting standards of the Company and reissued as policies of the Company at the next anniversary or expiration date.

3. Financial guarantee and insolvency.

4. All Accident and Health, Fidelity and Surety, Boiler and Machinery, Workers' Compensation, and Credit business.

5. Flood and/or earthquake when written as such for stand alone policies where flood and/or earthquake is the only named peril.

6. Nuclear risks as defined in the "Nuclear Incident Exclusion Clause - Physical Damage - Reinsurance (U.S.A.)" attached to and forming part of this Contract.

7. Loss or damage caused by or resulting from war, invasion, hostilities, acts of foreign enemies, civil war, rebellion, insurrection, military or usurped power, or martial law or confiscation by order of any government or public authority, but this exclusion shall not apply to loss or damage covered under a standard policy with a standard War Exclusion Clause.

8. Loss or liability from any Pool, Association or Syndicate and any assessment or similar demand for payment related to the Florida Hurricane Catastrophe Fund or Citizens Property Insurance Corporation.

9. All liability of the Company arising by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any insolvency fund. "Insolvency fund" includes any guaranty fund, insolvency fund, plan, pool, association, fund or other arrangement, however denominated, established or governed, which provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.

10. Loss and/or damage and/or costs and/or expenses arising from seepage and/or pollution and/or contamination, other than contamination from smoke. Nevertheless, this exclusion does not preclude payment of the cost of removing debris of property damaged by a loss otherwise covered hereunder, subject always to a limit of 25% of the Company's property loss under the applicable original policy.

11. Loss, damage, cost or expense arising out of an act of terrorism involving the use of any biological, chemical, nuclear or radioactive agent, material, device or weapon.

12. All liability arising out of mold, spores and/or fungus, but this exclusion shall not apply to those losses which follow as a direct result of a loss caused by a peril otherwise covered hereunder.

B. With the exception of subparagraphs 3, 6, 7 and 11 of paragraph A above, should any judicial, regulatory or legislative entity having legal jurisdiction invalidate any exclusion on the Company's policy, any amount of loss for which the Company is liable because of such invalidation will not be excluded hereunder.

C. The Company may submit to the Reinsurer, for special acceptance hereunder, business not covered by this Contract. Within seven days of receipt of such request, each Subscribing Reinsurer shall accept such request, ask for additional information, or reject the request. If a Subscribing Reinsurer fails to respond to a special acceptance request within seven days, the Subscribing Reinsurer shall be deemed to have agreed to the special acceptance. If said business is accepted by the Reinsurer, it will be subject to the terms of this Contract, except as such terms are modified by such acceptance. Any special acceptance business covered under the reinsurance agreement being replaced by this Contract will be automatically covered hereunder. Further, in the event a Subscribing Reinsurer becomes a party to this Contract subsequent to the special acceptance of any business not normally covered hereunder, the Subscribing Reinsurer shall automatically accept the same as being a part of this Contract.

ARTICLE 4 - RETENTION AND LIMIT

A. The Company shall retain and be liable for the first $5,000,000 of ultimate net loss arising out of each loss occurrence. The Reinsurer shall then be liable for the amount by which such ultimate net loss exceeds the Company's retention, but the liability of the Reinsurer shall not exceed $10,000,000, as respects any one loss occurrence, nor shall it exceed $20,000,000 as respects all loss or losses arising out of loss occurrences commencing during the term of this Contract.

B. Notwithstanding the provisions above, no claim shall be made hereunder as respects losses arising out of loss occurrences commencing during the term of this Contract unless at least two risks insured or reinsured by the Company are involved in such loss occurrence. For purposes hereof, the Company shall be the sole judge of what constitutes “one risk.”

ARTICLE 5 - REINSTATEMENT

A. In the event all or any portion of the reinsurance coverage provided by this Contract is exhausted by loss, the amount so exhausted shall be reinstated immediately from the time the loss occurrence commences hereon. For each amount so reinstated the Company agrees to pay additional premium equal to the product of the following:

1. The percentage of the loss occurrence limit reinstated (based on the loss paid by the Reinsurer); times

2. The earned reinsurance premium for the term of this Contract (exclusive of reinstatement premium).

B. Whenever the Company requests payment by the Reinsurer of any loss hereunder, the Company shall submit a statement to the Reinsurer of reinstatement premium due the Reinsurer. Any reinstatement premium shown to be due the Reinsurer as reflected by any such statement (less prior payments, if any) shall be payable by the Company concurrently with payment by the Reinsurer of the requested loss. Any return reinstatement premium shown to be due the Company shall be remitted by the Reinsurer as promptly as possible after receipt and verification of the Company’s statement.

C. Notwithstanding anything stated herein, the liability of the Reinsurer hereunder shall not exceed $10,000,000 as respects loss or losses arising out of any one loss occurrence, nor shall it exceed $20,000,000 as respects all loss or losses arising out of loss occurrences commencing during the term of this Contract.

ARTICLE 6 - RATE AND PREMIUM

A. As premium for the reinsurance coverage provided by this Contract, the Company shall pay the Reinsurer $850,000 on January 1, 2012.

B. If the Company elects to reduce or terminate a Subscribing Reinsurer’s participation percentage in accordance with paragraph C of the Term Article, the reinsurance premium due hereunder in accordance with the provisions of paragraph A above shall be replaced with the following:

1. In the event a loss occurs prior to the effective date of reduction or termination and the Reinsurer's liability for such loss occurrence exceeds $850,000, the reinsurance premium for the term of this Contract shall equal $850,000 times the ratio the loss recoverable bears to $10,000,000.

2. In the event no loss occurs prior to the effective date of reduction or termination or a loss occurs whereby the Reinsurer's liability for such loss occurrence is less than $850,000, the reinsurance premium for the term of this Contract shall equal the pro rata portion of the reinsurance premium otherwise due hereunder based on the proportion the term of this Contract bears to the original five-month term of this Contract.

ARTICLE 7 - DEFINITIONS

A. The term "ultimate net loss" as used herein shall be defined as the sum or sums (including loss in excess of policy limits, extra contractual obligations and loss adjustment expense, as hereinafter defined) paid or payable by the Company in settlement of claims and in satisfaction of judgments rendered on account of such claims after deduction of all salvage, all recoveries, and all claims on inuring insurance or reinsurance, whether collectible or not. Nothing herein shall be construed to mean that losses under this Contract are not recoverable until the Company's ultimate net loss has been ascertained.

B. The terms "loss in excess of policy limits" and "extra contractual obligations" as used herein shall be defined as follows:

1. "Loss in excess of policy limits" shall mean 90.0% of any amount paid or payable by the Company in excess of its policy limits, but otherwise within the terms of its policy, such loss in excess of the Company's policy limits having been incurred because of, but not limited to, failure by the Company to settle within the policy limits or by reason of the Company's alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of an action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such an action.

2. "Extra contractual obligations" shall mean 90.0% of any punitive, exemplary, compensatory or consequential damages paid or payable by the Company, not covered by any other provision of this Contract and which arise from the handling of any claim on business subject to this Contract, such liabilities arising because of, but not limited to, failure by the Company to settle within the policy limits or by reason of the Company's alleged or actual negligence, fraud or bad faith in rejecting an offer of settlement or in the preparation of the defense or in the trial of an action against its insured or reinsured or in the preparation or prosecution of an appeal consequent upon such an action. An extra contractual obligation shall be deemed, in all circumstances, to have occurred on the same date as the loss covered or alleged to be covered under the policy.

Notwithstanding anything stated herein, this Contract shall not apply to any loss in excess of policy limits or any extra contractual obligation incurred by the Company as a result of any fraudulent and/or criminal act by any officer or director of the Company acting individually or collectively or in collusion with any individual or corporation or any other organization or party involved in the presentation, defense or settlement of any claim covered hereunder.

Further, any loss in excess of policy limits and/or extra contractual obligations that are made in connection with this Contract shall not exceed 25.0% of the contractual loss under all policies involved in the loss occurrence.

Savings Clause (Applicable only if the Subscribing Reinsurer is domiciled in the State of New York): In no event shall coverage be provided to the extent that such coverage is not permitted under New York law.

C. The term “loss adjustment expense” as used herein shall be defined as expenses assignable to the investigation, appraisal, adjustment, settlement, litigation, defense, and/or appeal of claims, regardless of how such expenses are classified for statutory reporting purposes. Loss adjustment expense shall include, but not be limited to, interest on judgments, expenses of outside adjusters, expenses and a pro rata share of salaries of the Company’s field employees and expenses of other employees of the Company who have been temporarily diverted from their normal and customary duties and assigned to the adjustment of losses covered by this Contract, expenses of the Company’s officials incurred in connection with losses covered by this Contract, and declaratory judgment expenses or other legal expenses and costs incurred in connection with coverage questions and legal actions connected thereto. Loss adjustment expense shall not include normal office expenses or salaries of the Company’s officials.

D. The term “declaratory judgment expense” as used herein shall be defined as the Company’s own costs and legal expense incurred in direct connection with declaratory judgment actions brought to determine the Company’s defense and/or indemnification obligations that are assignable to specific claims arising out of policies reinsured by this Contract, regardless of whether the declaratory judgment action is successful or unsuccessful. Any declaratory judgment expense shall be deemed to have been fully incurred by the Company on the same date as the original loss (if any) giving rise to the action.

E. “Term of this Contract” as used herein shall be defined as the period from 12:01 a.m., Local Standard Time, January 1, 2012 through 12:01 a.m., Local Standard Time, June 1, 2012. However, if this Contract is terminated, “term of this Contract” as used herein shall mean the period from 12:01 a.m., Local Standard Time, January 1, 2012 until the effective time and date of termination.

ARTICLE 8 - LOSS OCCURRENCE DEFINITION

A. The term “loss occurrence” shall mean the sum of all individual losses directly occasioned by any one disaster, accident or loss or series of disasters, accidents or losses arising out of one event which occurs within the area of one state of the United States or province of Canada and states or provinces contiguous thereto and to one another. However, the duration and extent of any one loss occurrence shall be limited to all individual losses sustained by the Company occurring during any period of 168 consecutive hours arising out of and directly occasioned by the same event except that the term loss occurrence shall be further defined as follows:

1. As regards windstorm, hail, tornado, cyclone, including ensuing collapse and water damage, all individual losses sustained by the Company occurring during any period of 96 consecutive hours arising out of and directly occasioned by the same event, provided however that “loss occurrence” shall not include losses sustained by the Company arising out of and directly occasioned by any one storm declared to be a Hurricane by the National Hurricane Center. Further, the event need not be limited to one state or province or states or provinces contiguous thereto.

2. As regards riot, riot attending a strike, civil commotion, vandalism and malicious mischief, all individual losses sustained by the Company occurring during any period of 96 consecutive hours within the area of one municipality or county and the municipalities or counties contiguous thereto arising out of and directly occasioned by the same event. The maximum duration of 96 consecutive hours may be extended in respect of individual losses which occur beyond such 96 consecutive hours during the continued occupation of an assured’s premises by strikers, provided such occupation commenced during the aforesaid period.

3. As regards earthquake (the epicenter of which need not necessarily be within the territorial confines referred to in the opening paragraph of this Article) and fire following directly occasioned by the earthquake, only those individual fire losses which commence during the period of 168 consecutive hours may be included in the Company’s loss occurrence.

4. As regards freeze, only individual losses directly occasioned by collapse, breakage of glass and water damage (caused by bursting of frozen pipes and tanks) may be included in the Company’s loss occurrence.

5. As regards firestorms, brush fires and any other fires or series of fires, irrespective of origin (except as provided in subparagraphs 2 and 3 above), which spread through trees, grassland or other vegetation, all individual losses sustained by the Company which occur during any period of 168 consecutive hours within the area of one state of the United States or province of Canada and states or provinces contiguous thereto and to one another may be included in the Company’s loss occurrence.

B. For all loss occurrences the Company may choose the date and time when any such period of consecutive hours commences provided that it is not earlier than the date and time of the occurrence of the first recorded individual loss sustained by the Company arising out of that disaster, accident or loss and provided that only one such period of 168 consecutive hours shall apply with respect to one event, except for any loss occurrence referred to in subparagraph 1 or 2 of paragraph A above where only one such period of 96 consecutive hours shall apply with respect to one event, regardless of the duration of the event.

C. No individual losses occasioned by an event that would be covered by the 96 hours clauses may be included in any loss occurrence claimed under the 168 hours provision.

ARTICLE 9 - ACCESS TO RECORDS

The Reinsurer or its designated representatives shall have access to the books and records of the Company on matters relating to this reinsurance at all reasonable times, and at the location where such books and records are maintained in the ordinary course of business, for the purpose of obtaining information concerning this Contract or the subject matter thereof. Notification of a request for inspection of records shall be sent to the Company by the Reinsurer in written form, and shall normally be given four weeks in advance. Notwithstanding the above, the Reinsurer shall not have any right of access to the records of the Company if it is not current in all undisputed payments due the Company.

ARTICLE 10 - AGENCY (BRMA 73A)

If more than one reinsured company is named as a party to this Contract, the first named company shall be deemed the agent of the other reinsured companies for purposes of sending or receiving notices required by the terms and conditions of this Contract, and for purposes of remitting or receiving any monies due any party.

ARTICLE 11 - ARBITRATION

A. As a condition precedent to any right of action hereunder, in the event of any dispute or difference of opinion hereafter arising with respect to this Contract, it is hereby mutually agreed that such dispute or difference of opinion shall be submitted to arbitration. One Arbiter shall be chosen by the Company, the other by the Reinsurer, and an Umpire shall be chosen by the two Arbiters before they enter upon arbitration, all of whom shall be active or retired disinterested executive officers of insurance or reinsurance companies or Lloyd's of London Underwriters. In the event that either party should fail to choose an Arbiter within 30 days following a written request by the other party to do so, the requesting party may choose two Arbiters who shall in turn choose an Umpire before entering upon arbitration. If the two Arbiters fail to agree upon the selection of an Umpire within 30 days following their appointment, the two Arbiters shall request the American Arbitration Association to appoint the Umpire. If the American Arbitration Association fails to appoint the Umpire within 30 days after it has been requested to do so, either party may request a justice of a Court of general jurisdiction of the state in which the arbitration is to be held to appoint the Umpire.

B. Each party shall present its case to the Arbiters within 30 days following the date of appointment of the Umpire. The Arbiters shall consider this Contract as an honorable engagement rather than merely as a legal obligation and they are relieved of all judicial formalities and may abstain from following the strict rules of law. The decision of the Arbiters shall be final and binding on both parties; but failing to agree, they shall call in the Umpire and the decision of the majority shall be final and binding upon both parties. Judgment upon the final decision of the Arbiters may be entered in any court of competent jurisdiction.

C. If more than one reinsurer is involved in the same dispute, all such reinsurers shall constitute and act as one party for purposes of this Article and communications shall be made by the Company to each of the reinsurers constituting one party, provided, however, that nothing herein shall impair the rights of such reinsurers to assert several, rather than joint, defenses or claims, nor be construed as changing the liability of the reinsurers participating under the terms of this Contract from several to joint.

D. Each party shall bear the expense of its own Arbiter, and shall jointly and equally bear with the other the expense of the Umpire and of the arbitration. In the event that the two Arbiters are chosen by one party, as above provided, the expense of the Arbiters, the Umpire and the arbitration shall be equally divided between the two parties.

E. Any arbitration proceedings shall take place in Tampa, Florida; however, the location may be changed if mutually agreed upon by the parties of this Contract. Notwithstanding the location of arbitration, all proceedings pursuant hereto shall be governed by the law of the State of Florida.

ARTICLE 12 - CONFIDENTIALITY

A. The Reinsurer hereby acknowledges that the terms and conditions of this Contract, any materials provided in the course of audit or inspection and any documents, information and data provided to it by the Company, whether directly or through an authorized agent, in connection with the placement and execution of this Contract (hereinafter referred to as “confidential information”) are proprietary and confidential to the Company. Confidential information shall not include documents, information or data that the Reinsurer can show:

1. Are publicly available or have become publicly available through no unauthorized act of the Reinsurer;

2. Have been rightfully received from a third person without obligation of confidentiality; or

3. Were known by the Reinsurer prior to the placement of this Contract without an obligation of confidentiality.

B. Absent the written consent of the Company, the Reinsurer shall not disclose any confidential information to any third parties, including any affiliated companies, except:

1. When required by retrocessionaires subject to the business ceded to this Contract;

2. When required by regulators performing an audit of the Reinsurer's records and/or financial condition;

3. When required by external auditors performing an audit of the Reinsurer's records in the normal course of business; or

4. When required by attorneys or arbitrators in connection with an actual or potential dispute hereunder.

Further, the Reinsurer agrees not to use any confidential information for any purpose not related to the performance of its obligations or enforcement of its rights under this Contract.

C. Notwithstanding the above, in the event the Reinsurer is required by court order, other legal process or any regulatory authority to release or disclose any or all of the confidential information, the Reinsurer agrees to provide the Company with written notice of same at least 10 days prior to such release or disclosure and to use its best efforts to assist the Company in maintaining the confidentiality provided for in this Article.

D. The provisions of this Article shall extend to the officers, directors and employees of the Reinsurer and its affiliates, and shall be binding upon their successors and assigns.

ARTICLE 13 - CURRENCY (BRMA 12A)

A. Whenever the word "Dollars" or the "$" sign appears in this Contract, they shall be construed to mean United States Dollars and all transactions under this Contract shall be in United States Dollars.

B. Amounts paid or received by the Company in any other currency shall be converted to United States Dollars at the rate of exchange at the date such transaction is entered on the books of the Company.

ARTICLE 14 - ENTIRE AGREEMENT

A. This Contract and any related trust agreement, letter of credit and/or special acceptance, shall constitute the entire agreement between the parties hereto with respect to the business reinsured hereunder, and there are no understandings between the parties hereto other than as expressed in this Contract.

