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Heritage Insurance Holdings, Inc.
Form 10-Q
August 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2016

OR

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

Commission File Number

001-36462

Heritage Insurance Holdings, Inc.

(Exact name of Registrant as specified in its charter)

Delaware 45-5338504
(State of Incorporation) (IRS Employer

Identification No.)

2600 McCormick Drive, Suite 300

Clearwater, Florida 33759

(Address, including zip code, of principal executive offices)

(727) 362-7200

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(Registrant's telephone number, including area code)

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. YesxNoo

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). YesxNoo

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 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer x
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YesoNox

The aggregate number of shares of the Registrant's Common Stock, \$0.0001 par value, outstanding on August 3, 2016 was 30,426,119.

HERITAGE INSURANCE HOLDINGS, INC.

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FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q (“Form 10-Q”) or in documents incorporated by reference that are not historical facts are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements about anticipated growth in revenue, earnings per share, estimated unpaid losses on insurance policies, investment returns and expectations about our liquidity, and our ability to meet our investment objectives and to manage and mitigate market risk with respect to our investments. These statements are based on current expectations, estimates and projections about the industry and market in which we operate, and management’s beliefs and assumptions. Without limiting the generality of the foregoing, words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “would,” “estimate,” or “continue” or the negative variation of comparable terminology are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and involve certain known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. The risks and uncertainties include, without limitation:

- increased costs of reinsurance, non-availability of reinsurance, and non-collectability of reinsurance;
- the potential for discontinuation of the Citizens depopulation program and our inability to select favorable Citizens policies to assume;
- a lack of significant redundancy in our operations;
- our failure to attract and retain qualified employees and independent agents or our loss of key personnel;
- our inability to generate investment income;
- our inability to maintain our financial stability rating;
- effects of emerging claim and coverage issues relating to legal, judicial, environmental and social conditions;
- our exposure to catastrophic events;
- the failure of our risk mitigation strategies or loss limitation methods; and
- other risks and uncertainties described in the section entitled “Risk Factors” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2015.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results.

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about us described in our filings with the Securities and Exchange Commission (the “SEC”). The forward-looking statements we make in our Form 10-Q are valid only as of the date of our Form 10-Q and may not occur in light of the risks, uncertainties and assumptions that we describe from time to time in our filings with the SEC. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from our forward-looking statements is included in the section entitled “Risk Factors” in Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2015. Except as required by applicable law, we undertake no obligation and disclaim any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

HERITAGE INSURANCE HOLDINGS, INC.

Condensed Consolidated Balance Sheets

(Amounts in thousands, except per share and share amounts)

	June 30, 2016	December 31, 2015
ASSETS	(unaudited)	
Fixed maturity securities, available for sale, at fair value (amortized cost of \$507,091 and \$370,967 in 2016 and 2015, respectively)	\$518,211	\$ 371,783
Equity securities, available for sale, at fair value (cost of \$33,998 and \$32,439 in 2016 and 2015, respectively)	31,856	28,313
Total investments	550,067	400,096
Cash and cash equivalents	142,952	236,277
Restricted cash	18,644	13,085
Accrued investment income	4,329	3,409
Premiums receivable, net	34,856	30,565
Prepaid reinsurance premiums	226,627	78,517
Income taxes receivable	2,969	—
Deferred income taxes	—	7,964
Deferred policy acquisition costs, net	42,568	34,800
Property and equipment, net	17,873	17,111
Intangibles, net	28,467	2,120
Goodwill	48,845	8,028
Other assets	4,768	5,426
Total Assets	\$1,122,965	\$ 837,398
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	\$117,485	\$ 83,722
Unearned premiums	340,818	302,493
Reinsurance payable	237,020	60,210
Deferred income taxes	7,616	—
Income tax payable	—	2,092
Advance premiums	23,827	12,138
Accrued compensation	6,238	2,305
Other liabilities	17,594	17,885
Total Liabilities	750,598	480,845
Commitments and contingencies (Note 15)		

Stockholders' Equity:

Common stock, \$0.0001 par value, 50,000,000 shares authorized, 30,426,121 shares issued and 29,301,121 outstanding at June 30, 2016 and 30,441,410 outstanding at December 31, 2015	3	3
Additional paid-in capital	205,036	202,628
Accumulated other comprehensive income (loss)	5,563	(2,033)
Treasury stock, at cost, 1,140,289 shares at June 30, 2016	(16,562)	—
Retained earnings	178,327	155,955
Total Stockholders' Equity	372,367	356,553
Total Liabilities and Stockholders' Equity	\$1,122,965	\$ 837,398

See accompanying notes to unaudited condensed consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.

