Weston Insurance Holdings Corporation
And Subsidiaries

Consolidated Financial Statements

December 31, 2013 And 2012

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Independent Auditor's Report

To the Audit Committee and Board of Directors
Weston Insurance Holdings Corporation and Subsidiaries
Coral Gables, Florida

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Weston Insurance Holdings Corporation and subsidiaries (the Company), which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Weston Insurance Holdings Corporation and subsidiaries as of December 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Weston Insurance Holdings Corporation and subsidiaries as of and for the year ended December 31, 2012 were audited by other auditors whose report, dated August 6, 2013, expressed an unmodified opinion on those statements.

Gregory, Sharer & Stuart, P.A.

Gregory, Sharer + Stuart, P.A.

St. Petersburg, Florida
June 30, 2014

	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$ 39,516,049	$ 20,034,387
Premiums receivable	3,988,627	62,919,979
Prepaid reinsurance premium	49,284,771	58,648,000
Reinsurance recoverable	111,903	5,000
Deferred acquisition costs	3,840,701	-
Federal income tax recoverable	3,433,665	-
Deferred tax asset	9,507,568	-
State income tax recoverable	572,266	-
Property and equipment, net	1,507,354	-
Other assets	125,221	458,244
Total Assets	$ 111,888,125	$ 142,065,610
Liabilities And Surplus		
Liabilities		
Reserves for losses and loss adjustment expenses	$ 86,271	$ 5,000
Premium liabilities	43,894,516	58,648,000
Reinsurance premiums payable	-	46,560,784
Commissions payable	927,998	-
Deferred ceding commission	11,652,868	15,315,328
Debt	36,920,743	19,500,000
Accounts payable and accrued liabilities	2,903,320	525,114
Accrued interest	1,335,617	26,712
Accrued dividends	770,665	-
Income taxes payable	-	212,203
Total Liabilities	98,491,998	140,793,141
Stockholders' Equity		
Common stock	12	11
Preferred stock Series A	10	-
Preferred stock Series B	5	-
Preferred stock Series D	10	-
Paid-in capital - common stock	1,418,136	1,121,048
Paid-in capital - preferred stock	23,926,211	459,656
Accumulated deficit	(11,948,257)	(308,246)
Total Stockholders' Equity	13,396,127	1,272,469
Total Liabilities And Stockholders' Equity	$ 111,888,125	$ 142,065,610

	Year Ended December 31, 2013	2012
Revenues	$ 19,191,437	$ 1,040,003
Underwriting Expenses		
Loss and loss adjustment expenses incurred	(308,136)	-
Commissions	(1,594,203)	-
Other underwriting expenses	(10,765,635)	(916,904)
Total Underwriting Expenses	(12,667,974)	(916,904)
Net Underwriting Results	6,523,463	123,099
Other (Expense) Income		
Interest expense	(4,780,584)	(26,712)
Make Whole provision	(21,920,743)	-
Other income	879,694	-
Net (Loss) Income Before Income Tax Benefit (Expense)	(19,298,170)	96,387
Income Tax Benefit (Expense)	7,658,159	(212,203)
Net Loss	$ (11,640,011)	$ (115,816)

Weston Insurance Holdings Corporation And Subsidiaries
Consolidated Statements Of Changes In Stockholders' Equity
Years Ended December 31, 2013 And 2012