B. Any change to or modification of this Contract shall be null and void unless made by an addendum signed by both parties.

ARTICLE 15 - ERRORS AND OMISSIONS (BRMA 14F)

Inadvertent delays, errors or omissions made in connection with this Contract or any transaction hereunder shall not relieve either party from any liability which would have attached had such delay, error or omission not occurred, provided always that such error or omission is rectified as soon as possible after discovery.

ARTICLE 16 - FEDERAL EXCISE TAX (BRMA 17D)

A. The Reinsurer has agreed to allow for the purpose of paying the Federal Excise Tax the applicable percentage of the premium payable hereon (as imposed under Section 4371 of the Internal Revenue Code) to the extent such premium is subject to the Federal Excise Tax.

B. In the event of any return of premium becoming due hereunder, the Reinsurer will deduct the applicable percentage from the return premium payable hereon and the Company or its agent should take steps to recover the tax from the United States Government.

ARTICLE 17 - FUNDING OF RESERVES

A. The Reinsurer agrees to fund its share of the Company's ceded unearned premium (including but not limited to the unearned portion of any deposit premium installment as calculated by the Company) and outstanding loss and loss adjustment expense reserves (including all case reserves plus any reasonable amount estimated to be unreported from known loss occurrences) by:

   1. Clean, irrevocable and unconditional letter of credit issued and confirmed, if confirmation is required by the insurance regulatory authorities involved, by a bank or banks meeting the NAIC Securities Valuation Office credit standards for issuers of letters of credit and acceptable to said insurance regulatory authorities; and/or

   2. Escrow accounts for the benefit of the Company; and/or

   3. Cash advances;

if the Reinsurer:

1. Is unauthorized in any state of the United States of America or the District of Columbia having jurisdiction over the Company and if, without such funding, a penalty would accrue to the Company on any financial statement it is required to file with the insurance regulatory authorities involved; or

2. Has experienced any of the circumstances described in paragraph C of the Term Article. However, if such circumstance is rectified, then no special funding requirements shall apply and any such current funding in accordance with the provisions above shall be released to the Reinsurer.

For purposes of this Contract, the Lloyd's United States Credit for Reinsurance Trust Fund shall be considered an acceptable funding instrument. The Reinsurer, at its sole option, may fund in other than cash if its method and form of funding are acceptable to the insurance regulatory authorities involved.

B. If a Subscribing Reinsurer fails to fulfill its funding obligation (if any) under this Article, the Company may, at its option, require the Subscribing Reinsurer to pay, and the Subscribing Reinsurer agrees to pay, any interest charge on the funding obligation calculated on the last business day of each month as follows:

1. The number of full days that have expired since the earliest of the applicable following dates:

   a. As respects a Subscribing Reinsurer that is unauthorized in any state of the United States of America or District of Columbia having jurisdiction over the Company, December 31 of the calendar year in which the funding was required;

   b. As respects a Subscribing Reinsurer that has experienced any of the circumstances described in paragraph C of the Term Article, the first date such circumstance occurs;

   times:

2. 1/365ths of the sum of 2.0% and the U.S. prime rate as quoted in *The Wall Street Journal* on the first day of the month for which the calculation is made; times

3. The funding obligation, less the amount, if any, funded by the Subscribing Reinsurer prior to the applicable date determined in subparagraph 1 above.

It is agreed that interest shall accumulate until the full interest charge amount as provided for in this paragraph and the funding obligation are paid.

If the interest rate provided under this Article exceeds the maximum interest rate allowed by any applicable law or is held unenforceable by an arbitrator or a court of competent jurisdiction, such interest rate shall be modified to the highest rate permitted by the applicable law, and all remaining provisions of this Article and Contract shall remain in full force and effect without being impaired or invalidated in any way.

C. With regard to funding in whole or in part by letters of credit, it is agreed that each letter of credit will be in a form acceptable to insurance regulatory authorities involved, will be issued for a term of at least one year and will involve an "evergreen clause," which automatically extends the term for at least one additional year at each expiration date unless written notice of non-renewal is given to the Company not less than 30 days prior to said expiration date. The Company and the Reinsurer further agree, notwithstanding anything to the contrary in this Contract, that said letter of credit may be drawn upon by the Company or its successors in interest at any time, without diminution because of the insolvency of the Company or the Reinsurer, but only for one or more of the following purposes:

1. To reimburse itself for the Reinsurers' share of losses and/or loss adjustment expense paid under the terms of policies reinsured hereunder, unless paid in cash by the Reinsurer;

2. To reimburse itself for the Reinsurer's share of any other amounts claims to be due hereunder, unless paid in cash by the Reinsurer;

3. To fund a cash account in an amount equal to the Reinsurer's share of any ceded unearned premium and/or outstanding loss and loss adjustment expense reserves (including all case reserves plus any reasonable amount estimated to be unreported for known loss occurrences) funded by means of a letter of credit which is under non-renewal notice, if said letter of credit has not been renewed or replaced by the Reinsurer 10 days prior to its expiration date;

4. To refund to the Reinsurer any sums in excess of the actual amount required to fund the Reinsurer's share of the Company's ceded unearned premium and/or outstanding loss and loss adjustment expense reserves (including all case reserves plus any reasonable amount estimated to be unreported from known loss occurrences), if so requested by the Reinsurer; and

5. To reimburse itself for the Reinsurer's portion of the unearned reinsurance premium paid to the Reinsurer hereunder.

In the event the amount drawn by the Company on any letter of credit is in excess of the actual amount required for C(1), C(3), or C(5), or in the case of C(2), the actual amount determined to be due, the Company shall promptly return to the Reinsurer the excess amount so drawn.

ARTICLE 18 - GOVERNING LAW

This Contract shall be governed as to performance, administration and interpretation by the laws of the State of Florida, exclusive of the rules with respect to conflicts of law; however, with respect to credit for reinsurance, the applicable rules of all states shall apply.

ARTICLE 19 - INSOLVENCY

A. If more than one reinsured company is included within the definition of “Company” hereunder, this Article shall apply individually to each such company.

B. In the event of the insolvency of the Company, this reinsurance shall be payable directly to the Company or to its liquidator, receiver, conservator or statutory successor, with reasonable provision for verification, on the basis of the liability of the Company or on the basis of claims filed and allowed in the liquidation proceeding, whichever may be required by applicable statute, without diminution because of the insolvency of the Company or because the liquidator, receiver, conservator or statutory successor of the Company has failed to pay all or a portion of any claim. It is agreed, however, that the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer of the pendency of a claim against the Company indicating the policy or bond reinsured which claim would involve a possible liability on the part of the Reinsurer within a reasonable time after such claim is filed in the conservation or liquidation proceeding or in the receivership, and that during the pendency of such claim, the Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated, any defense or defenses that it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer shall be chargeable, subject to the approval of the Court, against the Company as part of the expense of conservation or liquidation to the extent of a pro rata share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer.

B. Where two or more reinsurers are involved in the same claim and a majority in interest elect to interpose defense to such claim, the expense shall be apportioned in accordance with the terms of this Contract as though such expense had been incurred by the Company.

C. It is further understood and agreed that, in the event of the insolvency of the Company, the reinsurance under this Contract shall be payable directly by the Reinsurer to the Company or to its liquidator, receiver or statutory successor, except as provided by Section 4118(a) of the New York Insurance Law or except (1) where this Contract specifically provides another payee or other party as more specifically limited by any statute or regulation applicable hereto, of such reinsurance in the event of the insolvency of the Company or (2) where the Reinsurer with the consent of the direct insured or insureds has assumed such Policy obligations of the Company as direct obligations of the Reinsurer to the payees under such Policies and in substitution for the obligations of the Company to such payees. However, the exceptions provided in (1) and (2) above shall apply only to the extent that applicable statutes or regulations specifically permit such exceptions.

ARTICLE 20 - LATE PAYMENTS

A. The interest penalties provided for in this Article shall apply to the Reinsurer or to the Company in the following circumstances:

1. Payments due from the Reinsurer to the Company shall have as a due date the date on which the agreed proof of loss is received by the Reinsurer, and shall be overdue 30 days thereafter. Payment to the Intermediary is deemed to be payment to the Company for purposes of this Article.

2. Payments due from the Company to the Reinsurer shall have as a due date the date specified in this Contract. Payments shall be overdue 30 days thereafter. Premium adjustments, if any, shall be overdue 30 days following the due date set forth under the terms of this Contract.

3. The Company shall provide a copy of the original insured's proof of loss, and a copy of the claim adjuster's report(s) or other evidence of indemnification for losses exceeding the excess limit on an incurred basis. If, subsequent to receipt of this evidence, the information contained therein is insufficient or not in accordance with the contractual conditions, then the payment due date as defined in subparagraph 1 shall be deemed to be the date upon which the Reinsurer received additional information necessary to approve payment of the claim or the claim is presented in an acceptable manner. Interest as stipulated in subparagraph 4 shall be payable should a disputed claim be ultimately settled and if the period set out in subparagraph 1 is exceeded, but only to the extent that the final loss payment exactly tracks with the original proof of loss.

4. Overdue amounts shall bear simple interest from the overdue date at the 90-day United States Treasury Bill rate set forth by the Federal Reserve Board for the first Monday of the calendar month in which the amount becomes overdue, as published in the Federal Reserve Statistical Release. If the interest generated for 100% in respect of any overdue payment as outlined in subparagraph 1 or 2 is $500 or less, then the interest penalty shall be waived.

5. For the purposes of this Article, reinsuring Lloyd's Underwriters shall be viewed as one entity. The provisions set forth herein shall not be applicable until the creditor party shall have manifested to the debtor party its intent to invoke the terms of this Article.

ARTICLE 21 - LIABILITY OF THE REINSURER

A. The liability of the Reinsurer shall follow that of the Company in every case and be subject in all respects to all the general and specific stipulations, clauses, waivers, interpretations and modifications of the Company's policies and any endorsements thereon. However, in no event shall this be construed in any way to provide coverage outside the terms and conditions set forth in this Contract.

B. Nothing herein shall in any manner create any obligations or establish any rights against the Reinsurer in favor of any third party or any persons not parties to this Contract.

ARTICLE 22 - LOSS NOTICE AND SETTLEMENTS

A. Whenever losses sustained by the Company appear likely to result in a claim hereunder, the Company shall notify the Reinsurer, and the Reinsurer shall have the right to participate in the adjustment of such losses at its own expense.

B. All loss settlements made by the Company, provided they are within the terms of this Contract, shall be binding upon the Reinsurer, and the Reinsurer agrees to pay all amounts for which it may be liable upon receipt of reasonable evidence of the amount paid (or scheduled to be paid within 14 days) by the Company. Notwithstanding the foregoing, and subject to the provisions set forth under paragraph B of the Exclusions Article, should any judicial, regulatory, or legislative entity having legal jurisdiction require that the Company be liable for any amounts that are otherwise outside the terms of the Company's original policies, the Reinsurer agrees that such amounts shall be subject always to the terms and conditions of this Contract.

ARTICLE 23 - NET RETAINED LINES (BRMA 32E)

A. This Contract applies only to that portion of any policy which the Company retains net for its own account (prior to deduction of any underlying reinsurance specifically permitted in this Contract), and in calculating the amount of any loss hereunder and also in computing the amount or amounts in excess of which this Contract attaches, only loss or losses in respect of that portion of any policy which the Company retains net for its own account shall be included.

B. The amount of the Reinsurer's liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other reinsurer(s), whether specific or general, any amounts which may have become due from such reinsurer(s), whether such inability arises from the insolvency of such other reinsurer(s) or otherwise.

ARTICLE 24 - NON-WAIVER

The failure of the Company or the Reinsurer to insist on compliance with this Contract or to exercise any right or remedy hereunder shall not constitute a waiver of any rights or remedies contained herein nor stop either party from thereafter demanding full and complete compliance nor prevent either party from exercising such rights or remedies in the future.

ARTICLE 25 - NOTICES AND CONTRACT EXECUTION

A. Whenever a notice, statement, report or any other written communication is required by this Contract, unless otherwise specified, such notice, statement, report or other written communication may be transmitted by certified or registered mail, nationally or internationally recognized express delivery service, personal delivery, electronic mail, or facsimile. With the exception of notices of termination, first class mail is also acceptable.

B. The use of any of the following shall constitute a valid execution of this Contract or any amendments thereto:

   1. Paper documents with an original ink signature;

   2. Facsimile or electronic copies of paper documents showing an original ink signature; and/or

   3. Electronic records with an electronic signature made via an electronic agent. For the purposes of this Contract, the terms “electronic record,” “electronic signature” and “electronic agent” shall have the meanings set forth in the Electronic Signatures in Global and National Commerce Act of 2000 or any amendments thereto.

C. This Contract may be executed in one or more counterparts, each of which, when duly executed, shall be deemed an original.

ARTICLE 26 - OFFSET (BRMA 36E)

The Company and the Reinsurer, each at its option, may offset any balance or balances, whether on account of premiums, claims and losses, loss adjustment expenses or salvages due from one party to the other under this Contract or under any other reinsurance agreement heretofore or hereafter entered into between the Company and the Reinsurer, whether acting as assuming reinsurer or as ceding company; provided, however, that in the event of the insolvency of a party hereto, offsets shall only be allowed in accordance with applicable statutes and regulations.

ARTICLE 27 - OTHER REINSURANCE

The Company shall be permitted to carry other reinsurance, recoveries under which shall inure solely to the benefit of the Company and be entirely disregarded in applying all of the provisions of this Contract.

ARTICLE 28 - SALVAGE AND SUBROGATION

The Reinsurer shall be credited with salvage (i.e., reimbursement obtained or recovery made by the Company, less the actual cost, excluding salaries of officials and employees of the Company and sums paid to attorneys as a retainer, of obtaining such reimbursement or making such recovery) on account of claims and settlements involving reinsurance hereunder. Salvage thereon shall always be used to reimburse the excess carriers in the reverse order of their priority according to their participation before being used in any way to reimburse the Company for its primary loss. The Company hereby agrees to enforce its rights to salvage and subrogation relating to any loss, a part of which loss was sustained by the Reinsurer, and to prosecute all claims arising out of such rights if, in the Company's opinion, it is economically reasonable to do so. Should the Company neglect or refuse to enforce such rights, the Reinsurer is hereby empowered and authorized to institute the appropriate action in the name of the Company, at the Reinsurer's expense.

ARTICLE 29 - SERVICE OF SUIT

(Applicable if the Reinsurer is not domiciled in the United States of America, and/or is not authorized in any State, Territory, or District of the United States where authorization is required by insurance regulatory authorities)

A. This Article will not be read to conflict with or override the obligations of the parties to arbitrate their disputes as provided for in the Arbitration Article. This Article is intended as an aid to compelling arbitration or enforcing such arbitration or arbitral award, not as an alternative to the Arbitration Article for resolving disputes arising out of this Contract.

B. In the event the Reinsurer fails to pay any amount claimed to be due hereunder or fails to otherwise perform its obligations hereunder, the Reinsurer, at the request of the Company, will submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. The Reinsurer, once the appropriate Court is accepted by the Reinsurer or is determined by removal, transfer or otherwise, as provided for above, will comply with all requirements necessary to give said Court jurisdiction and, in any suit instituted against any of the Subscribing Reinsurers upon this Contract, will abide by the final decision of such Court or of any Appellate Court in the event of an appeal.

C. Further, pursuant to any statute of any state, territory or district of the United States which makes provision therefor, the Reinsurer hereby designates the party named in its Interests and Liabilities Contract, or if no party is named therein, the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as its true and lawful attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Contract.

ARTICLE 30 - SEVERABILITY (BRMA 72E)

If any provision of this Contract shall be rendered illegal or unenforceable by the laws, regulations or public policy of any state, such provision shall be considered void in such state, but this shall not affect the validity or enforceability of any other provision of this Contract or the enforceability of such provision in any other jurisdiction.

ARTICLE 31 - TAXES

In consideration of the terms under which this Contract is issued, the Company will not claim a deduction in respect of the premium hereon when making tax returns, other than income or profits tax returns, to any state or territory of the United States of America or the District of Columbia.

ARTICLE 32 - TERRITORY

The liability of the Reinsurer shall be limited to losses under policies covering property located within the territorial limits of the State of Florida; but this limitation shall not apply to moveable property if the Company's policies provide coverage when said moveable property is outside the aforementioned territorial limits.

ARTICLE 33 - INTERMEDIARY (BRMA 23A)

TigerRisk Partners LLC is hereby recognized as the Intermediary negotiating this Contract for all business hereunder. All communications (including, but not limited to, notices, statements, premium, return premium, commissions, taxes, losses, loss adjustment expense, salvages and loss settlements) relating thereto shall be transmitted to the Company or the Reinsurer through TigerRisk Partners LLC, 7601 France Avenue South, Suite 200, Edina, MN 55435. Payments by the Company to the Intermediary shall be deemed to constitute payment to the Reinsurer. Payments by the Reinsurer to the Intermediary shall be deemed to constitute payment to the Company only to the extent that such payments are actually received by the Company.

IN WITNESS WHEREOF, the Company has confirmed its review of the Interests and Liabilities Agreement(s) attached to and forming part of this Contract and its agreement to be bound by the terms and conditions thereof, and has executed this Contract by its duly authorized representative on:

this _____ day of _____, in the year _____.

_____

HOMEOWNERS CHOICE PROPERTY & CASUALTY INSURANCE COMPANY (for and on behalf of the "Company")

NUCLEAR INCIDENT EXCLUSION CLAUSE-PHYSICAL DAMAGE-REINSURANCE (U.S.A.)