Condensed Consolidated Statements of Income and Other Comprehensive Income

(Unaudited)

(Amounts in thousands, except per share and share amounts)

	Three Months Ended		Six Months Ended June 30,	
	June 30, 2016	2015	2016	2015
REVENUE:				
Gross premiums written	\$ 177,295	\$ 135,597	\$ 324,561	\$ 269,565
Change in gross unearned premiums	(13,658)	(8,496)	(8,981)	(16,463)
Gross premiums earned	163,637	127,101	315,580	253,102
Ceded premiums	(54,719)	(32,255)	(100,320)	(56,767)
Net premiums earned	108,918	94,846	215,260	196,335
Net investment income	2,223	2,090	4,260	3,723
Net realized gains (losses)	263	(116)	644	(119)
Other revenue	3,877	2,268	6,682	4,277
Total revenue	115,281	99,088	226,846	204,216
EXPENSES:				
Losses and loss adjustment expenses	48,794	33,909	115,757	66,448
Policy acquisition costs	20,753	12,253	38,881	25,346
General and administrative expenses	15,977	11,936	30,411	23,140
Total expenses	85,524	58,098	185,049	114,934
Income before income taxes	29,757	40,990	41,797	89,282
Provision for income taxes	11,389	15,590	16,006	33,826
Net income	\$ 18,368	\$ 25,400	\$ 25,791	\$ 55,456
OTHER COMPREHENSIVE INCOME:				
Change in net unrealized gains (losses) on investments	8,928	(2,663)	13,010	(5,470)
Reclassification adjustment for net realized investment (gains) losses	(263)	116	(644)	119
Income tax (expense) benefit related to items of other comprehensive income (loss)	(3,348)	983	(4,770)	2,064
Total comprehensive income	\$ 23,685	\$ 23,836	\$ 33,387	\$ 52,169
Weighted average shares outstanding				
Basic	29,653,668	29,877,636	30,010,776	29,838,322
Diluted	29,653,668	30,268,496	30,072,624	30,192,216
Earnings per share				
Basic	\$ 0.62	\$ 0.85	\$ 0.86	\$ 1.86
Diluted	\$ 0.62	\$ 0.84	\$ 0.86	\$ 1.84

See accompanying notes to unaudited condensed consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.

Condensed Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 2016 and 2015

(Unaudited)

(Amounts in thousands, except share amounts)

	Common Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income	Total Stockholders' (Loss) Equity
Balance at December 31, 2015	30,441,410	\$ 3	\$ 202,628	\$ 155,955	\$—	\$ (2,033)	\$ 356,553
Buy-back common shares of Company stock	(1,140,289)	—	—	—	(16,562)	—	(16,562)
Stock-based compensation	—	—	2,408	—	—	—	2,408
Dividends declared on common stock	—	—	—	(3,419)	—	—	(3,419)
Net unrealized change in investments, net of tax	—	—	—	—	—	7,596	7,596
Net income	—	—	—	25,791	—	—	25,791
Balance at June 30, 2016	29,301,121	\$ 3	\$ 205,036	\$ 178,327	\$(16,562)	\$ 5,563	\$ 372,367

	Common Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2014	29,794,960	\$ 3	\$ 188,342	\$ 65,021	\$ 1,723	\$ 255,089	
Exercise of stock options and warrants	200,600	—	2,994	—	—	2,994	
Stock-based compensation	—	—	1,848	—	—	1,848	

Net unrealized change in investments,

net of tax	—	—	—	—	(3,287)	(3,287)
Net income	—	—	—	55,456	—		55,456	
Balance at June 30, 2015	29,995,560	\$ 3	\$ 193,184	\$ 120,477	\$ (1,564)	\$ 312,100	

See accompanying notes to unaudited condensed consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands)