	Common Stock	Preferred Stock Series A	Preferred Stock Series B	Preferred Stock Series D	Paid-in Capital Common Stock	Paid-in Capital Preferred Stock	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2011	$ 10	$ -	$ -	$ -	$ 50,356	$ -	$ (192,430)	$ (142,064)
Issuance of common stock	1	-	-	-	1,070,692	-	-	1,070,693
Issuance of preferred stock	-	-	-	-	-	459,656	-	459,656
Net loss	-	-	-	-	-	-	(115,816)	(115,816)
Balance At December 31, 2012	11	-	-	-	1,121,048	459,656	(308,246)	1,272,469
Issuance of common stock	1	-	-	-	276,686	-	-	276,687
Issuance of preferred stock	-	5	-	10	-	14,737,230	-	14,737,245
Issuance of preferred stock in settlement of long-term debt	-	5	5	-	-	9,499,990	-	9,500,000
Stock compensation expense	-	-	-	-	20,402	-	-	20,402
Dividends declared	-	-	-	-	-	(770,665)	-	(770,665)
Net loss	-	-	-	-	-	-	(11,640,011)	(11,640,011)
Balance At December 31, 2013	$ 12	$ 10	$ 5	$ 10	$ 1,418,136	$23,926,211	$ (11,948,257)	$ 13,396,127

See accompanying notes.

	Year Ended December 31, 2013	2012
Cash Flows From Operating Activities		
Net loss	$ (11,640,011)	$ (115,816)
Adjustments to reconcile net loss to net cash provided (used) by operating activities		
Deferred income taxes	(9,507,568)	-
Depreciation expense	258,057	-
Stock compensation expense	20,402	-
Decrease (increase) in operating assets		
Premium receivables	58,931,352	(62,919,979)
Prepaid reinsurance premium	9,363,229	(58,648,000)
Reinsurance recoverable	(106,903)	(5,000)
Deferred acquisition costs	(3,840,701)	-
Federal income tax recoverable	(3,433,665)	-
State income tax recoverable	(572,266)	-
Other assets	333,023	(458,244)
Increase (decrease) in operating liabilities		
Reserves for losses and loss adjustment expenses	81,271	5,000
Premium liabilities	(14,753,484)	58,648,000
Reinsurance premiums payable	(46,560,784)	46,560,784
Commission payable	927,998	-
Deferred ceding commission	(3,662,460)	15,315,328
Make whole provision	21,920,743	-
Accounts payable and accrued liabilities	2,378,206	406,824
Accrued interest	1,308,905	-
Income taxes payable	(212,203)	212,203
Net Cash Provided (Used) By Operating Activities	1,233,141	(998,900)
Cash Flows From Investing Activities		
Purchase of property and equipment	(1,765,411)	-
Cash Flows From Financing Activities		
Proceeds from issuance of debt	-	19,500,000
Payments on debt	(10,000,000)	-
Proceeds from issuance of surplus note	15,000,000	-
Proceeds from issuance of common stock	276,687	1,070,693
Proceeds from issuance of preferred stock	14,737,245	459,656
Net Cash Provided By Financing Activities	20,013,932	21,030,349
Net Increase In Cash And Cash Equivalents	19,481,662	20,031,449
Cash And Cash Equivalents At Beginning Of Year	20,034,387	2,938
Cash And Cash Equivalents At End Of Year	$ 39,516,049	$ 20,034,387
Supplemental Disclosures Of Cash Flow Information		
Cash paid for:		
Interest	$ 3,471,183	$ -
Income taxes	$ 6,061,500	$ -
Supplemental Schedule Of Noncash Financing Activities		
Issuance of preferred stock in settlement of long-term debt	$ 9,500,000	$ -

Note A - Nature of Operations and Significant Accounting Policies

Organization

Weston Insurance Holdings Corporation is a Florida holding company incorporated on March 25, 2011 to own and operate Weston Insurance Company (WIC), a Florida-domiciled property and casualty insurance company. WIC is licensed to write homeowners multi-peril, commercial multi-peril, allied lines, and fire insurance in the state of Florida. To date, all premiums written relate to "wind only" coverage throughout the state of Florida. Weston Insurance Management, LLC (WIM) is also a wholly-owned subsidiary of the Company. WIM acts as WIC's managing general agent and provides underwriting, administrative, and other related services.