1. This Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly and whether as Insurer or Reinsurer, from any Pool of Insurers or Reinsurers formed for the purpose of covering Atomic or Nuclear Energy risks.
2. Without in any way restricting the operation of paragraph (1) of this Clause, this Reinsurance does not cover any loss or liability accruing to the Reassured, directly or indirectly and whether as Insurer or Reinsurer, from any insurance against Physical Damage (including business interruption or consequential loss arising out of such Physical Damage) to:
   I. Nuclear reactor power plants including all auxiliary property on the site, or
   II. Any other nuclear reactor installation, including laboratories handling radioactive materials in connection with reactor installations, and “critical facilities” as such, or
   III. Installations for fabricating complete fuel elements or for processing substantial quantities of “special nuclear material”, and for reprocessing, salvaging, chemically separating, storing or disposing of “spent” nuclear fuel or waste materials, or
   IV. Installations other than those listed in paragraph (2) III above using substantial quantities of radioactive isotopes or other products of nuclear fission.
3. Without in any way restricting the operations of paragraphs (1) and (2) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, from any insurance on property which is on the same site as a nuclear reactor power plant or other nuclear installation and which normally would be insured therewith except that this paragraph (3) shall not operate
   (a) where Reassured does not have knowledge of such nuclear reactor power plant or nuclear installation, or
   (b) where said insurance contains a provision excluding coverage for damage to property caused by or resulting from radioactive contamination, however caused. However on and after 1st January 1960 this sub-paragraph (b) shall only apply provided the said radioactive contamination exclusion provision has been approved by the Governmental Authority having jurisdiction thereof.
4. Without in any way restricting the operations of paragraphs (1), (2) and (3) hereof, this Reinsurance does not cover any loss or liability by radioactive contamination accruing to the Reassured, directly or indirectly, and whether as Insurer or Reinsurer, when such radioactive contamination is a named hazard specifically insured against.
5. It is understood and agreed that this Clause shall not extend to risks using radioactive isotopes in any form where the nuclear exposure is not considered by the Reassured to be the primary hazard.
6. The term “special nuclear material” shall have the meaning given it in the Atomic Energy Act of 1954 or by any law amendatory thereof.
7. Reassured to be sole judge of what constitutes:
   (a) substantial quantities, and
   (b) the extent of installation, plant or site.

Note. - Without in any way restricting the operation of paragraph (1) hereof, it is understood and agreed that

(a) all policies issued by the Reassured on or before 31st December 1957 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.

(b) with respect to any risk located in Canada policies issued by the Reassured on or before 31st December 1958 shall be free from the application of the other provisions of this Clause until expiry date or 31st December 1960 whichever first occurs whereupon all the provisions of this Clause shall apply.

12/12/57
N.M.A. 1119
BRMA 35B

Effective: January 1, 2012
HCI_102_12

Exhibit 10.23

RETENTION BONUS AGREEMENT

I am chief executive officer of Homeowners Choice, Inc. and effective January 16, 2012 I am entitled to a $600,000 retention bonus payment from the company. I agree to repay the bonus on a prorata basis if I voluntarily leave service of the company before December 16, 2012.

Effective January 16, 2012

Paresh Patel

Exhibit 10.24

EXECUTIVE EMPLOYMENT AGREEMENT

THIS AGREEMENT, dated March 8, 2012, is by and between Homeowners Choice, Inc. (the "Company"), a Florida corporation having its principal place of business at 5300 West Cypress Street, Suite 100, Tampa, Florida 33607, and Scott Wallace, whose address is 11036 Turnbridge Drive, Jacksonville, Florida 32256 (the "Executive").

BACKGROUND STATEMENT

The Company, through its Affiliates (as defined in this Agreement), is principally engaged in the business of providing homeowners' property and casualty insurance and owning and operating real estate ventures. An integral part of its insurance business is the investment of surplus and reserve funds. The Company contemplates that it may engage in other insurance lines of business and other business activities as well. (All such business and investment activities, present and future, whether engaged in by the Company or an Affiliate are referred to in this Agreement as the "Business"). The Company has developed and expects to develop trade secrets, methods of doing business, business plans, computer software and other items, all of which are worthy of protection. The Company considers it to be in its best interests to have the benefit of the Executive's services as provided in this Agreement and the Executive is willing to render such services to the Company in accordance with the provisions of this Agreement.

NOW THEREFORE, in consideration of and reliance upon the foregoing background statement and the representations and warranties contained in this Agreement, the Company and the Executive agree to the following terms and conditions:

TERMS AND CONDITIONS

1. Employment and Title. Commencing April 16, 2012 or such other date to which the Company and the Executive may agree, the Company agrees to employ the Executive, and the Executive agrees to serve, as the Company's Division President - Property and Casualty, upon the terms and conditions set forth in this Agreement.

2. Duties, Responsibilities and Authority. During the term of his employment under this Agreement, the Executive will have the duties, responsibilities and authorities assigned to him by the Company's chief executive officer and its board of directors, which duties, responsibilities and authorities will not be inconsistent with the Executive's role as the Company's Division President - Property and Casualty. The Executive will serve as the president of each insurance company within the Property and Casualty Division. The Executive will report to the Company's chief executive officer and its board of directors. The Executive agrees to devote his best efforts and substantially all of his full business time, energies and abilities, diligently and in good faith, to perform his duties, fulfill his responsibilities, and exercise his authority hereunder for the exclusive benefit of the Company. This provision will not be construed as preventing the Executive from participating in charitable and community affairs, managing his investments or investing in or engaging in other ventures, provided such activities do not interfere with the performance of his duties under this Agreement and are not inconsistent with his role as the Company's Division President - Property and Casualty. The Executive agrees to serve on the Company's board of directors, if elected. In promoting the interests of the Company and without additional compensation, the Executive will serve any of the Company's Affiliates, including subsidiary corporations, partnerships, limited liability corporations and joint ventures, in such capacities as the Company's board of directors may from time to time direct. The Executive will read and abide by any policy, code or practice the Company has or may hereafter adopt that is applicable to executives or executive officers in general, including policies and rules contained in the Company's employee handbook and code of conduct.

3. Location. The Executive's principal place of employment will 5300 West Cypress Street in Tampa, Florida or such other place to which the parties agree, but in no event more than 20 miles from Tampa, Florida.

4. Term. The initial term of the Executive's employment hereunder will commence on the date described in **Section 1** and continue for a period of three years, unless earlier terminated pursuant to the terms of this Agreement. The Executive's employment hereunder will continue and automatically renew for additional one-year terms unless either party delivers written notice of non-renewal at least 90 days before expiration of the initial term or any renewal term. The initial term and any renewal term are hereinafter collectively referred to as the "Term."

5. Compensation.

5.1. Base Salary. As compensation for the services to be rendered by the Executive hereunder, the Company will pay the Executive, during the Term, an annual base salary of $300,000, which base salary will accrue and be paid in accordance with the Company's normal payroll practices. Base salary will be reviewed annually.

5.2. Bonus Compensation. The Executive will be entitled to any additional compensation provided for by resolution of the Company's board of directors or applicable committee of the board of directors. As a signing bonus, the Company will pay the Executive $25,000 within two weeks after commencement of the Term.

5.3. Benefits. During the Term, the Executive will be entitled to (i) medical, dental, life, disability and retirement benefits, if any, upon substantially the same terms and conditions generally applicable to all of the Company's executives; and (ii) four weeks paid vacation plus other paid time generally available to the other executive officers of the Company.

5.4. Reimbursement of Expenses. The Company will reimburse the Executive for all reasonable travel and other business expenses incurred by the Executive in the performance of the Executive's duties hereunder, subject to, and in accordance with, any expense reimbursement policies and expense documentation requirements of the Company that may be in effect from time to time.

5.6. Withholding. Any and all amounts payable under this Agreement will be subject to any federal, state and local tax and other withholdings or deductions required by applicable law, rule or regulation.

5.7. Restricted Stock. When the Term begins, the Company will execute and deliver to the Executive a restricted stock agreement in substantially the same form as the restricted stock agreement appearing as Exhibit A attached hereto.

6. Working Facilities. The Company will provide the Executive with an office at the Executive's principal work location or at such other location as agreed to by the Executive and the Company, and other working facilities and secretarial and other assistance suitable to his position and reasonably required for the performance of his duties hereunder.

7. Incapacity.

7.1 Right to Terminate. Notwithstanding anything else to the contrary contained in this Agreement, except as provided by this **Section 7** the Company will have no right to terminate the Executive's employment while the Executive suffers Incapacity (as defined below). If the Executive suffers Incapacity for a period exceeding six consecutive months then the Company will have the right to terminate the Executive's employment hereunder 30 days after delivery of written notice of termination. A termination of employment under this **Section 7** will be deemed a termination without "Good Cause" as described in **Section 8.4** hereof.

7.2 Right to Replace. If the Executive suffers Incapacity for 30 or more consecutive days, the Company will have the right to designate a person to temporarily perform the Executive's duties.

7.3 Rights Prior to Termination. During a period of Incapacity the Executive will be entitled to his full base salary under **Section 5.1** hereof and full benefits under **Section 5.3** hereof until employment is terminated as described in **Section 7.1**. The Executive will be entitled to reasonable accommodations from the Company so that the Executive is not prevented from performing his duties by illness or injury.

7.4 Incapacity Defined. For purposes of this **Section 7**, the term "Incapacity" means the Executive's inability to perform his duties hereunder substantially on a full-time basis because of physical or mental illness or physical injury as determined by the Company's board of directors, in its reasonable discretion, based upon competent medical evidence. Upon the Company's written request, the Executive will submit to reasonable medical and other examinations to provide the evidence required hereunder.

8. Termination of Employment.

8.1 Termination by the Company. The Company may terminate the Executive's employment under this Agreement without Good Cause anytime not fewer than 30 days nor more than 45 days after delivering written notice of termination to the Executive. The Company may terminate the Executive's employment hereunder for Good Cause anytime by delivery of written notice of termination. Termination will be effective upon the date set forth in the notice of termination. Good Cause will be limited to any of the following circumstances:

(i) The Executive commits any fraud, dishonesty, misappropriation or similar act against the Company or others;

(ii) The Executive commits any public or private act that the Company's board of directors finds, in good faith, to be materially inimical to the best interests of the Company or would tend to discredit, dishonor, embarrass, reflect adversely upon or in any manner injure the reputation of the Company, an Affiliate or the products or services of the Company or an Affiliate, or subject the Company or an Affiliate to potential material liability;

(iii) The Executive is grossly negligent or commits willful misconduct in the performance of his duties hereunder; or

(iv) The Executive has been adjudicated guilty by, or enters a plea of guilty or no contest before, a court of competent jurisdiction of illegal activities or found by a court of competent jurisdiction to have engaged in other wrongful conduct and such illegal activities or wrongful conduct, individually or in the aggregate, has (or could be reasonably expected to have) a material adverse effect on the Company, its prospects, earnings or financial condition.

8 . 2 Effect of Termination for Good Cause. If the Executive's employment is terminated by the Company for Good Cause—

(i) the Executive will be entitled to accrued base salary under **Section 5.1** and accrued vacation pay and other paid time off, each through the date of termination; and

(ii) the Executive will be entitled to reimbursement for expenses accrued through the date of termination in accordance with the provisions of **Section 5.4** hereof.

8 . 3 Effect of Termination without Good Cause. If the Company terminates the Executive's employment without Good Cause—

(i) the Executive will be entitled to accrued base salary under **Section 5.1** and accrued vacation pay and other time off, each through the date of termination;

(ii) the Executive will be entitled to reimbursement for expenses accrued through the date of termination in accordance with the provisions of **Section 5.4** hereof; and

(iii) the Executive will be entitled to receive six months' base salary as described in **Section 5.1** which will accrue and be paid in accordance with the Company's normal payroll practices as if employment had not been terminated;

(iv) if the termination is within two years following a Change of Control (as defined in **Section 8.6** below), then, in lieu of the amount described in clause (iii), the Executive will be entitled to receive all amounts of base salary that would have been payable under **Section 5.1** (provided that the Executive will receive not less than 6 months of base salary) through the Term (excluding future automatic renewals) if employment had not been terminated, which amounts will accrue and be paid in accordance with the Company's normal payroll practices as if employment had not been terminated.

8 . 4 Deemed Termination without Good Cause. The Executive's death will be deemed a termination without Good Cause as of the date of death. Termination by reason of the Executive's Incapacity as set forth in **Section 7.1** will be deemed a termination without Good Cause. The Executive's termination of employment upon expiration of the Term after the Company delivers written notice of non-renewal as described in **Section 5** will be deemed a termination without Good Cause. In addition, after the occurrence of any of the following events, the Executive, at his sole option, may declare by 30 days' written notice to the Company that his employment hereunder has been terminated by the Company, and such termination will for all purposes of this Agreement be deemed a termination by the Company without Good Cause:

(i) The Company materially changes the Executive's reporting requirements;

(ii) The Company moves the Executive's principal place of employment beyond 20 miles from Tampa, Florida; or

(iii) The Company breaches any material provision of this Agreement.

8 . 5 Termination by Executive. The Executive may terminate his employment hereunder by delivery of not less than 30 days' written notice to the Company.

8.6 Effect of Termination by Executive. If the Executive terminates his employment pursuant to **Section 8.5** hereof —

(i) the Executive will be entitled to accrued base salary under **Section 5.1** and accrued vacation pay and other paid time off, each through the date of termination; and

(ii) the Executive will be entitled to reimbursement for expenses accrued through the date of termination in accordance with the provisions of **Section 5.4** hereof.

8.7 Change of Control. For purposes of **Section 8.3** of this Agreement, a "Change of Control" will be deemed to have occurred in the event of—

(i) The acquisition by any person or entity, or group thereof acting in concert, of "beneficial" ownership (as such term is defined in Securities and Exchange Commission ("SEC") Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), of securities of the Company which, together with securities previously owned, confer upon such person, entity or group the voting power, on any matters brought to a vote of shareholders, of 30% or more of the then outstanding shares of capital stock of the Company;

(ii) The sale, assignment or transfer of assets of the Company in a transaction or series of transactions, if the aggregate consideration received or to be received by the Company in connection with such sale, assignment or transfer is greater than 50% of the book value, determined by the Company in accordance with generally accepted accounting principles, of the Company's assets determined on a consolidated basis immediately before such transaction or the first of such transactions;

(iii) The merger, consolidation, share exchange or reorganization of the Company as a result of which the holders of all of the shares of capital stock of the Company as a group would receive less than 50% of the voting power of the capital stock or other interests of the surviving or resulting corporation or entity;

(iv) The adoption of a plan of liquidation or the approval of the dissolution of the Company;

(v) A determination by the Company's board of directors, in view of then current circumstances or impending events, that a Change of Control has occurred or is imminent, which determination will be made for the specific purpose of triggering the operative provisions of this Agreement; or

(vi) The Company's board of directors is not comprised of a majority of directors who were either directors as of the date of this Agreement (the "Initial Directors") or whose nomination or election was approved by at least a majority of the Initial Directors or by a majority of directors whose nomination or election was approved by the Initial Directors.

8.8 Limitation Payments by the Company.

(a) If it will be determined that any payment, distribution or benefit received or to be received by the Executive from the Company or an Affiliate("Payments") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code (the "Excise Tax"). Payments to be made to the Executive shall either be reduced to 299.99% of the Executive's "base amount" for purposes of Code Section 280G so that no portion of such Payments would be subject to the Excise Tax. In such event, the payments or benefits included in the Payments shall be reduced or eliminated by applying the following principles, in order: (1) the payment or benefit with the higher ratio of the parachute payment value to present economic value (determined using reasonable actuarial assumptions) shall be reduced or eliminated before a payment or benefit with a lower ratio; (2) the payment or benefit with the later payment date shall be reduced or eliminated before a payment or benefit with an earlier payment date; and (3) cash payments shall be reduced prior to non-cash benefits; provided that if the foregoing order of reduction or elimination would violate Code Section 409A, then the reduction shall be made pro rata among the payments or benefits to be received by the Executive (on the basis of the relative present value of the parachute payments).

(b) All determinations required to be made under this **Section 8.8**, including whether and the limit on payments provided under subsection (a) is required and the assumptions to be utilized in arriving at such determination will be made by the independent tax or accounting selected by the Company (the "Accounting Firm"), which will provide detailed supporting calculations both to the Company and the Executive within 15 business days after the Executive provides the Company with notice that a Payment has been or will be made or such earlier time as may be required by the Company. The determination of tax liability made by the Accounting Firm will be subject to review by the Executive's tax advisors and, if the Executive's tax advisors do not agree with the determination reached by the Accounting Firm, then the Accounting Firm and the Executive's tax advisor will jointly designate a nationally recognized public accounting firm, which will make the determination. All fees and expenses of the accountants and tax advisors retained by either the Executive or the Company will be borne by the Company. Any determination by a jointly designated public accounting firm will be binding upon the Company and the Executive.

9. Trade Secrets.

9.1. Confidential Information. For the purposes of this Agreement, "Confidential Information" means information or materials that, in the Company's view, provide advantage to the Company (or an Affiliate) over others not having such information or materials and includes (i) customer information, supplier information, sales channel and distributor information, material terms of any contracts, marketing philosophies, strategies, techniques and objectives (including service roll-out dates and volume estimates), legal and regulatory positions and strategies, advertising and promotional copy, competitive advantages and disadvantages, non-published financial data, network configurations, product or service plans, designs, costs, prices and names, inventions, discoveries, improvements, technological developments, know-how, software code, business opportunities (including planned or proposed financings, mergers, acquisitions, ventures and partnerships) and methodologies and processes (including the look and feel of computer screens and reports) for customer assistance, order acceptance and tracking, repairs, and commissions; (ii) information designated in writing or conspicuously marked as "confidential" or "proprietary" or likewise designated or marked with words of similar import; (iii) information for which the Company has an obligation of confidentiality so long as such obligation is known to the Executive; and (iv) information that by its nature or the circumstances of its delivery or disclosure a reasonable person would conclude that it is confidential or proprietary. The Executive is specifically aware of the legal obligations of confidentiality afforded to customers of financial institutions, including obligations to insurance policyholders.