	Six Months Ended	
	June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$25,791	\$55,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	2,408	1,848
Amortization of bond discount	3,676	2,984
Depreciation and amortization	3,611	602
Net realized (gains)/losses	(644)	119
Deferred income taxes, net of acquired	10,810	1,783
Changes in operating assets and liabilities:		
Accrued investment income	(920)	(1,158)
Premiums receivable, net	(2,611)	(6,298)
Restricted cash	(5,559)	(8,447)
Prepaid reinsurance premiums	(143,318)	(125,655)
Income taxes receivable	(2,969)	(8,190)
Deferred policy acquisition costs, net	(7,768)	(7,578)
Other assets	1,209	(2,450)
Unpaid losses and loss adjustment expenses	33,763	18,660
Unearned premiums	8,981	16,463
Reinsurance payable	176,810	160,740
Income taxes payable	(2,092)	(12,808)
Accrued compensation	2,715	8,438
Advance premiums	9,598	6,266
Other liabilities	(9,218)	(15,676)
Net cash provided by operating activities	104,273	85,099
INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments available for sale	90,321	27,873
Purchases of investments available for sale	(154,518)	(144,601)
Acquisition of a business, net of cash acquired	(111,907)	—
Proceeds from sale of investment in mortgage loan	—	749
Cost of property and equipment acquired	(1,513)	(869)
Net cash used in investing activities	(177,617)	(116,848)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	—	2,994

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Dividends	(3,419)	—
Purchase of treasury stock	(16,562)	—
Net cash (used in) provided by financing activities	(19,981)	2,994
Decrease in cash and cash equivalents	(93,325)	(28,755)
Cash and cash equivalents at beginning of period	236,277	160,481
Cash and cash equivalents at end of period	\$142,952	\$131,726
Supplemental Cash Flows Information:		
Income taxes paid, net	\$16,754	\$55,000

See accompanying notes to unaudited condensed consolidated financial statements.

HERITAGE INSURANCE HOLDINGS, INC.

Notes to Unaudited Condensed Consolidated Financial Statements

(Amounts in thousands, except per share and share amounts)

NOTE 1. BASIS OF PRESENTATION

Basis of Presentation

The condensed consolidated financial statements as of and for the three and six months ended June 30, 2016 and 2015 include Heritage Insurance Holdings, Inc. (“Parent Company”) and its wholly owned subsidiaries: Heritage Property & Casualty Insurance Company (“Heritage P&C”), which provides personal and commercial residential insurance; Heritage MGA, LLC, the managing general agent that manages substantially all aspects of our insurance subsidiary’s business; Contractors’ Alliance Network, LLC (“CAN”), our vendor network manager which includes BRC Restoration Specialists, Inc. (“BRC”), our provider of restoration, emergency and recovery services; Zephyr Acquisition Company (“ZAC”) and its wholly-owned subsidiary, Zephyr Insurance Company, Inc. (“Zephyr”), our provider for writing insurance policies for residential wind insurance within the State of Hawaii; Skye Lane Properties, LLC, our property management subsidiary; First Access Insurance Group, LLC, our retail agency; Osprey Re Ltd. (“Osprey”), our reinsurance subsidiary that provides a portion of the reinsurance protection purchased by our insurance subsidiary; and Heritage Insurance Claims, LLC, an inactive subsidiary reserved for future development. The assets of BRC, a building restoration company, were acquired and merged into CAN in 2015. The assets of SVM Restoration Services Inc. (“SVM”), a water mitigation company, were acquired and merged into CAN in 2014.

Our primary products are personal and commercial residential insurance, which we currently offer in Florida, under authorization from the Florida Office of Insurance Regulation (“FLOIR”). We also began offering personal residential insurance in the states of North Carolina, South Carolina and through the Zephyr acquisition, Hawaii. We are also licensed to do business in Georgia, Alabama and Mississippi. We conduct our operations under one business segment.

The condensed consolidated financial information included herein as of and for the three and six months ended June 30, 2016 and 2015 does not include all of the information and footnotes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. However, such information reflects all adjustments consisting of normal recurring accruals which are, in the opinion of management, necessary for a fair statement of the financial condition and results of operations for the interim periods. The results for the three and six months ended June 30, 2016 and 2015 are not indicative of annual results. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. The December 31, 2015 consolidated balance sheet was derived from the Company’s audited consolidated financial statements as of and for the year ended December 31, 2015.