Effective December 21, 2012, WIC received authorization from the Florida Office of Insurance Regulation (FOIR) to commence operations and enter into a quota share reinsurance agreement with Citizens Property Insurance Corporation (Citizens), a governmental insurance entity in the state of Florida. The cession of policies to WIC by Citizens is part of a program created by the Florida Legislature to reduce the number of properties insured by Citizens. All of the terms and conditions of those policies, including coverage and rates, will remain unchanged for the remainder of the current policy term. The assumed Citizens policies that do not opt out or cancel will remain in effect until their respective expiration dates and will be renewed by WIC on its own policy forms thereafter.

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and include the accounts of the Company and its wholly owned subsidiaries (herein collectively, the Company). All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, and are carried at cost, which approximates fair value. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits as prescribed by law. The Company may hold funds with financial institutions in excess of the FDIC insured amount, however, the Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents. Amounts on deposit with state insurance departments in accordance with statutory reserve deposit requirements of $300,000 and $303,005 as of December 31, 2013 and 2012, respectively, are included in cash and cash equivalents in the accompanying consolidated balance sheets.

Liability for Losses and Loss Adjustment Expenses

The liability for losses and loss adjustment expenses (LAE) represents the estimated ultimate cost of all reported and unreported losses that are unpaid as of the balance sheet date. The liability for unpaid losses and LAE includes individual case basis valuations and supplemental reserves calculated based on historical data and statistical analyses, and are not discounted. Although variability is inherent in such estimates, management believes that the aggregate liability for losses and LAE is adequate. The methods for making such estimates and the amount of the resulting liability is continually reviewed and any adjustments are reflected in the period determined.

Revenue Recognition

Premiums, less amounts ceded to reinsurers, are recognized as revenue on a daily pro-rata basis over the terms of the underlying policies.

Unearned premium liabilities are established for the unexpired portion of gross and ceded premiums written.

Ceding commissions received on certain reinsurance treaties are included in revenue and are earned as the related reinsurance premiums are recognized.

Reinsurance

The Company relies on ceded reinsurance to limit its retained insurance risk (Note B). In entering into reinsurance agreements, management considers a variety of factors including the creditworthiness of reinsurers.

Management also makes estimates of amounts receivable from reinsurers, which includes consideration of amounts, if any, estimated to be uncollectible based on an assessment of factors including the creditworthiness of the reinsurers. Management has determined that no provision for uncollectible reinsurance recoveries is necessary as of December 31, 2013 and 2012.

Reinsurance recoverable on unpaid losses includes estimated amounts of unpaid losses and LAE that are expected to be recoverable from reinsurers pursuant to reinsurance agreements. Such amounts have been estimated using actuarial assumptions consistent with those used in establishing the related liability for losses and loss adjustment expenses. Reinsurance agreements do not relieve the Company of its obligations to policyholders.

Deferred Policy Acquisition Costs (DAC)

Costs that vary with and are primarily related to acquiring new and renewal insurance, principally commissions, premium taxes, and other underwriting expenses at the policy's inception, are deferred and amortized to expense. DAC related to insurance are amortized over the period during which the related premiums are recognized as revenue. DAC is periodically reviewed for recoverability and adjusted, if necessary.

Amounts amortized to expense in the accompanying consolidated statements of operations during 2013 and 2012 were approximately $1.6 million and $0, respectively.

Share-Based Compensation

The Company uses the fair value method for recording share-based compensation. The fair value was determined by applying a multiple to the earnings before interest, tax, depreciation, and amortization of the Company. The valuation was based on multiples used in similar transactions of peer companies.

Income Taxes

The Company files consolidated federal and state income tax returns. Pursuant to a written tax sharing agreement approved by the board of directors, tax is allocated to the participating entities as though each entity pays tax on a stand-alone basis. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statements carrying amounts of existing assets and liabilities and their respective tax bases.

Uncertain Tax Positions

The Company follows current accounting guidance as it relates to uncertain tax positions and has evaluated its tax positions taken for all open tax years. Currently, the Company is subject to examination by the Internal Revenue Service (IRS) and state of Florida for all years since inception. The Company is not currently under audit nor has the Company been contacted by either of the taxing jurisdictions.