9.2. Confidentiality. The Executive will hold Confidential Information in confidence and trust and limit disclosure of Confidential Information strictly to persons who have a need to know such Confidential Information in connection with the Business. The Executive will not disclose, use, or permit the use or disclosure of Confidential Information, except in satisfying his obligations under this Agreement. The Executive will use reasonable care to protect Confidential Information from inappropriate disclosure, whether inadvertent or intentional. The Executive understands that the misappropriation of a trade secret is a criminal offense under state and federal laws. Notwithstanding the foregoing, the Executive may disclose Confidential Information if such disclosure is required by a court order or an order of a similar judicial or administrative body; provided, however, that the Executive notifies the Company of such requirement immediately and in writing, and cooperates reasonably with the Company in obtaining a protective or similar order with respect thereto.

9.3. Notification of Third Party Disclosure Requests. If the Executive receives any written or oral third party request, order, instruction or solicitation for the disclosure of Confidential Information not in conformance with this Agreement or if the Executive becomes aware of any attempt by a third party to improperly gain Confidential Information, the Executive will immediately notify the Company's general counsel and the Company's board of directors of such request, order, instruction or solicitation or of such attempt and fully disclose the details surrounding such request, order, instruction or solicitation or such attempt.

9.4. Non-Removal of Records. All documents, files, records, data, papers, materials, notes, books, correspondence, drawings and other written, graphic or electronic records of the Business and all computer software of the Company which the Executive will prepare or use, or come into contact with, will be and remain the exclusive property of the Company, in its discretion, and will not be physically, electronically, telephonically or otherwise removed from the Company's premises without the Company's prior written consent.

9.5. Return or Destruction of Confidential Information. Confidential Information gained, received or developed by the Executive or in which the Executive participated in developing will remain the exclusive property of the Company, in its sole discretion. The Executive will promptly return to the Company or destroy or erase all records, books, documents or any other materials whatsoever (including all copies thereof) containing such Confidential Information in his possession or control upon the earlier of (i) the receipt of a written request from the Company for return or destruction of Confidential Information or (ii) the termination of the Executive's employment hereunder.

9.6. Trade Secrets of Others. In the course of his employment hereunder the Executive will not use any information or materials that belong to any former employer or any other person or entity and for which he has a duty of confidentiality; nor will the Executive use or allow the use of any illegally obtained confidential or secret information or materials.

10. Intellectual Property. All Confidential Information, computer software, video and sound recordings, scripts, creations, inventions, improvements, designs and discoveries conceived, created, invented, authored, developed, produced or discovered by the Executive while employed by the Company, whether alone or with others, whether during or after regular work hours, whether before or during the term of employment under this Agreement, are and will be the Company's property exclusively, in its sole discretion. All such items were and will be produced as "work for hire." The Executive hereby assigns to the Company all copyrights, trademarks and other rights of authorship or ownership he may have with respect to such items. Moreover, at any time, without additional consideration, the Executive will execute and deliver any documents or instruments that the Company may request in order to effectively convey and transfer good title and right to, and put the Company in possession of, such items.

11. Restrictions on Competition and Solicitation.

11.1. Noncompetition. The Executive agrees that during the course of his employment with the Company and for a period of six months after termination of that employment, the Executive will not, directly or indirectly, as an executive, agent, independent contractor, consultant, partner, joint venturer or otherwise, within any state in the United States within which the Company or an Affiliate has conducted the Business within the 12 months preceding the date of the termination of the Executive's employment with the Company, enter into, engage in, be employed by or consult with (or solicit to enter into, engage in, be employed by or consult with) any business which competes with the Company or an Affiliate by providing products or services of the same nature or type as those provided by the Company or an Affiliate within the 12 month period preceding the termination of the Executive's employment with the Company, including (a) participating as an officer, director, stockholder, member, employee, agent, independent contractor, consultant, representative or partner of, or having any direct or indirect financial interest (including the interest of a creditor) in, any such competitor or (b) assisting any other individual or business entity, of whatever type or description, in providing any such competing services. The provisions of this section will not apply to the ownership by the Executive of less than 5% of any publicly traded corporation or other business entity solely as an investor and under circumstances in which the Executive neither provides services nor assists anyone else to provide any services to or on behalf of any such entity. The Executive further agrees that upon a violation of this section of this Agreement, the period during which the Executive's covenants in this section apply will be extended by the number of days equal to the period of such violation.

11.2. Non-Solicitation/Non-Acceptance. The Executive agrees, during the course of his employment with the Company and for a period of one year after termination of that employment, the Executive will refrain from and will not, directly or indirectly, as employee, agent, independent contractor, consultant, partner, joint venturer or otherwise (a) solicit or counsel any third person, partnership, joint venture, company, corporation, association, or other organization that is or was a current or specifically identified prospective customer of the Company or an Affiliate within the 12 months preceding the termination of the Executive's employment with the Company and with which the Executive had a substantial relationship within such preceding 12 month period, regardless of such person's or entity's location, to terminate any existing or specifically identified prospective business relationship with the Company or an Affiliate or commence a similar business relationship with any other individual or business entity; (b) accept, with or without solicitation, any business from any third person, partnership, joint venture, company, corporation, association or other organization that is or was a current or prospective customer of the Company or an Affiliate with which the Executive had a substantial relationship within the preceding 12 month period, regardless of such person's or entity's location; or (c) solicit any of the employees, agents, independent contractors or consultants of the Company or an Affiliate, regardless of such person's or entity's location, to terminate any business relationship with the Company or an Affiliate. The Executive further agrees that upon a violation of this section of this Agreement, the period during which the Executive's covenants in this section apply will be extended by the number of days equal to the period of such violation.

11.3. No Circumvention. The Executive will not make any attempt, or use any artifice, scheme or device, including the use of any agent, representative, associate, advisor, relative or business entity, to circumvent the purposes of the restrictive covenants contained in **Section 11.**

11.4. Acknowledgements. The Executive acknowledges that the foregoing restrictive covenants are reasonable and necessary in light of the circumstances, including the Company's interest in protecting the Confidential Information to which he has been exposed and the business relationships with the customers, partners, and others he has helped develop. The Executive further acknowledges that the foregoing restrictive covenants are a material inducement for the Company to enter into this Agreement, and that the covenants are given as an integral part of this Agreement.

11.5. Counterclaims. The existence of any claim or cause of action the Executive may have against the Company will not at any time constitute a defense to the enforcement by the Company of the restrictions or rights provided by this **Section 11.**

12. Equitable Remedies. The Executive and the Company agree that the services to be rendered by the Executive pursuant to this Agreement, and the rights and interests granted and the obligations to be performed by the Executive to the Company pursuant to this Agreement, are of a special, unique, extraordinary and intellectual character, which gives them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in any action at law, and that a breach by the Executive of any of the terms of this Agreement will cause the Company great and irreparable injury and damage. The Executive hereby expressly recognizes and agrees that the Company has the right to seek entry of a temporary restraining order, preliminary injunction and permanent injunction, and that such orders and injunctions may be issued against the Executive, to prevent or address a breach of **Sections 9 through 11** of this Agreement. The existence of any claim or cause of action the Executive may have against the Company will not at any time constitute a defense to the request for such relief.

13. Code Section 409A.

(a) For purposes hereof, the Executive will be presumed to have experienced a "Separation from Service" on the date that the Company and the Executive reasonably anticipate that no further services will be performed by the Executive for the Company and its affiliates within the meaning of Code Section 409A ("409A Affiliates") or that the level of bona fide services the Executive will perform as an employee of the Company and its 409A Affiliates will permanently decrease to no more than twenty percent (20%) of the average level of bona fide services performed by the Executive (whether as an employee or independent contractor) for the Company and its 409A Affiliates over the immediately preceding 36-month period (or such lesser period of services). Whether the Executive has experienced a Separation from Service shall be determined by the Company in good faith and consistent with Code Section 409A. Notwithstanding the foregoing, if the Executive takes a leave of absence for purposes of military leave, sick leave or other bona fide reason, the Executive will not be deemed to have experienced a Separation from Service for the first six (6) months of the leave of absence, or if longer, for so long as the Executive's right to reemployment is provided either by statute or by contract, including this Agreement; *provided that* if the leave of absence is due to a medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of not less than six (6) months, where such impairment causes the Executive to be unable to perform the duties of his position of employment or any substantially similar position of employment, the leave may be extended by the Company for up to twenty-nine (29) months without causing a Separation from Service. If the Executive continues to provide services to the Company or its 409A Affiliates following his date of termination of employment, the Executive's Separation from Service date may be delayed to the date the Executive ceases to provide services to the extent required by Code Section 409A.

(b) Notwithstanding any other Section of this Agreement, if the Executive is a "specified employee" as defined in Code Section 409A and the regulations promulgated thereunder at the time of the Executive's Separation from Service, then any payments due hereunder that would have been paid to the Executive within six months following such Separation from Service shall be deferred and paid on the first day of the seventh month following the month in which the Executive's Separation from Service occurs, to the extent required to avoid an additional tax on such payments under Code Section 409A. All deferred payments shall be paid in a lump sum without interest thereon. For purposes of applying Code Section 409A, each payment due hereunder shall be treated as a separate payment.

14. Compliance with Other Agreements. The Executive represents and warrants to the Company that he is free to enter this Agreement and that the execution of this Agreement and the performance of the obligations under this Agreement will not, as of the date of this Agreement or with the passage of time, conflict with, cause a breach of or constitute a default under any agreement to which the Executive is a party or by which he may be bound.

15. Severability. Every provision of this Agreement is intended to be severable. If any provision or portion of a provision is illegal, invalid or unenforceable, including as to geographic or temporal scope, then the remainder of this Agreement will not be affected. Moreover, any provision or portion of a provision of this Agreement which is determined to be unreasonable, arbitrary or against public policy, including as to geographic or temporal scope, will be modified by a court or arbitrator as appropriate so that it is not unreasonable, arbitrary or against public policy.

16. Rights and Remedies Preserved. Nothing in this Agreement will limit any right or remedy the Company or the Executive may have under this Agreement or pursuant to law for any breach of this Agreement by the other party. The rights granted to the parties herein are cumulative, and the election of one will not constitute a waiver of such party's right to assert all other legal remedies available under the circumstances.

17. Waiver. No failure or delay on the of part either party to this Agreement in the exercise of any right, power or remedy the party may have will operate as a waiver, nor will any single or partial exercise of any right, power or remedy by either party preclude any other or further exercise of that right, power or remedy or the exercise of any other right, power or remedy. No express waiver or assent by any party to any breach of or default in any term or condition of this Agreement will constitute a waiver of or assent to any succeeding breach of or default in the same or any other term or conditions of this Agreement.

18. Notices. Any notices or deliveries permitted or required by this Agreement will be deemed given (i) when delivered in person or by messenger, if a receipt is obtained for delivery, (ii) when delivered by Federal Express, United Parcel Service, Airborne Express, U.S. Express Mail or similar nationally recognized overnight delivery service, if a confirmation of delivery is obtained, or (iii) five days after mailing, if mailed via certified or registered U.S. mail, return receipt requested, provided the notice is delivered or mailed to the party's address as set forth below:

If to the Company:

Homeowners Choice, Inc.
Suite 100
5300 West Cypress Street
Tampa, FL 33607
ATT: General Counsel

If to the Executive:

The Executive's most recent address on file with the Company.

The parties may change addresses to which notices are to be delivered by giving notice of the change of address in the manner set forth above; except, however, that notwithstanding the foregoing provision, notice of a change of address will be deemed made upon actual receipt of the notice by the other party. Notices deemed given or delivered as set forth above on a Saturday, Sunday, or legal holiday will instead be deemed given or delivered on the next succeeding day which is not a Saturday, Sunday or legal holiday.

19. Successors and Assigns. The rights and obligations of the Company under this Agreement will inure to the benefit of and be binding upon the successors and assigns of the Company, including the survivor upon any merger, consolidation, share exchange or combination of the Company. The Executive will not have the right to assign this Agreement or to assign, delegate or otherwise transfer any duty or obligation to be performed by him hereunder.

20. Entire Agreement. With respect to its subject matter, this Agreement contains all the understandings and agreements of the parties and supersedes all previous and all contemporaneous agreements, understandings, discussions and negotiations between the parties, whether written or oral. The parties agree that no previous drafts of this Agreement will be admissible as evidence (whether in any arbitration or court of law) in any proceeding which involves the interpretation of any provisions of this Agreement.

21. Amendments. Except as otherwise provided herein as to terms that are unreasonable, arbitrary or against public policy, this Agreement will not be modified or amended except by an instrument in writing signed by the parties.

22. Governing Law. This Agreement will be governed by and construed in accordance with the internal laws of the State of Florida without reference to conflicts of law principles.

23. Further Assurances. Each party hereto will cooperate and will take such further action and will execute and deliver such further documents as may be reasonably requested by the other party in order to carry out the provisions and purposes of this Agreement.

24. Construction. This Agreement was negotiated at arm's-length, with each party having the assistance of independent legal counsel. No court, arbitrator or finder of fact should construe this Agreement more strongly against either party on the basis of which party was responsible for the Agreement's preparation. Wherever from the context it appears appropriate, each term stated in either the singular or the plural will include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender will include the other genders. The words "Agreement," "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole, including Exhibits, and not to any particular provision of this Agreement. Whenever the word "include," "includes" or "including" is used in this Agreement, it will be deemed to be followed by the words "without limitation." The various headings contained in this Agreement are inserted only as a matter of convenience and in no way define, limit or extend the scope or intent of any of the provisions of this Agreement.

25. Counterparts. This Agreement may be executed in one or more counterparts, all of which taken together will be deemed one original.

26. Affiliate. For the purposes of this Agreement, the capitalized term "Affiliate" means (i) any association or entity directly or indirectly controlling the Company and (ii) any association or entity controlled by or under common control with the Company.

27. Confidential Arbitration. The parties hereto agree that any dispute concerning or arising out of the provisions of this Agreement, the Executive's employment or the termination of the Executive's employment will be resolved by confidential arbitration in accordance with the rules of the American Arbitration Association. Such confidential arbitration will be held in Tampa, Florida and the decision of the arbitrator or arbitrators will be conclusive and binding on the parties and will be enforceable in any court of competent jurisdiction. In rendering a decision, the arbitrator will have the discretion to award attorneys' fees and costs. Notwithstanding the foregoing, if any dispute arises hereunder as to which a party desires to exercise any equitable rights or remedies under this Agreement, such party may, in its discretion, in lieu of submitting the matter to arbitration, bring an action thereon in any court of competent jurisdiction in Florida, which court may grant any and all relief available in equity or at law for any and all claims made by such party based on or arising from the provisions of this Agreement. In any such action, the prevailing party will be entitled to reasonable attorneys' fees and costs as may be awarded by the court.

28. Survival. The warranties and representations in this Agreement will survive the execution of this Agreement and continue without limitation. The Executive has incurred the obligations set forth in **Sections 9 through 11** solely in consideration of the Company's execution of this Agreement and such obligations and this **Section 28** will survive and continue notwithstanding the termination, rescission or expiration of this Agreement or any provision of this Agreement.

29. Exhibits. All exhibits, schedules and other attachments to this Agreement are hereby incorporated by this reference as integral parts of this Agreement.

30. Saturday, Sunday or Legal Holiday. When the last day of a period during which an act may be performed under this Agreement falls on a Saturday, Sunday, or legal holiday that period will be deemed to end on the next succeeding day which is not a Saturday, Sunday or legal holiday.

31. Electronic Signatures. Signed copies of this Agreement, addenda, attachments and exhibits delivered electronically via Internet (e-mail) or telephone (fax) will legally bind the parties to the same extent as original documents.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first set forth above.

EXECUTIVE

_____

Scott R. Wallace

Homeowners Choice, Inc.

By: _____

Paresh Patel
As Chief Executive Officer

EXHIBIT A

RESTRICTED STOCK AGREEMENT

RESTRICTED STOCK AGREEMENT

SCOTT R. WALLACE

THIS AGREEMENT, effective as of _____ is made by and between **HOMEOWNERS CHOICE, INC.**, a Florida corporation hereinafter referred to as the "Company," and Scott R. Wallace, an employee or employee to be of the Company, hereinafter referred to as the "Grantee."

BACKGROUND STATEMENT

This Agreement deals with shares of the Company's Common Stock granted to the Grantee pursuant to the Homeowners Choice, Inc. 2007 Stock Option and Incentive Plan, as it may be amended from time to time (the "Plan"), the provisions of which are hereby incorporated by reference and made a part of this Agreement. The Committee, appointed to administer the Plan, has determined that it would be to the advantage and best interest of the Company and its shareholders to award Restricted Stock to the Grantee as an inducement to continue serving the Company and as an incentive for increased efforts during such service.

NOW, THEREFORE, in reliance upon the foregoing background statement, the Company and the Grantee agree to the following terms and conditions.

ARTICLE I.
DEFINITIONS

Unless the context clearly indicates a different meaning, the following terms, when capitalized, will have the meanings specified below and capitalized terms used in this Agreement without definition will have the meanings ascribed to such terms in the Plan.

Section 1.01 Board

"Board" means the Board of Directors of the Company.

Section 1.02 Change in Control

"Change in Control" means a change in ownership or control of the Company effected through either of the following transactions:

(a) any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities possessing more than 50% of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders which the Board does not recommend such shareholders to accept; or;

(b) there is a change in the composition of the Board over a period of 36 consecutive months (or fewer) such that a majority of the Board members (rounded up to the nearest whole number) ceases, by reason of one or more proxy contests for the election of Board members, to be comprised of individuals who either (i) have been Board members continuously since the beginning of such period or (ii) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (i) who were still in office at the time such election or nomination was approved by the Board.

Section 1.03 Closing Price

"Closing Price" for any trading day means the last reported sale price per share of the Common Stock on the NASDAQ Global Select Market or other principal exchange or market upon which the Common Stock trades.

Section 1.04 Code

"Code" means the Internal Revenue Code of 1986, as amended.

Section 1.05 Committee

"Committee" means the Compensation Committee of the Board, or another committee of the Board, appointed as provided in Section 2.b.of the Plan.

Section 1.05 Common Stock

"Common Stock" means the common stock of the Company, no par value per share.

Section 1.06 Company

"Company" means Homeowners Choice, Inc., a Florida corporation.

Section 1.07 Corporate Transaction

"Corporate Transaction" shall mean any of the following shareholder-approved transactions to which the Company is a party:

(a) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the state in which the Company is incorporated, form a holding company or effect a similar reorganization as to form whereupon the Plan and all Options are assumed by the successor entity;

(b) the sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, in complete liquidation or dissolution of the Company in a transaction not covered by the exceptions to subsection (a), above; or

(c) any reverse merger in which the Company is the surviving entity but in which securities possessing more than 50% of the total combined voting power of the Company's outstanding securities are transferred or issued to a person or persons different from those who held such securities immediately before such merger.

Section 1.08 Director

"Director" means a member of the Board.

Section 1.09 Exchange Act

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and regulations thereunder. References to any provision of the Exchange Act will be deemed to include successor provisions thereto and regulations thereunder.

Section 1.10 Grant Date

"Grant Date" means the effective date of this Agreement.

Section 1.11 Plan

"Plan" means Homeowners Choice, Inc. 2007 Stock Option and Incentive Plan, as it may be amended from time to time.

Section 1.12 Restricted Shares

"Restricted Shares" means the shares of Restricted Stock awarded pursuant to this Agreement and subject to the Restrictions (i.e. shares of Restricted Stock for which the Restrictions have not lapsed or been waived).

Section 1.13. Restricted Stock

"Restricted Stock" means shares of Common Shares awarded under Section 5 of the Plan.

Section 1.14 Restrictions.

"Restrictions" means all the restrictions set forth in Article III of this Agreement, including restrictions on dispositions, encumbrances and creditor claims and the right of purchase.

Section 1.15 Rule 16b-3

"Rule 16b-3" means Rule 16b-3 under the Exchange Act, as such rule may be amended from time to time.

Section 1.16. Secretary

"Secretary" means the Secretary of the Company.

Section 1.17. Securities Act

"Securities Act" means the Securities Act of 1933, as amended from time to time, and regulations thereunder. References to a provision of the Securities Act will be deemed to include successor provisions thereto and regulations thereunder.

Section 1.18. Subsidiary

"Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.19. Termination of Employment

"Termination of Employment" means the time when the employee-employer relationship between the Grantee and the Company is terminated for any reason, with or without cause, including, a termination by resignation, discharge, death, disability or retirement; but excluding (i) terminations where there is a simultaneous reemployment or continuing employment of the Grantee by the Company, (ii) at the discretion of the Committee, terminations which result in a temporary severance of the employee-employer relationship, and (iii) at the discretion of the Committee, terminations which are followed by the simultaneous establishment of a consulting relationship by the Company with the former employee. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Subsidiaries will not be considered a Termination of Employment. The Committee, in its absolute discretion, will determine the effect of all matters and questions relating to Termination of Employment, including whether particular leaves of absence constitute Terminations of Employment. If the Grantee is employed by a Subsidiary, then a Termination of Employment will occur if the Subsidiary ceases to be a Subsidiary and the Grantee does not immediately thereafter become an employee or a consultant to the Company or another Subsidiary. Notwithstanding any other provision of this Agreement or of the Plan, the Company and any Subsidiary has an absolute and unrestricted right to terminate the Grantee's employment at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in writing.

Section 1.20. Vesting Date

"Vesting Date" means [Employee Start Date Yet to Be Determined].

ARTICLE II
AWARD OF RESTRICTED SHARES

Section 2.01. Award of Restricted Stock

The Company does hereby award to the Grantee an aggregate of 100,000 shares of Restricted Stock upon the terms and conditions set forth in this Agreement.

Section 2.02. Consideration to Company

The Restricted Stock is issued solely in exchange for Grantee's execution of this Agreement and the Grantee's promise to render faithful and efficient services to the Company. Nothing in this Agreement or in the Plan will confer upon the Grantee any right to continue in the employ of the Company or any Subsidiary, or will interfere with or restrict in any way the rights of the Company, which are hereby expressly reserved, to discharge the Grantee at any time for any reason whatsoever, with or without cause.

ARTICLE III
RESTRICTIONS

Section 3.01. General Restrictions

The Restricted Shares and any interest in the Plan or this Agreement may not be sold, transferred, assigned, conveyed, pledged, mortgaged, hypothecated or otherwise disposed of or encumbered, other than by will or the laws of descent and distribution, whether voluntary or involuntary, by operation of law or by or pursuant to judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and will not be subject to claims of the Grantee's creditors. Any attempted disposition or encumbrance of the Restricted Shares will be null and void and of no effect. The Company may issue stop-transfer orders covering the Restricted Shares.

Section 3.02. Stock Dividends and Splits.

Shares of Common Stock or other securities distributed in connection with a dividend on Common Stock or stock split will be deemed Restricted Shares subject to the Restrictions of this Article III to the same extent as the Restricted Shares with respect to which such shares of Common Stock or other securities were distributed.

Section 3.03. Purchase of Restricted Shares

Immediately upon the Grantee's Termination of Employment, the Company will repurchase from the Grantee and the Grantee will sell to the Company all Restricted Shares (and deemed Restricted Shares) at price equal to $00.001 per Restricted Share. The price for other securities will be an equivalent measure to the foregoing price as determined by the Committee, in good faith.

ARTICLE IV.
PERIOD OF RESTRICTIONS

Section 4.01. Lapse of Restrictions

(a) Subject to subsection (d) of this Section and Section 4.02, with respect 50,000 shares of the Restricted Stock issued hereunder the Restrictions will lapse in annual increments of 10,000 shares beginning on the first anniversary of the Vesting Date.

(b) Subject to subsection (d) of this Section and Section 4.02, with respect to the remaining 50,000 shares of the Restricted Stock issued hereunder the Restrictions will lapse —

(i) as to 10,000 shares, one year after the Closing Price equals or exceeds $12 per share for 20 consecutive trading days;

(ii) as to 10,000 shares, one year after the Closing Price equals or exceeds $14 per share for 20 consecutive trading days;

(iii) as to 10,000 shares, one year after the Closing Price equals or exceeds $16 per share for 20 consecutive trading days;

(iv) as to 10,000 shares, one year after the Closing Price equals or exceeds $18 per share for 20 consecutive trading days;

(v) as to 10,000 shares one year after the Closing Price equals or exceeds $20 per share for 20 consecutive trading days;

(c) The Restrictions with respect to shares and other securities deemed to be Restricted Shares will lapse in a manner consistent with the foregoing as the Committee may determine in good faith. In addition, the Committee will make good faith adjustments in the event a reverse stock split or combination of shares.

(d) No Restrictions will lapse after Termination of Employment or after six years have elapsed from the Vesting Date.

Section 4.02. Acceleration of Lapse

Notwithstanding the provisions of Section 4.01, the Restrictions will lapse in their entirety upon the occurrence of a Change of Control and immediately prior to a Corporate Transaction. However, in the case of a Corporate Transaction the restrictions will not lapse to the extent the Restricted Shares and the associated rights are, in connection with the Corporate Transaction, to be replaced with a comparable right with respect to shares of the capital stock of the successor or survivor corporation (or parent thereof).

ARTICLE V.
SHAREHOLDER RIGHTS

Section 5.01. Generally

Except as otherwise provided in this Agreement, the Grantee will have all of the rights of a shareholder in connection with the Restricted Shares, including the right to vote Restricted Shares and the right to receive dividends thereon.

Section 5.02. Certificates

(a) The Company will issue certificates representing the Restricted Shares registered in Grantee's name. Certificates representing Restricted Shares or any securities deemed to be restricted securities will not be delivered to the Grantee but will be delivered to the Company to be held by the Company for the benefit of the Grantee. The Grantee will deliver to the Company a stock power relating to the Restricted Shares and any deemed restricted Shares endorsed in blank.

(b) Upon the lapse of the Restrictions in accordance with the terms of Article IV or the waiver of the Restrictions by the Company and provided the Grantee has paid applicable withholding taxes as set forth in Section 6.03, the Company will deliver to the Grantee certificates representing the shares of Restricted Stock or other securities for which the Restrictions have lapsed or been waived, as the case may be.

(c) Certificates representing Restricted Shares and securities deemed to be Restricted Shares will bear an appropriate legend referring to the Restrictions as well as any other legends as the Company may require to ensure compliance with the Securities Act and state and other securities laws.

ARTICLE VI.
OTHER PROVISIONS

Section 6.01. Administration

This Agreement is subject to the Plan, the provisions of which are incorporated herein by reference. In the event of any conflict between the provisions of the Plan and of this Agreement, the provisions of the Plan will control. The Committee will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith will be final and binding upon the Grantee, the Company and all other interested persons. No member of the Committee will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Restricted Shares. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement except with respect to matters which under Rule 16b-3 or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

Section 6.02. Notices

Any notice to be given under the terms of this Agreement to the Company will be addressed to the Company in care of its secretary, and any notice to be given to the Grantee will be addressed to him at the address given beneath his signature hereto. By a notice given pursuant to this Section 6.02, either party may hereafter designate a different address for notices to be given to the party. Any notice which is required to be given to the Grantee will, if the Grantee is then deceased, be given to the Grantee's personal representative if such representative has previously informed the Company of such status and address by written notice under this Section 6.02. Any notice will be deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

Section 6.03. Taxes and Withholding

The Grantee agrees to pay to the Company (or applicable Subsidiary) and consents to the withholding of salary by the Company (or applicable Subsidiary) of all amounts which, under federal, state or local tax law, is required to be withheld in connection with the award of the Restricted Shares, including the lapse of the Restrictions and risk of forfeiture. With the consent of the Committee, Shares owned by the Grantee, duly endorsed for transfer, with a fair market value on the date of delivery equal to the sums required to be withheld, may be used to make all or part of such payment.

Section 6.05. Construction

This Agreement will be construed without regard to which party was responsible for its preparation. Wherever from the context it appears appropriate, each term stated in either the singular or the plural will include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender will include the other genders. The words "Agreement," "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this contract as a whole, including documents incorporated by reference, and not to any particular provision of this contract. Whenever the word "include," "includes" or "including" is used in this Agreement, it will be deemed to be followed by the words "without limitation." The various headings contained in this Agreement are inserted solely for convenience of reference and in no way define, limit or extend the scope or intent of any of the provisions of this Agreement.

Section 6.06. Conformity to Securities Laws

The Grantee acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including, without limitation, the applicable exemptive conditions of Rule 16b-3. Notwithstanding anything herein to the contrary, the Plan will be administered, and the Restricted Shares issued only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement will be deemed amended to the extent necessary to conform to such laws, rules and regulations. The Grantee agrees to execute and deliver to the Company such documents as the Committee determines to be necessary or desirable to ensure compliance with the Securities Act and any other federal or state securities laws or regulations. The Committee may, in its absolute discretion, take whatever additional actions it deems appropriate to effect compliance with the Securities Act and any other federal or state securities laws or regulations.

Section 6.07. Amendments

The Committee (or the Board as the case may be) may amend, alter, suspend, discontinue, or terminate the Plan or this Agreement; provided however, that without the Grantee's consent no amendment, alteration, suspension, discontinuation, or termination of the Plan or this Agreement may materially and adversely affect the Grantee's rights under this Agreement. No amendment will be effective unless set forth in a writing agreed to and delivered by the Committee.

Section 6.08 Governing Law

This Agreement will be administered, interpreted and enforced under the internal laws of the State of Florida without regard to its principles of conflicts of laws.

Section 6.09. Entire Agreement

With respect to its subject matter, this Agreement supersedes all prior discussions and agreements between the Company (and its Subsidiaries) and the Grantee including previous employment offer letters and oral agreements, and, together with any attachments, exhibits and documents incorporated by reference, contains the sole and entire Agreement among them. Notwithstanding the foregoing, unless specifically stated, this Agreement does not supersede agreements dealing with previously awarded of Restricted Shares.

WALLACE

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

HOMEOWNERS CHOICE, INC.

By: _____
Paresh Patel
Chief Executive Officer

_____
Scott R. Wallace
11036 Turnbridge Dr.
Jacksonville, Florida 32256

WALLACE

Exhibit 10.25

ASSUMPTION AGREEMENT

By and Between

Homeowners Choice Property & Casualty Insurance Company, Inc.

and

HomeWise Insurance Company

Dated as of November 2, 2011

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ASSUMPTION AGREEMENT

This ASSUMPTION AGREEMENT (this "Agreement"), dated as of November 2, 2011, is entered into by and between, HOMEOWNERS CHOICE PROPERTY & CASUALTY INSURANCE COMPANY, INC., a Florida domiciled insurance company ("HCPCI"), and HOMEWISE INSURANCE COMPANY, a Florida domiciled insurance company (the "Company") (each, a "Party"; together, the "Parties").

RECITALS:

WHEREAS, the Parties wish to consummate a transfer of Company's Florida business to HCPCI; and

WHEREAS, as more particularly set forth herein, the Company and HCPCI wish to enter into an assumption arrangement pursuant to which HCPCI will assume all losses occurring on or after the Assumption Effective Date (as defined below) with respect to all of the homeowners' multi-peril and dwelling fire insurance contracts, policies, certificates, binders, slips, covers or other agreements of insurance, including all supplements, riders and endorsements issued or written in connection therewith and extensions thereto, issued, renewed, or written by or on behalf of the Company (including any policies may have been previously assumed by the Company from another insurer or acquired by merger) covering homes located in Florida that are in-force as of the Assumption Effective Date, including also such policies that are renewed or processed for renewal by the Company after the Assumption Effective Date (the "Assumed Policies");

WHEREAS, the Parties intend for HCPCI to assume no duties, liabilities or obligations of any kind whatsoever attributed to or arising out of claims occurring or arising from events occurring prior to the Assumption Effective Date under the Assumed Policies; and

WHEREAS, in consideration for, among other things, the assignment of the Company's right to refunds for return commissions and other administration fees which may become due from agents, producers, brokers or other administrative entities, HCPCI has agreed to pay a Ceding Commission to the Company, as set forth in Sections 2.6 and 3.1;

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises and covenants set forth herein, and in reliance upon the representations, warranties, conditions and covenants contained herein, and intending to be legally bound hereby and thereby, the Parties hereto do hereby agree as follows:

ARTICLE 1
DEFINITIONS

Section 1.1 Defined Terms.

The following terms shall have the respective meanings specified below throughout this Agreement.

"Agreement" has the meaning set forth in the first paragraph.

“Affiliate” (and, with a correlative meaning, “Affiliated”) means, with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such first Person. As used in this definition, “control” (including, with correlative meanings, “controlled by” and “under common control with”) shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract, as trustee or executor, or otherwise).

“Applicable Law” means any order, law, statute, regulation, rule, pronouncement, ordinance, bulletin, writ, injunction, directive, judgment, decree, principle of common law, constitution or treaty enacted, promulgated, issued, enforced or entered by any Governmental Entity applicable to the parties hereto, or any of their respective businesses, properties or assets.

“Assumed Policies” has the meaning set forth in the recitals.

“Assumption Certificate” shall mean the certificate to be issued by HCPCI to the policyholder of any Assumed Policy, which shall be in the form agreed to by the Parties and approved by the Florida Office of Insurance Regulation in accordance with the terms of the Consent Order approving this Agreement.

“Assumption Effective Date” means 12:01 a.m. Eastern Time on November 1, 2011.

“Ceding Commission” has the meaning set forth in Section 2.6.

“Claim” and “Claims” means any and all claims, requests, demands or notices made by or on behalf of policyholders, beneficiaries or third party claimants for indemnification or payment for amounts due or alleged to be due under the Assumed Policies.

“Company” has the meaning set forth in the first paragraph.

“Confidential Information” means any confidential or proprietary information related to the Assumed Policies, including written or electronically stored confidential and proprietary data which identifies past or current customers of the Company or its Affiliates, written information about business practices, product design, pricing, research, or development, computer systems and written business plans of the Company or its Affiliates, and confidential and proprietary computer data processing tapes, record formats, source and object codes, in each case related to the Assumed Policies.

“Governmental Entity” means any federal, state, local, foreign, international or multinational entity or authority exercising executive, legislative, judicial, regulatory, administrative or taxing functions of or pertaining to government.

“HCPCI” has the meaning set forth in the first paragraph.

“Initial UPR Transfer Amount” has the meaning set forth in Section 3.1(a)(i).

“Inuring Reinsurance” means all reinsurance agreements, treaties and contracts, including any renewals or extensions thereof, to the extent such reinsurance agreements, treaties and contracts provide reinsurance coverage for the Assumed Policies.

“Outside Accountants” has the meaning set forth in Section 3.1(a)(vi).

“Party” and “Parties” have the meanings set forth in the first paragraph.

“Person” shall mean any individual, corporation, partnership, firm, joint venture, association, joint-stock company, limited liability company, trust, estate, unincorporated organization, Governmental Entity or other entity.