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the useful lives, which are three to five years.

Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company assesses the recoverability of the cost of the asset based on a review of projected undiscounted cash flows. In the event an impairment loss is identified, it is recognized based on the amount by which the carrying value exceeds the estimated fair value of the long-lived asset. No impairment loss has been recorded in the accompanying consolidated financial statements during 2013 and 2012.

Subsequent Events

The Company has evaluated events subsequent to the balance sheet date of December 31, 2013 for disclosure and recognition through June 30, 2014, which is the date the accompanying consolidated financial statements were available to be issued. Other than Note N, the Company determined that there are no subsequent events which require adjustment to or disclosure in the accompanying consolidated financial statements.

Note B - Insurance Activity

Premium activity for the years ended December 31, 2013 and 2012 is summarized as follows:

	2013	2012
Direct	$ 43,721,363	$ -
Assumed	10,945,604	62,919,979
Ceded	(55,321,973)	(62,919,979)
	$ (655,006)	$ -

Effective December 21, 2012 (effective date), the Company entered into a quota share reinsurance agreement with Citizens Property Insurance Corporation whereby the Company assumed selected "wind only" policies from Citizens' Coastal Account for the period from the effective date to May 31, 2013. Citizens initially ceded approximately $63 million of unearned premiums consisting of approximately 30,000 policies to the Company.

For the period from December 21, 2012 to May 31, 2013, the Company ceded 100% of the aforementioned premiums assumed from Citizens to an unaffiliated reinsurer in exchange for a ceding commission of 26%. Amounts ceded were retained by the Company and offset against claims incurred and reported as funds held - reinsurance contract, and are included in reinsurance premiums payable in the accompanying consolidated balance sheet at December 31, 2012. Under the terms of the ceding arrangement, in no event will the reinsurer be liable for aggregate claims that exceed 84% of all ceded premium.

During 2013, the Company entered into multiple “take-out” assumption agreements with Citizens, all of which were for selected "wind only" policies. Under the terms of the assumption agreement with Citizens, policyholders may elect to stay with Citizens (also known as "opting-out"). These "opt-outs" are treated as a reduction of assumed written premium in the year in which the Company is notified of the policyholder’s election to stay with Citizens. Accordingly, during 2013 the Company recognized approximately $11.0 million in assumed premiums from Citizens, which is net of the business assumed in 2012 that "opted-out" in 2013.

Effective June 1, 2013, the Company entered into a net property quota share ("NPQS") reinsurance agreement and a series of five catastrophe reinsurance agreements, which combined, provide excess and catastrophe loss protection above the Company's retention of $6.0 million per loss and $12.0 million in aggregate.

The Company is entitled to a ceding commission of 28.5% of the gross premiums ceded under the NPQS reinsurance agreement. Included in the five catastrophe contracts is a reimbursement agreement with the Florida Hurricane Catastrophe Fund. All of the remaining catastrophe reinsurance agreements, except for the second excess of loss contract (the very top layer), inure to the benefit of the NPQS agreement. Therefore, the net premiums ceded to the NPQS agreement is reduced by the amount of premiums paid to the inuring catastrophe reinsurance agreements.

Note C - Income Taxes

Income tax expense (benefit) consists of the following components for the years ended December 31:

	2013	2012
Current		
Federal	$ 1,593,414	$ 185,729
State	272,760	26,474
	1,866,174	212,203
Deferred		
Federal	(8,139,871)	-
State	(1,384,462)	-
	(9,524,333)	-
	$ (7,658,159)	$ 212,203

The income tax expense (benefit) differs from the amount of income tax determined by applying the relevant U.S. federal tax rate to pretax loss for the years ended December 31, 2013 and 2012, primarily due to nondeductible expenses.