“Post-Assumption Losses” shall mean liabilities and obligations for Claims directly arising from events caused by a peril covered by the Assumed Policies occurring on or after the Assumption Effective Date and all loss adjustment expenses and defense costs attributed to such Claims. “Post-Assumption Losses” shall not include any Pre-Assumption Effective Date Liabilities. “Post-Assumption Losses” shall not include any liabilities or obligations incurred by or on behalf of the Company as a result of any grossly negligent, willful, fraudulent or criminal act or violation of the Florida Insurance Code by the Company, any of its officers, managers, employees, or agents or any of its Affiliates or any of the officers, directors, employees or agents of its Affiliates, regardless of when such liabilities or obligations are incurred. “Post-Assumption Losses” shall not include (i) any Claims arising from, relating or connected to or in any way associated with an event caused by a peril covered by the Assumed Policies and occurring or beginning to occur before the Assumption Effective Date; (ii) any loss adjustment expenses or defense costs attributable to such a Claim described in (i), including expenses related to the investigation, appraisal, settlement, litigation, defense or appeal of such a Claim; (iii) liabilities for consequential, exemplary, punitive or similar extra contractual damages related or connected to or in any way associated with such a Claim described in (i); (iv) liabilities for statutory or regulatory fines or penalties related or connected to or in any way associated with such a Claim described in (i); or (v) any claim alleging bad faith or unfair or deceptive insurance practices or any claim that could be brought pursuant to Sections 624.155 or 626.9541, Florida Statutes, related or connected to or in any way associated with such a Claim described in (i). “Post-Assumption Losses” shall be gross of any Inuring Reinsurance which may otherwise be available to or for the benefit of the Company with regard to the Assumed Policies, except to the extent (if any) the Company has fully paid the reinsurance premiums for such Inuring Reinsurance as of the Assumption Effective Date. HCPCI shall in no event be liable for or obligated to pay any premiums attributed to any Inuring Reinsurance which may otherwise provide coverage for the Assumed Policies post-Assumption Effective Date, as such obligations and liabilities for Inuring Reinsurance premiums are to remain the exclusive obligation and liability of the Company under the terms of this Agreement.

“Pre-Assumption Effective Date Liabilities” means claims, losses, expenses, costs or liabilities of any kind whatsoever under the Assumed Policies occurring prior to the Assumption Effective Date or in any way related or connected to or associated with an event occurring before the Assumption Effective Date, including any claims, losses, expenses, costs or liabilities (including incurred but not reported claims, losses, costs or expenses) arising out of or attributed to losses or claims occurring prior to the Assumption Effective Date or in any way related or connected to or associated with an accident or event occurring before the Assumption Effective Date, regardless of whether the accident or event is known or unknown before the Assumption Effective Date. This term also includes any and all duties, obligations, covenants, costs, expenses or liabilities of any kind whatsoever arising from or attributed to the Company or its business operations, whether incurred or performed by the Company directly or indirectly through its Affiliates or other Persons (excluding HCPCI and its Affiliates from the term “Persons” for this purpose). This term shall include (i) any Claims arising from, relating or connected to or in any way associated with an accident or event caused by a peril covered by the Assumed Policies and occurring or beginning to occur before the Assumption Effective Date, regardless of whether such accident or event is known or unknown before the Assumption Effective Date; (ii) any loss adjustment expenses or defense costs attributable to such a Claim described in (i), including expenses related to the investigation, appraisal, settlement, litigation, defense or appeal of such a Claim; (iii) liabilities for consequential, exemplary, punitive or similar extra contractual damages related or connected to or in any way associated with such a Claim described in (i); (iv) liabilities for statutory or regulatory fines or penalties related or connected to or in any way associated with such a Claim described in (i); (v) any claim alleging bad faith or unfair or deceptive insurance practices or any claim that could be brought pursuant to Sections 624.155 or 626.9541, Florida Statutes, related or connected to or in any way associated with such a Claim described in (i). The Parties expressly intend for HCPCI to assume only those obligations and liabilities for the Assumed Policies arising on or after the Assumption Effective Date and the obligations associated with Unearned Premium Reserves (as each of these terms is defined herein).

“Preliminary UPR Transfer Amount” has the meaning set forth in Section 3.1(a)(ii).

“Premium(s)” means all gross written premiums, pre-paid premiums, considerations, deposits, premium adjustments, fees and similar amounts, less cancellation and return premiums, with regard to the Assumed Policies following the Assumption Effective Date.

“Replacement Policy” means a policy offered or issued by HCPCI on its own policy forms, to take effect upon the expiration or cancellation of an Assumed Policy.

“Return Premium Ceding Amount” has the meaning set forth in Section 3.1(a)(i).

“Unearned Premium Reserves” means the gross liability as of the Assumption Effective Date for the amount of collected Premium and receivables for uncollected Premium corresponding to the unexpired portion of all Assumed Policies, calculated using the daily pro rata method, prepared in accordance with statutory accounting practices, and subject to any applicable Premium, commission or brokerage adjustments prior to or after the Assumption Effective Date pursuant to the underlying terms and conditions of the Assumed Policies or agent or broker contracts related thereto, which adjustments shall be accounted for and settled as between the Parties pursuant to Section 3.1(a) and Section 3.4.

“Unresolved Changes” has the meaning set forth in Section 3.1(a)(vi).

“UPR Transfer Amount” means the final amount determined pursuant to the procedures set forth in Section 3.1(a) by applying the UPR Adjustment (if any) to the Preliminary UPR Transfer Amount.

"UPR True Up Report" has the meaning set forth in Section 3.1(a)(ii).

"UPR Adjustment" has the meaning set forth in Section 3.1(a)(ix).

Section 1.2 Interpretation.

(a) The Parties hereto have participated jointly in the negotiation and drafting of this Agreement. Consequently, in the event that an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the Parties hereto, and no presumption or burden of proof will arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

(b) When a reference is made in this Agreement to a section or article, such reference will be to a section or article of this Agreement unless otherwise clearly indicated to the contrary. Whenever the words "include", "includes" or "including" are used in this Agreement they will be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "herewith" and words of similar import will, unless otherwise stated, be construed to refer to this Agreement (including the schedules and exhibits) as a whole and not to any particular provision of this Agreement. The meaning assigned to each term used in this Agreement will be equally applicable to both the singular and the plural forms of such term, and words denoting any gender will include all genders. Where a word or phrase is defined herein, each of its other grammatical forms will have a corresponding meaning.

(c) The schedules and exhibits, if any, attached hereto are incorporated into this Agreement and will be deemed a part hereof as if set forth herein in full. In the event of any conflict between the provisions of this Agreement and any schedule or exhibit, the provisions of this Agreement will control. Capitalized terms used in the schedules have the meanings assigned to them in this Agreement. The listing of an item in one section of the schedules shall be deemed a listing in each section of the schedules, notwithstanding the lack of a specific cross-reference, and to apply to each other representation and warranty to which its relevance is reasonably apparent on its face. The section references referred to in the schedules are to sections of this Agreement, unless otherwise expressly indicated.

ARTICLE 2

THE ASSUMPTION TRANSACTION

Section 2.1 Assumed Policies.

(a) Effective on and as of the Assumption Effective Date, (i) the Company shall transfer and absolutely assign to HCPCI, and HCPCI shall take assignment of, all of the contractual and other rights of the Company under and with respect to the Assumed Policies, including all Premium receivables, and (ii) HCPCI shall assume all contractual obligations under the Assumed Policies corresponding to the Unearned Premium Reserves, including Post-Assumption Losses; provided, however, that HCPCI shall have no duties, responsibilities, or obligations with regard to, any Pre-Assumption Effective Date Liabilities and the Company will retain contract rights with respect to the Pre-Assumption Effective Date Liabilities.

(b) HCPCI agrees to substitute itself in the Company's place with respect to the Assumed Policies as if it had issued each Assumed Policy on the Assumption Effective Date, such that HCPCI shall perform all contractual promises made by the Company and shall be entitled to exercise all of the Company's rights, in each case arising on or after the Assumption Effective Date pursuant to the terms and conditions of the Assumed Policies, but excluding any Pre-Assumption Effective Date Liabilities, which shall remain the exclusive obligation of the Company. HCPCI hereby covenants and agrees that it may be sued for its actions after the Assumption Effective Date, in its own name, by a policyholder for Post-Assumption Losses under the Assumed Policies, except for any Pre-Assumption Effective Date Liabilities, for which HCPCI shall have no liability or obligation of any kind whatsoever.

(c) It is the intent of the Parties to this Agreement to accomplish, as of the Assumption Effective Date, a complete transfer of all of the Company's contractual rights, obligations, liabilities and risks with respect to each of the Assumed Policies (provided that the Company shall retain any and all Pre-Assumption Effective Date Liabilities and any rights associated therewith) with the result that HCPCI, as transferee, in all respects and conditions, shall succeed the Company as the insurer under the terms and provisions of each of the Assumed Policies as though HCPCI had issued such Assumed Policies on the Assumption Effective Date, and to transfer to HCPCI, as administrator, full and complete responsibility for servicing and administering Claims for Post-Assumption Losses under the Assumed Policies in accordance with the terms and conditions of this Agreement (excluding Pre-Assumption Effective Date Liabilities).

(d) On and after the Assumption Effective Date, no further rights or liabilities shall accrue to the Company under Assumed Policies other than those associated with Pre-Assumption Effective Date Liabilities.

Section 2.2 Assumption Certificates.

Promptly after the Assumption Effective Date, HCPCI shall issue to each of the policyholders of the Assumed Policies an Assumption Certificate.

Section 2.3 Representations and Warranties of the Company.

The Company hereby represents and warrants to HCPCI as of the date of execution of this Agreement the following:

(a) The Company is an insurance company duly authorized and validly existing under the laws of the State of Florida.

(b) The Company has all requisite power and authority to execute and deliver this Agreement and to perform all of its respective obligations hereunder and thereunder. The execution, delivery and performance of this Agreement by the Company has been duly and validly authorized by all necessary action of the Company, and no further action, consent or approval on the part of the Company is required for the valid performance of its obligations under this Agreement, except as otherwise identified in Schedule 2.3(b) attached hereto.

(c) The execution, delivery and performance of this Agreement by the Company does not require the amendment of any contracts, agreements or other instruments of the Company or its Affiliates, and no third party consents or authorizations are required for the valid performance of its obligations under, or to otherwise effectuate the terms of, this Agreement, except as otherwise identified in Schedule 2.3(c) attached hereto.

(d) There is no action, suit, investigation or proceeding pending against, or affecting the properties of the Company before any court or arbitrator or any Governmental Entity, agency or official which challenges or seeks to prevent the consummation of the transactions contemplated hereby.

EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS SECTION 2.3, NEITHER THE COMPANY, ANY OF ITS AFFILIATES NOR ANY OTHER PERSON MAKES ANY REPRESENTATIONS OR WARRANTIES, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, WITH RESPECT TO THE COMPANY, ANY OF ITS AFFILIATES OR THEIR RESPECTIVE BUSINESS, OPERATIONS, ASSETS, ASSUMED POLICIES, LIABILITIES, CONDITION (FINANCIAL OR OTHERWISE) OR PROSPECTS. HCPCI HEREBY EXPRESSLY WAIVES ANY CLAIMS AND CAUSES OF ACTION AND ANY OTHER REPRESENTATIONS OR WARRANTIES, EXPRESS, IMPLIED, AT COMMON LAW, BY STATUTE OR OTHERWISE IN EACH CASE RELATING TO THE ACCURACY, COMPLETENESS OR MATERIALITY OF ANY INFORMATION, DATA OR OTHER MATERIALS (WRITTEN OR ORAL) HERETOFORE FURNISHED TO HCPCI AND ITS REPRESENTATIVES BY OR ON BEHALF OF THE COMPANY OR ANY OF ITS AFFILIATES. WITHOUT LIMITING THE FOREGOING, NEITHER THE COMPANY, ANY OF ITS AFFILIATES NOR ANY OTHER PERSON IS MAKING ANY REPRESENTATION OR WARRANTY TO HCPCI WITH RESPECT TO ANY FINANCIAL PROJECTION OR FORECAST RELATING TO THE BUSINESS, OPERATIONS, ASSETS, LIABILITIES, ASSUMED POLICIES, CONDITION (FINANCIAL OR OTHERWISE) OR PROSPECTS OF THE COMPANY.

Section 2.4 Representations and Warranties of HCPCI.

HCPCI hereby represents and warrants to the Company as of the date of execution of this Agreement the following:

(a) HCPCI is an insurance company duly authorized and validly existing under the laws of the State of Florida and has all requisite power and authority to sell, own, lease and operate its respective assets and business and to carry on its respective businesses as now being conducted.

(b) HCPCI has all requisite power and authority to execute and deliver this Agreement and to perform all of its respective obligations hereunder. The execution, delivery and performance of this Agreement by HCPCI has been duly and validly authorized by all necessary action of HCPCI, and no further action, consent or approval on the part of HCPCI is required for the valid performance of its obligations under this Agreement.

(c) The execution, delivery and performance of this Agreement by HCPCI does not require the amendment of any contracts, agreements or other instruments of HCPCI or its Affiliates, and no third party consents or authorizations are required for the valid performance of its obligations under, or to otherwise effectuate the terms of, this Agreement.

(d) There is no action, suit, investigation or proceeding pending against, or affecting the properties of HCPCI before any court or arbitrator or any Governmental Entity, agency or official which challenges or seeks to prevent the consummation of the transactions contemplated hereby.

Section 2.5 Conditions Precedent to Effectiveness of Agreement.

In order for the transactions contemplated by this Agreement to become effective, the following conditions shall have been satisfied on or before the date of execution of this Agreement:

(a) The Company shall provide to HCPCI fully executed and duly authorized written consents or authorizations identified in Schedule 2.3(b) that are required to effectuate the provisions of this Agreement, in such forms as are acceptable to HCPCI in its sole discretion;

(b) The Company shall provide to HCPCI fully executed amendments to any and all contracts, agreements or other instruments of the Company or its Affiliates, or written consents or authorizations from any third parties (including confidentiality agreements), which HCPCI determines in its sole discretion are required to effectuate the provisions of this Agreement, in such forms as are acceptable to HCPCI in its sole discretion, including amendments to any contracts, agreements, instruments, or consents and authorizations identified in Schedule 2.3(c);

(c) The Florida Office of Insurance Regulation shall execute and issue a Consent Order, which has been duly executed by the Parties, approving this Agreement and the transactions contemplated herein, and expressly finding, among other things, that this Agreement is supported by "fair consideration" and is not intended to hinder, delay, or defraud either then-existing or future creditors of the Company, as contemplated by Chapter 631, Florida Statutes;

(d) The Company shall pay HCPCI the first installment of the Initial UPR Transfer Amount into an account specified by HCPCI; and

(e) Any other deliveries contemplated by the other provisions hereof.

Section 2.6 Transfer of Unearned Premium Reserve.

It is the intent of the Parties that the Company shall transfer and pay to HCPCI an amount made up of cash and Premium receivables equal to one hundred percent (100%) of the amount of the Unearned Premium Reserves net of a ceding commission (the "Ceding Commission") equal to ten percent (10%) of the Unearned Premium Reserves, all subject to an initial true-up, adjustment and settlement approximately forty-five (45) days after the Assumption Effective Date pursuant to the provisions of Section 3.1(a), offsets and a final true-up and settlement on April 30, 2012 pursuant to Section 3.4. HCPCI shall have no obligation or liability to pay any of the Company's premiums, assessments, costs or other liabilities whatsoever arising from or attributed to premium taxes, residual market or guaranty fund assessments (including assessments by the Florida Insurance Guaranty Association, Florida Hurricane Catastrophe Fund, and Citizens Property Insurance Corporation), reimbursement premiums arising under Company's contracts with the Florida Hurricane Catastrophe Fund, or premiums arising under Company's contracts with other reinsurers. The Parties agree that the Unearned Premium Reserves shall only be reduced by the Ceding Commission, and the premiums, assessments, costs or other liabilities identified in the immediately preceding sentence shall remain the exclusive obligation of the Company to pay or satisfy out of the Ceding Commission or such other assets or funds of the Company. The Unearned Premium Reserves (including the right to receive return commissions from agents, producers, brokers and other administrative entities) shall be the sole and exclusive property of HCPCI on and after the Assumption Effective Date.

Section 2.7 Non-Assumption of Liabilities.

Except as otherwise expressly stated in this Agreement, neither HCPCI nor any of its Affiliates will, directly or indirectly, assume any liability or obligation of the Company or its Affiliates of any kind, character or description, regardless of when incurred, discovered or reported.

ARTICLE 3

PAYMENTS AND OFFSET

Section 3.1 Premium Payments.

(a) Unearned Premium Reserves; True Up Process.

(i) The Company shall remit to HCPCI an amount equal to Forty-Eight Million Dollars ($48,000,000.00) (the "Initial UPR Transfer Amount") in two installments: the first installment an amount equal to Twenty-Two Million Dollars ($22,000,000.00) by wire transfer of immediately available funds upon execution of this Agreement and the second installment an amount equal to Twenty-Six Million Dollars ($26,000,000.00) by wire transfer of immediately available funds no later than ten (10) calendar days following the date of execution of this Agreement. The Initial UPR Transfer Amount will not reflect Ceding Commission on Unearned Premium Reserves attributable to (A) receivables for uncollected Premium and (B) an estimate of return Premiums. The amount of the Ceding Commission attributable to B above is referred to as the "Return Premium Ceding Amount."

(ii) Within forty-five (45) days following the Assumption Effective Date, HCPCI shall calculate the Unearned Premium Reserve as of the Assumption Effective Date considering the post-Assumption Effective Date information available to the Parties, including the uncollectibility of receivables for uncollected Premium. The sum of the Unearned Premium Reserve, as calculated in this Section 3.1(a)(ii), plus the Return Premium Ceding Amount will result in the "Preliminary UPR Transfer Amount" and HCPCI shall send to the Company its computation of the Preliminary UPR Transfer Amount together with its work papers used to compute the same (the "UPR True Up Report").

(iii) If, within twenty (20) days following its receipt of the UPR True Up Report, the Company does not dispute the UPR True Up Report or the Preliminary UPR Transfer Amount prepared by HCPCI, then the Preliminary UPR Transfer Amount, as set forth in the UPR True-up Report, shall be considered the finally determined UPR Transfer Amount for purposes of this Agreement.

(iv) In the event the Company has any dispute with regard to the UPR True Up Report or the Preliminary UPR Transfer Amount, such dispute shall be resolved in the manner described in this Section 3.1(a). The Company shall notify HCPCI in writing of such dispute within twenty (20) days after the Company's receipt of the UPR True Up Report, which notice shall specify in reasonable detail the nature of the dispute.

(v) During the thirty (30) day period following the Company's receipt of such notice, the Parties shall attempt to resolve such dispute and determine the final calculation of the UPR Transfer Amount.

(vi) If, at the end of the thirty (30) day period specified in subsection (a)(v) above, the Parties shall have failed to reach a written agreement with respect to all or a portion of such dispute (those items that remain in dispute at the end of such period are the "Unresolved Changes"), the Unresolved Changes shall be referred to an accounting firm (the "Outside Accountants") jointly selected by the Company's accountants and HCPCI's accountants for review and resolution of any and all matters (but only such matters) which remain in dispute. The Company and HCPCI shall instruct their respective accountants to select the Outside Accountants in good faith within ten (10) days. If the Company's and HCPCI's accountants shall not have agreed upon the Outside Accountants within such ten (10) day period, within an additional five (5) days, they shall each designate an accounting firm that has not performed work in the last two years for either the Company or HCPCI and with expertise with respect to homeowners' insurance business in the United States and the Outside Accountants shall be selected by lot from those two accounting firms. If only one of the Company's and HCPCI's accountants shall so designate a name of an accounting firm for selection by lot, such accounting firm so designated shall be the Outside Accountants.

(vii) Each Party hereto agrees to execute, if requested by the Outside Accountants, a reasonable engagement letter. All fees and expenses relating to the work, if any, to be performed by the Outside Accountants shall be borne pro rata by the Company and HCPCI in inverse proportion to the allocation of the dollar amount of the Unresolved Changes, in the aggregate, between the Company and HCPCI made by the Outside Accountants such that the party with whom the Outside Accountants agree more closely pays a lesser proportion of the fees and expenses. The Outside Accountants shall act as an arbitrator to determine, based solely on the provisions of this Agreement and the presentations by the Company and HCPCI, or Representatives thereof, and not by independent review, only the resolution of the Unresolved Changes. The Outside Accountants' resolution of the Unresolved Changes, which for each of the Unresolved Changes shall be within the range of values of the amount claimed by either Party as to any of the Unresolved Changes, shall be made within thirty (30) days of the submission of the Unresolved Changes to the Outside Accountants, shall be set forth in a written statement delivered to the Company and HCPCI and shall be deemed to be mutually agreed upon by the Company and HCPCI for all purposes of this Agreement. Any changes to the UPR True Up Report resulting from such resolution of the Unresolved Changes shall be made, and such UPR True Up Report, as so changed shall be the final UPR True Up Report and the UPR Transfer Amount reflected therein shall be deemed the finally determined UPR Transfer Amount for purposes of this Agreement.

(viii) Cooperation. At all times prior to the final determination of the final UPR True Up Report and UPR Transfer Amount, HCPCI shall cooperate fully with the Company and the Company's authorized Representatives, including providing, on a timely basis, all information necessary or useful in reviewing the UPR True Up Report.

(ix) UPR Adjustment. If, pursuant to the final UPR True Up Report, the finally determined Unearned Premium Reserve is greater than the Initial UPR Transfer Amount, the Company shall pay to HCPCI, in a manner provided in Section 3.1(a)(x), the amount of such difference to the extent not previously paid. If, pursuant to the final UPR True Up Report, the final UPR Transfer Amount is less than the Initial UPR Transfer Amount, HCPCI shall pay to the Company, in a manner provided in Section 3.1(a)(x), the amount of such difference). Any payment hereunder shall be referred to as the "UPR Adjustment."

(x) Payment of UPR Adjustment. Payment of the UPR Adjustment shall be made within five (5) business days after the amount of the UPR Adjustment has been finally determined pursuant hereto, by wire transfer to the applicable Party of immediately available funds by the Party obligated to make such payment to the account designated by the receiving Party.

(b) Collection of Premiums.

Following the Assumption Effective Date and subject to Section 3.3(a), all Premiums collected by HCPCI or any of its Affiliates attributed to Assumed Policies shall be retained by HCPCI and all Premiums collected by the Company shall be deposited directly into an account (or accounts) designated by, and issued in the name of, HCPCI or its Affiliate. Any Premiums collected by the Company pursuant to this Section 3.1 or Section 3.3 shall be the sole and exclusive property of HCPCI and, notwithstanding Section 3.2, shall not be subject to setoff in any form by the Company.

Section 3.2 Offset Rights.

Except as otherwise expressly provided herein, each Party hereto, and each of its respective Affiliates at the time an offset is asserted, shall have, and may exercise at any time and from time to time, the right to offset any balance or balances due to the other Party or any of its Affiliates at the time an offset is asserted, arising under this Agreement or any other agreement hereafter entered into by and between them, and regardless of whether on account of Premiums, Ceding Commissions, or Post-Assumption Losses related to or arising under the Assumed Policies; provided, however, that in the event of the insolvency of a Party hereto or any of its Affiliates, offsets shall only be allowed in accordance with the provisions of Applicable Law.

Section 3.3 Premium Payments for Assumed Policies

(a) Upon and after the Assumption Effective Date, all Premium payments collected under the Assumed Policies shall be the sole property of HCPCI. Effective as of the Assumption Effective Date, the Company hereby assigns all of rights and privileges to draft or debit the accounts of any policyholders of the Assumed Policies for Premiums due after the Assumption Effective Date under the Assumed Policies pursuant to existing pre-authorized bank draft or electronic fund transfer arrangements between the Company and such policyholders. On and after the Assumption Effective Date, HCPCI is authorized to collect Premiums for the Assumed Policies from policyholders of the Company and may deposit such Premiums directly into one or more accounts designated by, and issued in the name of, HCPCI. To the extent any Premiums are received directly by the Company or its Affiliate, the Company shall so advise HCPCI and shall promptly remit them to HCPCI. The Company hereby appoints HCPCI as its duly appointed attorney-in-fact for purposes of authorizing HCPCI to endorse any Premium checks, drafts and money orders on behalf of the Company for deposit into HCPCI's accounts for Premiums due on and after the Assumption Effective Date. HCPCI and the Company agree to maintain accounting and operational records and books in adequate detail so as to identify the specific Assumed Policies and policyholders of the Company with respect to all collected Premiums.

(b) HCPCI shall timely pay any return Premium coming due under the Assumed Policies payable on or after the Assumption Effective Date, net of any Ceding Commission which may apply to such amounts. HCPCI's obligation to pay such return Premium is limited to payment of such Premium actually received by HCPCI as part of the Unearned Premium Reserves. The Company shall retain the exclusive obligation to pay return Premium attributed to the Assumed Policies prior to the Assumption Effective Date.

Section 3.4 Final Settlement, Reports and Remittances.

(a) Ceding Commissions attributable to Premium refunds will be credited to HCPCI. On April 30, 2012, the Parties shall conduct a settlement based upon monthly bordereaux to be provided by or on behalf of HCPCI evidencing the amount due or to be due in a form, and containing such detail, as is agreed to by the Parties. Such settlement shall fully settle the amount by which the Initial UPR Transfer Amount exceeds or does not exceed the amount intended to be transferred pursuant to Section 2.6 after taking into account all payments, credits, offsets and other adjustments, including Ceding Commissions attributable to return Premiums paid by HCPCI (such Ceding Commissions will be credited to HCPCI) and other similar Premium or commission adjustments payable to or by the Company or HCPCI pursuant to the terms of any of the Assumed Policies or any agent, producer or broker contract that relates to the Assumed Policies, which adjustments, whether positive or negative, shall be credited to or charged against HCPCI, as the case may be. Each Party shall pay or credit in cash or its equivalent to the other all net amounts for which it may be liable under the terms and conditions of this Agreement at the April 30, 2012 settlement. The Company hereby assigns to HCPCI any rights it has to return commissions that become due from any agent, producer, broker or other administrative entity as a result of returned Premiums paid by HCPCI, and HCPCI may collect such return commissions directly from such Persons. Receipt of return commissions by HCPCI from such an agent, producer, broker or other administrative entity will constitute credit charged against HCPCI for return Ceding Commission to the extent of such receipt, but not in excess of amounts credited to HCPCI for return Ceding Commission.

(b) The Company and HCPCI shall furnish each other with such records, reports and information with respect to the Post-Assumption Losses, Claims, Inuring Reinsurance, and Unearned Premium Reserves, as may be reasonably required by the other Party to comply with any internal reporting requirements or reporting requirements of any Governmental Entity or to prepare and complete such Party's quarterly and annual financial statements. In addition, if requested by the Company, HCPCI shall provide the Company with (i) monthly reports within thirty (30) days following the end of each month and in such form as agreed by the Parties, identifying all adjustments to Premiums or Ceding Commissions, and (ii) such additional information as may be reasonably requested by the Company with respect to any such reports.

(c) If the Company or HCPCI receives notice of, or otherwise becomes aware of, any inquiry, investigation, proceeding, from or at the direction of a Governmental Entity, or is served or threatened with a demand for litigation, arbitration, mediation or any other similar proceeding relating to the Assumed Policies, the Company or HCPCI, as applicable, shall promptly notify the other Party thereof, whereupon the Parties shall cooperate in good faith and use their respective commercially reasonable efforts to resolve such matter in a mutually satisfactory manner in light of all the relevant business, regulatory and legal facts and circumstances.

(d) Each Party, at its expense, shall have the right, through authorized Representatives and upon reasonable advance notice during normal business hours, to periodically audit and inspect all books, records, and papers of the other Party solely in connection with the Assumed Policies or Claims in connection therewith and the performance of the Claims, underwriting and other administration services pursuant to Article 4. Each Party shall treat the other Party's books, records, and papers in confidence.

(e) HCPCI agrees that so long as this Agreement shall be in force, it will have capital and surplus of not less than the amount necessary to comply with the Applicable Laws of its domiciliary jurisdiction. HCPCI agrees to maintain reserves consistent with the Applicable Laws of any jurisdiction having regulatory authority over HCPCI.

ARTICLE 4

CLAIMS ADMINISTRATION

(a) On and after the Assumption Effective Date, the Company will provide prompt notice to HCPCI or its designee of all Claims for Post-Assumption Losses which may be received by or on behalf of the Company or its Affiliates (but only to the extent such Claims are not otherwise known or reported to HCPCI or any of its Affiliates), and HCPCI or its designee will have the obligation to administer, investigate and defend, as applicable, at its own expense, any Claim for Post Assumption Losses. HCPCI shall have no duty, responsibility or obligation to administer any Claims occurring prior to the Assumption Effective Date or arising from or in any way associated with an event occurring before the Assumption Effective Date. At the request of HCPCI or such designee, the Company will jointly associate with HCPCI, at the expense of HCPCI, in the defense or control of any Claim, suit or proceeding involving the Assumed Policies, and the Company shall reasonably cooperate with HCPCI or such designee, at the expense of HCPCI, in every respect to procure the most favorable disposition of such claim, suit or proceeding.

(b) The Company grants to HCPCI or one or more of HCPCI's Affiliates designated by HCPCI, as of the Assumption Effective Date, authority in all matters relating to the administration of the Assumed Policies and any Claims for Post-Assumption Losses covered by this Agreement, including the authority (i) to pay and adjust Claims for Post-Assumption Losses which may be received by or on behalf of the Company, and (ii) to communicate directly with policyholders and to collect on behalf of the Company unpaid Premiums attributed solely to the Assumed Policies on and after the Assumption Effective Date. In exercising such authorities, HCPCI or any such Affiliate may delegate the performance of any duty described above to a third party; provided that no such delegation shall relieve HCPCI of its obligations hereunder. Subject to the forgoing limitation, effective as of the Assumption Effective Date, the Company hereby appoints HCPCI as its attorney-in-fact with respect to the rights, duties and privileges and obligations of the Company in and to the Assumed Policies, with full power and authority to act in the name, place and stead of the Company with respect to such contracts, including without limitation, the power to service such contracts, to adjust, defend, settle and to pay all Claims for Post-Assumption Losses, to recover salvage and subrogation for any Post-Assumption Losses incurred and to take such other and further actions as may be necessary or desirable to effect the transactions contemplated by this Agreement. As part of the foregoing, the Company grants full authority to HCPCI to adjust, settle or compromise all Post-Assumption Losses hereunder, and all such adjustments, settlements and compromises shall be binding on the Company. The Company agrees, at HCPCI's expense, to cooperate fully with HCPCI in the transfer of such administration, and HCPCI agrees to be responsible for such administration.

(c) HCPCI shall maintain sufficient resources and adequate staffing levels of personnel with appropriate experience to administer Claims for Post-Assumption Losses under the Assumed Policies in a professional manner in accordance with all Applicable Laws.

ARTICLE 5

REGULATORY MATTERS

At all times during the term of this Agreement, the Company and HCPCI shall hold and maintain all licenses and authorizations required under Applicable Law and otherwise take all actions that may be necessary to perform its obligations hereunder.

ARTICLE 6

DUTY OF COOPERATION

Each Party hereto shall cooperate fully with the other (and Company shall cause its vendors to cooperate) in all reasonable respects in order to accomplish the objectives of this Agreement, all at the expense of the requesting Party.

ARTICLE 7

RESOLUTION OF DISPUTES

(a) Except as otherwise provided in Section 3.1(a), any dispute arising out of the interpretation, performance or breach of this Agreement, including the formation or validity hereof, that the Parties are unable to resolve after good faith negotiations shall be submitted for decision to a panel of three arbitrators. The arbitration shall be conducted under the American Arbitration Association Commercial Arbitration Rules, except as may be specifically modified herein. Notice requesting arbitration shall be in writing and sent certified or registered mail, return receipt requested, or by overnight courier service, to the Party against whom relief is sought.

(b) Each Party shall choose one individual as an arbitrator and the two arbitrators shall then choose a third arbitrator who shall preside at the hearing. If either Party fails to appoint an arbitrator within thirty (30) days after being requested to do so by the other Party, the latter, after ten (10) days' notice by certified or registered mail or by overnight courier service of its intention to do so, may appoint the third arbitrator. If the two individuals are unable to agree upon the third arbitrator within thirty (30) days of their appointment, the third arbitrator shall be selected as follows: each arbitrator shall select three individuals and submit their names to the other arbitrator. In the event a name appears on both lists, that person shall be the third arbitrator. Otherwise, or in the event that more than one name appears on both lists, each arbitrator shall strike two from the other arbitrator's list. Of the two persons remaining, one shall be chosen as the third arbitrator by drawing lots.

(c) Within thirty (30) days after the appointment of the third arbitrator, the arbitrators shall jointly determine timely periods for the filing of briefs with the panel, discovery procedures and schedules for hearings. The arbitrators shall be relieved of all judicial formalities and shall not be bound by the strict rules of law, but, rather, shall view this Agreement as an honourable engagement between the Parties. The arbitration shall take place in Tampa, Florida or such other location as mutually agreed upon by the parties. The decision of the majority of the arbitrators, when rendered in writing, shall be final and binding. The arbitrators are empowered to grant interim relief, as they may deem appropriate.

(d) The arbitrators shall make their decision considering the customs and practices of the applicable insurance and reinsurance business and as promptly as possible following the termination of hearings. Judgment upon the award may be entered in any court of competent jurisdiction.

(e) The Parties intend this Article to be enforceable in accordance with the Federal Arbitration Act (9 U.S.C. Section 1, et seq.), including any amendments to that Act which are subsequently adopted, notwithstanding any other choice of law provision set forth in this Agreement. In the event that either party refuses to submit to arbitration as required herein, the other Party may request the United States Federal District Court for the Middle District of Florida to compel arbitration in accordance with the Federal Arbitration Act. Both Parties consent to the jurisdiction of such court to enforce this article and to confirm and enforce the performance of any award of the arbitrators.

(f) Each Party shall bear the costs of its chosen arbitrator and, unless the panel awards otherwise, its own attorneys' fees, and jointly and equally bear, with the other Party, the costs of the third arbitrator and of the arbitration, including arbitrator travel and lodging, court reporters, room rental fees, et. al. The arbitrators may, in their discretion, award such further costs and expenses as they may consider appropriate, including attorneys' fees to the extent permitted by the Applicable Law governing the arbitration.

ARTICLE 8

REPLACEMENT POLICIES

Section 8.1 Right to Offer Replacement Policies and Renewals.

(a) From and after the Assumption Effective Date, HCPCI, in its name, is authorized to and may (directly or indirectly) solicit, quote, bind, write and/or issue, or cause to be solicited, quoted, bound, written and/or issued to any Company policyholder Replacement Policies upon the expiration, cancellation or anniversary of such policyholder's contract with the Company relating to the Assumed Policies, on the respective forms and rates of HCPCI, subject to and in accordance with Applicable Law.

(b) HCPCI shall offer to issue a Replacement Policy to each policyholder of the Assumed Policies, subject to HCPCI's determination in its sole discretion that each such policyholder satisfies HCPCI's underwriting and other criteria.

(c) Except as required by Applicable Law or the applicable Assumed Policies, neither the Company nor any of its Affiliates shall attempt to solicit, sell, write or issue any evidence of insurance constituting the Assumed Policies that would have the effect of canceling any Assumed Policies prior to the end of their natural terms without the prior written consent of HCPCI.

(d) The Company shall cause its Affiliates, including HomeWise Management Company, to cooperate with HCPCI in connection with fulfilling its obligations and duties arising under this Agreement, and the Company will enter into and execute amendments to any contracts with such Affiliates as may be necessary or appropriate to fulfill the terms of this Agreement. At a minimum, such amendments shall cause such Affiliates to assign any right, title, or interest they may have to renewals in or to the Assumed Policies to HCPCI and to release the Company and HCPCI from any liability or claims for all or any portion of the Premiums.