Significant components of the deferred tax assets and liabilities consist of the following at December 31:

	2013	2012
Deferred tax assets		
Unearned premiums	$ 122,851	$ -
Loss reserve	1,650	-
Accrued expenses	252,906	-
Start up costs	238,752	-
Make whole liability	8,891,409	-
Total deferred tax assets	$ 9,507,568	$ -

Income tax benefits are recognized in the financial statements for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more likely than not be sustained upon examination by taxing authorities. The Company has analyzed the tax positions taken in its filings with the Internal Revenue Service (IRS) and state jurisdictions where it operates.

As a result of the tax position analysis, the Company expects to recognize a benefit in the 2013 tax return as a result of the Make Whole liability described in Note F. Management is recognizing the tax position in the financial statements because it believes it is more likely-than-not that the Make Whole payment is a valid deduction for tax purposes. Management also believes there is substantial authority within the Internal Revenue Code to support the deduction in 2013. However, it is uncertain whether the deduction would be allowed in the 2013 tax year if examined by the IRS. As a result, the Make Whole liability is reflected as a component of the deferred tax asset representing a future deduction in the financial statements.

The Company's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. No reserves or related accruals for interest and penalties for uncertain income tax positions have been recorded at December 31, 2013 and 2012.

Note D - Property And Equipment

Property and equipment consists of the following at December 31:

	2013	2012
Software	$1,740,216	$ -
Furniture and equipment	25,195	-
	1,765,411	-
Less accumulated depreciation and amortization	(258,057)	-
	$1,507,354	$ -

Depreciation expense was approximately $258,000 and $0 for the years ended December 31, 2013 and 2012, respectively.

Note E - Reserve For Losses And Loss Adjustment Expenses

Activity in the reserve for losses and loss adjustment expenses on paid and unpaid losses and loss adjustment expenses is summarized as follows for the years ended December 31:

	2013	2012
Net reserves as of January 1	$ -	$ -
Net incurred related to:		
Current year	308,136	-
Prior year	-	-
Total net incurred	308,136	-
Net paid related to:		
Current year	221,865	-
Prior year	-	-
Total net paid	221,865	-
Net reserves as of December 31	86,271	-
Reinsurance recoverable as of December 31	-	5,000
Gross reserves as of December 31	$ 86,271	$ 5,000

Note F - Debt

Debt consists of the following at December 31:

	2013	2012
Make Whole liability	$ 21,920,743	$ -
Surplus debenture	15,000,000	-
Senior secured notes	-	19,500,000
	$ 36,920,743	$ 19,500,000

Make Whole Liability

The Company entered into an agreement with a shareholder that requires a "Make Whole" payment to the extent that WIC's gross earned premiums were less than $64 million from inception to May 31, 2013. Based on WIC's earned premiums for the period, a payment of $21.9 million was due on June 1, 2013. The Company could elect to defer the payment until January 1, 2014; however, any amounts deferred would accrue interest at London Interbank Offered Rate (LIBOR) plus 10% or 13.095% at December 31, 2013. The total amount of interest accrued and expensed at December 31, 2013 was $1.3 million. The investment agreement was amended in 2014 in regards to the Make Whole liability. See Note N.

Surplus Debenture

In February 2013, WIC entered into an agreement with a shareholder under which it issued a 10-year surplus debenture in the amount of $15 million, which is considered capital for statutory reporting purposes. The surplus debenture bears interest at 10% from the date of contribution through May 31, 2013; from June 1, 2013 to December 31, 2015 at the sum of the 10-year LIBOR rate plus 12%; and thereafter until maturity at the sum of the 10-year LIBOR rate plus 15%.

At December 31, 2013, the 10-year LIBOR rate was 3.095%. Any amounts not paid when due bear interest at the sum of the 10-year LIBOR rate plus 17%.

In addition to the interest otherwise payable thereunder, additional interest of 1.5% on the then outstanding principal amount is due January 1 and April 1, 2014; 1.5% is due January 1 and April 1, 2015; and thereafter 1% is due quarterly beginning January 1, 2016.