(e) The Company covenants and agrees, from and after the date of execution of this Agreement, following written notice by HCPCI to the Company, to provide, to the extent permitted by Applicable Law and contractual obligations with third parties, to HCPCI and its respective Representatives reasonable access during normal business hours to the originals or copies of all books and records relating to the Assumed Policies (to the extent such books and records are not in the possession or control of HCPCI or its Affiliates) and to reasonably make available to HCPCI any such Representatives or employees of the Company or any of its Affiliates with knowledge thereof; provided, however, that HCPCI shall not have access to or use, and will not permit any of its Affiliates or any of their respective Representatives, to have access to or use any of the items referred to in this Section 8.1 in a manner that would (i) cause the Company or its Affiliates to be in breach of any contract with any Person, and (ii) be in violation of any Applicable Law, including any applicable state or federal privacy laws.

Section 8.2 Communications with Producers and Policyholders.

From and after the date of execution of this Agreement, in all cases subject to Applicable Law, the Company shall make reasonably available during business hours and upon reasonable notice employees of the Company or its Affiliates reasonably requested by HCPCI or its Representatives, to assist HCPCI in retaining the Assumed Policies, including, without limitation, scheduling meetings and conference calls among the Company, HCPCI and producers and sending communications (the content of which shall be subject to the Company's prior review and reasonable approval) to producers, the actual out-of-pocket allocable costs of which will be borne by HCPCI or its Representatives, for the purpose of encouraging producers or policyholders to enter into contractual arrangements with HCPCI or its Representatives from and after the Assumption Effective Date, as reasonably requested by HCPCI. HCPCI may use the names and marks of the Company in connection with its efforts to retain the Assumed Policies, subject to approval by the Company, such approval not to be unreasonably withheld.

Section 8.3 Non-Solicitation With Respect to the Assumed Policies.

(a) The Company agrees that, from and after Assumption Effective Date, the Company shall not, directly or indirectly, solicit, market, offer, bind, enter into or issue insurance contracts, policies, treaties or slips for or relating to, the Assumed Policies. From and after the Assumption Effective Date, the Company shall not use or permit the use of Confidential Information by its Affiliates (in the case of Affiliates, only to the extent such Affiliates owe a fiduciary, contractual or implied duty of confidentiality to the Company with respect to such Confidential Information) or any other Person (except for HCPCI or its designated Affiliates) to solicit, market, offer, bind enter into or issue insurance contracts, policies, treaties, slips for or relating to the Assumed Policies.

(b) The Parties hereto acknowledge that the restrictions contained in this Section 8.3 were specifically negotiated to induce HCPCI to enter into this Agreement and are reasonable and necessary to protect the legitimate interests of HCPCI, that HCPCI shall not have an adequate remedy at law for any actual or attempted breach or violation of this Section 8.3 and that HCPCI, in addition to any other rights or remedies, shall be entitled to specific performance, injunctive and other equitable relief for any actual or attempted breach or violation, as well as reasonable attorneys' fees incurred in successfully enforcing the covenants in this Section 8.3 against any such actual or attempted breach or violation. Anything in this Agreement to the contrary notwithstanding, the rights of HCPCI under this Section 8.3 shall inure to the benefit of any successor or assign of HCPCI, including, without limitation, any Person acquiring, directly or indirectly, all or substantially all of the assets of HCPCI, whether by merger, consolidation, sale or otherwise.

(c) The provisions of this Section 8.3 shall survive expiration or termination of this Agreement.

ARTICLE 9

REGULATORY APPROVALS

The Company and HCPCI shall submit all necessary registrations, filings and notices with, and obtain all necessary consents, approvals, qualifications and waivers from, all Governmental Entities and other parties which may be required under Applicable Law as a result of the transactions contemplated by, or to perform its respective obligations under, this Agreement, including the Florida Office of Insurance Regulation. The Parties agree that where formal approval is required by any Governmental Entity, this Agreement shall not be effective as to any and all Assumed Policies in such jurisdiction until such approval is obtained.

ARTICLE 10

TERMINATION

This Agreement shall not be subject to termination by any Party except (i) by written agreement between HCPCI and the Company on the date indicated by such agreement, after receipt of any required approval from Governmental Entities, or (ii) at the election of HCPCI in its sole discretion immediately upon any breach by the Company of its covenants, representations, warranties or conditions included in Article 2 or 3 that would have a material adverse effect on the transactions contemplated by this Agreement. In the event the transfer of the Unearned Premium Reserves to, or collection of Premiums by, HCPCI is invalidated in its entirety or HCPCI is otherwise ordered to return such funds to the Company or other Person, HCPCI shall have no duty, obligation or liability to administer or pay any Post-Assumption Losses or Claims arising under the Assumed Policies. Notwithstanding anything in this Agreement to the contrary, in the event the Company for any reason fails to pay all or any portion of the Initial UPR Transfer Amount, this Agreement may be terminated by HCPCI retroactively as of the Assumption Effective Date, in which case HCPCI shall promptly repay to the Company any and all of the Initial UPR Transfer Amount which may have actually been paid by the Company under Section 3.1(a)(i), and HCPCI shall have no duty, obligation or liability to administer or pay any Post-Assumption Losses or Claims arising under any policies that otherwise would have become Assumed Policies but for termination under this paragraph.

ARTICLE 11

INDEMNIFICATION

Section 11.1 Indemnification Obligations of the Company.

Subject to the provisions of this Agreement, the Company agrees to indemnify and hold HCPCI and its Affiliates, predecessors, successors and assigns (and their respective officers, directors, employees and agents) harmless from and against and in respect of all liabilities, damages, losses, costs or expenses, including attorneys' fees, resulting from or relating to a breach by the Company or any of its Affiliates of any covenant or agreement of the Company or any of its Affiliates in this Agreement and for Pre-Assumption Effective Date Liabilities.

Section 11.2 Indemnification Obligations of HCPCI.

Subject to the provisions of this Agreement, HCPCI agrees to indemnify and hold the Company and its Affiliates, predecessors, successors and assigns (and their respective officers, directors, employees and agents) harmless from and against and in respect of all liabilities, damages, losses, costs or expenses, including attorneys' fees, resulting from or relating to a breach by HCPCI or any of its Affiliates of any covenant or agreement of HCPCI or any such Affiliate in this Agreement.

ARTICLE 12

MISCELLANEOUS

Section 12.1 Notices.

All notices, requests, demands and other communications hereunder shall be given in writing and shall be: (a) personally delivered; (b) sent by telecopier, facsimile transmission or other electronic means of transmitting written documents; or (c) sent to the Parties at their respective addresses indicated herein by registered or certified U.S. mail, return receipt requested and postage prepaid, or by private overnight mail courier service. The respective addresses to be used for all such notices, demands or requests are as follows:

(a) If to the Company, to:

HomeWise Insurance Company
c/o Glencoe Capital, LLC
222 West Adams Street, Suite 1000
Chicago, Illinois 60606
Attention: Portfolio Manager
Facsimile No.: (312) 795-0455

with copies to:

McDermott, Will & Emery
227 West Monroe Street
Chicago, Illinois 60606-5096
Attention: Scott M. Williams
Facsimile: (312) 984-7700

or to such other person or address as the Company shall furnish to HCPCI in writing.

(b) If to HCPCI, to:

Paresh Patel, Chief Executive Officer
5300 West Cypress Street, Suite 100
Tampa, FL 33607
(813) 405-3612 tel
(813) 865-0174 fax
pspatel@hcpci.com

with copy to

Andrew L. Graham, General Counsel
5300 West Cypress Street, Suite 100
Tampa, FL 33607
(813) 405-3615 tel
(813) 865-0174 fax
agraham@hcpci.com

or to such other person or address as HCPCI shall furnish to the Company in writing.

If personally delivered, such communication shall be deemed delivered upon actual receipt; if electronically transmitted pursuant to this paragraph, such communication shall be deemed delivered the next business day after transmission (and sender shall bear the burden of proof of delivery); if sent by overnight courier pursuant to this paragraph, such communication shall be deemed delivered upon receipt; and if sent by U.S. mail pursuant to this paragraph, such communication shall be deemed delivered as of the date of delivery indicated on the receipt issued by the relevant postal service, or, if the addressee fails or refuses to accept delivery, as of the date of such failure or refusal. Any Party to this Agreement may change its address for the purposes of this Agreement by giving notice thereof in accordance with this Section.

Section 12.2 Assignment; Parties in Interest.

(a) Assignment. Except as expressly provided herein, the rights and obligations of a Party hereunder may not be assigned, transferred or encumbered without the prior written consent of the other Party.

(b) Parties in Interest. This Agreement shall be binding upon, inure to the benefit of, and be enforceable by the Parties and their respective successors and permitted assigns. Except as provided in Section 3.2, nothing contained herein shall be deemed to confer upon any other Person any right or remedy under or by reason of this Agreement.

Section 12.3 Waivers and Amendments; Preservation of Remedies.

This Agreement may be amended, superseded, canceled, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by each of the Parties or, in the case of a waiver, by the Party waiving compliance. No delay on the part of any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any Party of any right, power, remedy or privilege, nor any single or partial exercise of any such right, power, remedy or privilege, preclude any further exercise thereof or the exercise of any other such right, remedy, power or privilege. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any Party may otherwise have under Applicable Law or in equity.

Section 12.4 Governing Law; Venue.

This Agreement shall be construed and interpreted according to the internal laws of the State of Florida excluding any choice of law rules that may direct the application of the laws of another jurisdiction. Subject to the parties' obligation to arbitrate any disputes in accordance with the provisions of Article 7, the Parties hereby stipulate that any action or other legal proceeding arising under or in connection with this Agreement may be commenced and prosecuted in its entirety in the federal or state courts sitting in Tampa, Florida, each Party hereby submitting to the personal jurisdiction thereof, and the Parties agree not to raise the objection that such courts are not a convenient forum. Process and pleadings mailed to a party at the address provided in Section 12.1 shall be deemed properly served and accepted for all purposes.

Section 12.5 Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 12.6 Entire Agreement; Merger.

This Agreement, and any exhibits, schedules and appendices attached hereto and thereto, together constitute the final written integrated expression of all of the agreements among the Parties with respect to the subject matter hereof and is a complete and exclusive statement of those terms, and supersede all prior or contemporaneous, written or oral, memoranda, arrangements, contracts and understandings between the Parties relating to the subject matter hereof. Any representations, promises, warranties or statements made by any Party which differ in any way from the terms of this Agreement or any applicable provisions contained in the Ancillary Agreements shall be given no force or effect. The Parties specifically represent, each to the other, that there are no additional or supplemental agreements or contracts between or among them related in any way to the matters herein contained unless specifically included or referred to in this Agreement. No addition to or modification of any provision of this Agreement or any applicable provisions of the Renewal Rights Agreement shall be binding upon either Party unless embodied in a dated written instrument signed by both Parties.

Section 12.7 Exhibits and Schedules.

All exhibits, schedules and appendices are hereby incorporated by reference into this Agreement as if they were set forth at length in the text of this Agreement.

Section 12.8 Headings.

The headings in this Agreement are inserted for convenience only and shall not constitute a part hereof.

Section 12.9 Severability.

If any part of this Agreement is contrary to, prohibited by, or deemed invalid under Applicable Law or regulations, that provision shall not apply and shall be omitted to the extent so contrary, prohibited, or invalid; but the remainder of this Agreement shall not be invalidated and shall be given full force and effect insofar as possible.

Section 12.10 Expenses.

Regardless of whether or not the transactions contemplated in this Agreement are consummated, each of the Parties shall bear their own expenses and the expenses of its counsel and other agents in connection with the transactions contemplated hereby, except as otherwise expressly provided for in this Agreement.

Section 12.11 Further Assurances.

HCPCI and the Company shall use commercially reasonable efforts to take, or cause to be taken, all actions or do, or cause to be done, all things or execute any documents necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement, subject to its terms; provided, however, that any such additional documents must be reasonably satisfactory to each of the Parties and not impose upon either Party any material liability, risk or obligation not contemplated by this Agreement.

Section 12.12 **Currency.** The currency of this Agreement and all transactions under this Agreement shall be in United States Dollars.

(Signature Page Follows)

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the day and year first written above.

HOMEWISE INSURANCE COMPANY

By _____

Title _____

HOMEOWNERS CHOICE PROPERTY & CASUALTY INSURANCE COMPANY, INC.

By _____

Title _____

- Note Purchase Agreement dated February 22, 2010 among HomeWise Holdings, Inc., a wholly-owned subsidiary of Glencoe Acquisition, Inc. ("HW Holdings") and the other parties thereto (as amended from time to time, the "Senior Note Purchase Agreement") and the other documents executed in connection therewith, including, without limitation, (a) those certain Security Agreements (as defined in the Senior Note Purchase Agreement), (b) those certain Notes (as defined in the Senior Note Purchase Agreement) and (c) that certain Premium Repayment Agreement dated March 5, 2010 among HW Holdings and the other parties thereto (collectively, as amended from time to time, the "HomeWise Loan Documents").

- Note Purchase Agreement dated May 31, 2011 by and among Glencoe Acquisition, Inc., First Home Acquisition Company, LLC, a wholly-owned subsidiary of Glencoe Acquisition, Inc., Carlyle Multi-Strategy Master Fund Liquidating Trust and Charles H. Powers, Sr. (as amended from time to time, the "Subordinated Note Purchase Agreement") and the other documents executed in connection therewith, including, without limitation, (a) those certain Subsidiary Guarantees (as defined in the Subordinated Note Purchase Agreement) and (b) those certain Notes (as defined in the Subordinated Note Purchase Agreement) (collectively, as amended from time to time, the "FHAC Loan Documents").

- Underwriting Policy Administration and Processing Management Agreement dated June 20, 2007, as amended from time to time, with Seibels, Bruce & Company

- Claims Administration Services Agreement dated June 20, 2007, as amended from time to time, with Insurance Network Services, Inc.

- Letter agreement dated May 16, 2007, as amended from time to time, with Seibels, Bruce & Company

- Service Agreement dated May 4, 2005, as amended from time to time, with First Home Insurance Agency, LLC

- Managing Agency Contract dated January 1, 2006, as amended from time to time, with HomeWise Management Company

- Quota Share Reinsurance Contract effective May 31, 2010, as amended from time to time, with Greenlight Reinsurance Ltd.

- Master Expanded Market Agreement dated January 1, 2009, as amended from time to time, with Ivantage Select Agency, Inc.

- Renewal Rights Agreement with Sawgrass

- License Agreement dated December 1, 2009, as amended from time to time, with Xactware Solutions, Inc.
- Access and Use Agreement dated December 1, 2009, as amended from time to time, with AIR Worldwide
- Reinsurance contract with DE Shaw
- OIR approval and consent order

HOMEOWNERS CHOICE, INC.

Subsidiaries

As of December 31, 2011, the Company had the following active subsidiaries:

Wholly-owned subsidiaries of Homeowners Choice, Inc.	*State or Sovereign Power of Incorporation*
Homeowners Choice Property & Casualty Insurance Company, Inc.	Florida
Homeowners Choice Managers, Inc.	Florida
Southern Administration, Inc.	Florida
Claddaugh Casualty Insurance Company Ltd.	Bermuda
Cypress Property Management Services, Inc.	Florida
Cypress Claims Services, Inc.	Florida
HCI Technical Resources, Inc.	Florida
HCI Holdings LLC	Florida

Wholly-owned subsidiaries of Homeowners Choice Property & Casualty Insurance Company, Inc.	*State or Sovereign Power of Incorporation*
HCPCI Holdings LLC	Florida

Wholly-owned subsidiaries of HCI Technical Resources, Inc.	*State or Sovereign Power of Incorporation*
Unthink Technologies Private Limited	India

Wholly-owned subsidiaries of HCI Holdings LLC	*State or Sovereign Power of Incorporation*
TV Investment Holdings LLC	Florida

Consent of Hacker, Johnson & Smith PA
Independent Registered Public Accounting Firm

The Board of Directors
Homeowners Choice, Inc.:

We consent to the incorporation by reference in the registration statements (Forms S-1 No. 333-152503 and S-1 No. 333-150513 and Forms S-3 No. 333-180322 and 333-165139 as supplemented from time to time and Form S-8 No. 333-154436) of our report dated March 25, 2012, with respect to the consolidated financial statements of Homeowners Choice, Inc. and subsidiaries included in this report on Form 10-K for the year ended December 31, 2011.

/s/ Hacker, Johnson & Smith PA
HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 25, 2012

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paresh Patel, certify that:

1. I have reviewed this annual report on Form 10-K of Homeowners Choice, Inc.;

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

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

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

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

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

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

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

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

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

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

March 30, 2012

/s/ PARESH PATEL

Paresh Patel
President and Chief Executive Officer
(Principal Executive Officer)

A signed original of this document has been provided to Homeowners Choice, Inc. and will be retained by Homeowners Choice, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard R. Allen, certify that:

1. I have reviewed this annual report on Form 10-K of Homeowners Choice, Inc.;

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

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

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

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

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

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

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

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

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

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

March 30, 2012

/s/ RICHARD R. ALLEN

Richard R. Allen
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this document has been provided to Homeowners Choice, Inc. and will be retained by Homeowners Choice, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

Written Statement of the Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Executive Officer of Homeowners Choice, Inc. (the “Company”), hereby certify, based on my knowledge, that the Annual report on Form 10-K of the Company for the annual period ended December 31, 2011 as filed with the Securities and Exchange Commission on March 30, 2012 (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PARESH PATEL

Paresh Patel
President and Chief Executive Officer
March 30, 2012

A signed original of this document has been provided to Homeowners Choice, Inc. and will be retained by Homeowners Choice, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Written Statement of the Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. ss.1350, I, the undersigned Chief Executive Officer of Homeowners Choice, Inc. (the “Company”), hereby certify, based on my knowledge, that the Annual report on Form 10-K of the Company for the annual period ended December 31, 2011 as filed with the Securities and Exchange Commission on March 30, 2012 (the “Report”), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RICHARD R. ALLEN

Richard R. Allen
Chief Financial Officer
March 30, 2012

A signed original of this document has been provided to Homeowners Choice, Inc. and will be retained by Homeowners Choice, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.