Interest on the surplus debenture is payable quarterly beginning March 31, 2013. As of and for the year ended December 31, 2013, interest expense incurred and paid was approximately $2 million. There was no accrued interest related to this instrument at December 31, 2013.

The surplus debenture agreement includes a provision that requires the Company to issue common stock to the shareholder if the note is not refinanced. During 2013, the Company issued 118.73 shares of common stock and accrued a payment of $950,000, included in accounts payable and accrued liabilities on the accompanying consolidated balance sheet at December 31, 2013, in lieu of shares to settle amounts due under this provision. The common shares issued were recorded at fair value. The estimated fair value of the shares was approximately $228,000 at December 31, 2013. Both the cash and equity payments have been recorded as additional interest expense in the financial statements.

Senior Secured Notes

On December 21, 2012, the Company issued senior secured notes payable subject to an annual interest rate of 5% per annum from the issue date through May 31, 2013, and afterwards increasing to LIBOR plus 10%. The notes had a maturity date in 2033, with prepayment prior to maturity at the Company's option. Under the note agreements, $9.5 million of outstanding principal shall be exchanged for preferred stock upon the Company achieving certain levels of capitalization. Interest expense related to the notes was approximately $267,000 and $27,000 for the years ended December 31, 2013 and 2012, respectively. Accrued interest was approximately $0 and $26,000 at December 31, 2013 and 2012, respectively.

In February 2013, the holders of the notes exchanged $4,725,000 of principal for Series A preferred stock and $4,775,000 of principal for Series B preferred stock. During May 2013, the Company repaid the remaining balance outstanding related to the notes.

Note G - Equity

Preferred Stock

The Company has four classes of preferred stock authorized, all of which are non-voting. The Company is authorized to issue 2,000 shares each of non-voting $0.01 par value Series A, C, and D preferred stock; and 500 shares of non-voting par value Series B preferred stock. The holders of Series A, B and C preferred stock are entitled to receive annual dividends on each share of A, B, or C preferred stock (whether or not declared), calculated on a yearly basis at a rate equal to the then current interest rate on five-year U.S. Treasury Note plus 475 basis points.

Dividends shall accrue and be paid in quarterly installments. The Company may, at its option, elect to defer the payment of dividends on the Series A, B, and C preferred stock, in which case dividends will accrue without interest until payment thereof or redemption, liquidation, or conversion of the preferred stock. Holders of Series D preferred stock shall participate in any dividends on the common stock, on an as-converted basis, at the as-converted ownership percentage.

Holders of Series A, B, and C preferred stock may convert their shares into common stock in the case of certain defaults, including failure of WIC to maintain certain financial strength ratings and qualifying changes in control. No such defaults have occurred as of December 31, 2013.

Holders of Series D preferred stock may convert their shares into common stock at any time prior to the eighth year post-issuance, but must convert their shares on the eighth anniversary or in the case of a qualifying initial public offering. The Company has the right to call up to 50% of the outstanding shares of Series D preferred stock, not to exceed three years post-issuance. The call price equals the initial purchase price plus 15% compounded annually.

At December 31, 2013 and 2012, there were 1,006 and 34 shares, respectively, of preferred stock Series A issued and outstanding.

At December 31, 2013 and 2012, there were 500 and 23 shares, respectively, of preferred stock Series B issued and outstanding.

At December 31, 2013 and 2012, there were 1,000 and 0 shares, respectively, of preferred stock Series D issued and outstanding.

Common Stock

At December 31, 2013 and 2012, the Company had 13,000 shares of $0.01 par value common stock authorized; and 1,199 and 1,077 shares, respectively, issued and outstanding.

Note H - Geographic Concentration of Risk

WIC writes "wind only" homeowners coverage throughout the state of Florida, an area that is exposed to damage from hurricanes and severe storms. WIC attempts to mitigate its exposure to losses from storms by purchasing various reinsurance protections. However, certain storms or multiple storms, depending on path and severity, could result in losses to WIC exceeding its reinsurance protection, and could have a material adverse effect on the Company's financial position and results of operations. Due to the significant amount of reinsurance protection purchased, management believes the probability of insured losses exceeding the reinsurance limit is remote.

Note I - Fair Value Of Other Financial Instruments

Fair values of financial instruments which are considered insurance contracts are not required to be disclosed and are not included in the following disclosures. Methods and assumptions used to estimate the fair value of share based compensation are disclosed in Note A.

The following methods and assumptions were used to estimate the fair value, as disclosed, of each class of financial instruments for which it is practicable to estimate fair value.

Cash And Cash Equivalents And Cash Held In Trust

The carrying amounts as presented on the consolidated financial statements approximate fair value because of the short maturity of those instruments.

Premiums And Accounts Receivable

The carrying amounts of premiums and accounts receivable are reasonable approximations of fair value due to the short-term nature of the items.

Ceded Reinsurance Premiums Payable And Prepaid Reinsurance

The carrying amounts of ceded reinsurance premiums payable and prepaid reinsurance are reasonable approximations of fair value due to the short-term nature of the items.

Debt

The fair value of the Company's debt is deemed to be book value, based on the current rates offered to the Company for debt of similar maturities and interest rates.

Accounts Payable and Accrued Liabilities

The fair value of these liabilities approximates their carrying value.

Note J - Statutory Accounting

As a Florida-domiciled property and casualty insurance company, WIC is subject to the regulation of the FOIR. The FOIR requires WIC to submit annual financial statements prepared under the statutory basis of accounting, which varies from GAAP. The net income and surplus for WIC prepared on the statutory basis of accounting are as follows:

	2013	2012
Net (loss) income	$ (344,740)	$ 43,822
Surplus	51,197,060	50,043,822

Dividends that can be paid to stockholders without prior approval from the FOIR are limited by the laws of the state of Florida. In accordance with a Consent Agreement with the FOIR, WIC is restricted from declaring or paying a dividend before December 21, 2017.

WIC is subject to a risk-based capital (RBC) requirement. Under this requirement, RBC is calculated by applying factors to various assets, liabilities and premium amounts. The capital requirements are higher for those items with greater underlying risk, and correspondingly lower as the risk level decreases. The adequacy of an insurer’s statutory capital and surplus is measured against the RBC as determined by a formula. At December 31, 2013 and December 31, 2012, WIC's RBC ratio was in excess of all action levels.

Florida Statutes Section 624.408 requires WIC to maintain minimum capital and surplus of $15 million. At December 31, 2013 and 2012, WIC was in compliance with the above statute.

Note K - Related Party Transactions

A director of the Company is a partner at a law firm that was paid approximately $660,000 and $357,900 in legal fees during the years ended December 31, 2013 and 2012, respectively.

Note L - Lease Obligations

At December 31, 2013, the Company was party to a month-to-month lease for office furniture. There are no material obligations associated with the lease.

Note M - Stock Unit Award Plan

In 2013, the Company instituted a stock unit award plan for certain members of management. The plan allows for the granting of awards that will be settled in common stock of the company after a five year vesting period. The estimated fair value of the award is amortized as an expense over the requisite service period. As of December 31, 2013, awards for 5% of the common equity of the Company had been granted.

Note N - Subsequent Events

On April 8, 2013, the Company entered into a six-year lease for office space. Payments under the lease begin at the time the Company takes occupancy. On March 15, 2014, the Company took occupancy. The lease includes various escalation clauses. Based on the initial payment amount, future lease payments will total $1,041,423 over the 72-month lease term.

On April 14, 2014, the Company amended its investor agreement to allow the Make Whole obligation to be repaid over time. As revised, the Make Whole bears interest at a floating rate and is to be fully repaid by May 31, 2016. As part of the agreement, the principal amount of the Make Whole was increased by $3 million.

On April 14, 2014, the Company paid a dividend to the holders of the Series A and Series B preferred shares totaling $990,181, representing amounts owed through March 31, 2014.