For further information, refer to the consolidated financial statements and footnotes thereto included in Heritage Insurance Holdings, Inc.’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. References to “we,” “us,” “our,” or the “Company” refer to Heritage Insurance Holdings, Inc. and its consolidated subsidiaries.

The Company qualifies as an “emerging growth company” as defined in Section 2(a)(19) of the Securities Act, of 1933, as amended, as modified by the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). As a result, the Company is eligible to take advantage of certain temporary exemptions from various reporting requirements

applicable to other public companies that are not emerging growth companies. The Company intends to continue to take advantage of some, but not all, of the exemptions available to emerging growth companies until such time that it is no longer an emerging growth company. The Company has, however, irrevocably elected not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. As a result, the Company will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Changes to significant accounting policies

We have made no material changes to our significant accounting policies as reported in our Annual Report on Form 10-K for the year ended December 31, 2015.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. Such classifications include reclassifying goodwill and intangibles from other assets in the accompanying condensed consolidated balance sheets.

Recent Accounting Pronouncements

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

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”), ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) (ASU 2016-13), Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). ASU 2016-13 is effective for reporting periods beginning after December 15, 2019. Early adoption is permitted for reporting periods beginning after December 15, 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which requires an entity to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the income statement. ASU 2016-09 will also require an entity to elect an accounting policy to either estimate the number of forfeitures or account for forfeitures when they occur. ASU 2016-09 becomes effective for the Company during the first quarter of 2017. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (ASU 2016-02), which provides guidance on the recognition, measurement, presentation, and disclosure of leases. The new standard supersedes present U.S. GAAP guidance on leases and requires substantially all leases to be reported on the balance sheet as right-of-use assets and lease liabilities, as well as additional disclosures. The new standard is effective as of January 1, 2019, and early adoption is permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01), which will significantly change the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected. ASU 2016-01 becomes effective for the Company during the first quarter 2018. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU Topic 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those

goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. Early adoption is not permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements.

There are no other recently issued accounting standards that apply to us or that are expected to have a material impact on our results of operations, financial condition or cash flows.

NOTE 3. ACQUISITION

On March 21, 2016, the Company acquired 100% of the outstanding stock of ZAC and its wholly-owned subsidiary, Zephyr, in exchange for approximately \$111,907, net of cash acquired. Zephyr is a specialty property insurance provider, which offers windstorm-hurricane insurance policies for residential customers in Hawaii. This acquisition will further the Company's strategic push to diversify business operations and achieve potential reinsurance synergies while expanding growth opportunities outside of Florida.

The transaction was accounted for using the acquisition method of accounting. The valuation of assets acquired and liabilities assumed are based on preliminary estimates of fair value and are subject to revision as the Company finalizes its analysis. The results of operations of ZAC have been included in the Company's condensed consolidated financial statements since the date of acquisition. The acquisition method requires significant use of estimates and is based on the information available to management at the time these condensed consolidated financial statements were prepared. As the acquisition was recently completed, the Company has not yet completed its assessment of the fair value of the intangible assets acquired, nor the related amortization expense applicable to definite-lived intangible assets during the period between the acquisition date and period end. As such, the total estimated purchase price in excess of net assets acquired and liabilities assumed has initially been recorded as goodwill and identified intangible assets. Goodwill

is not deductible for tax purposes and will not be amortized, but is subject to annual impairment tests using a fair-value based approach. The Company is entitled to a holdback provision, for purposes of securing the indemnification obligation of the sellers for any damages arising out of or relating to a previous dispute should one arise. The following table summarizes the preliminary unaudited, estimated fair value of the assets acquired and liabilities assumed. The Company is in the process of finalizing the purchase price allocation and, accordingly, the following allocation of the purchase price, before income taxes, is subject to adjustments during the measurement period:

Purchase Consideration	
Cash, net of cash acquired	\$ 111,907
Assets acquired	
Investments	\$ 76,440
Premiums and agent's receivable	1,680
Other assets	550
Prepaid reinsurance premiums	4,792
Intangible assets – value of business acquired	5,004
Intangible assets	24,203
Total assets acquired	\$ 112,669
Total liabilities assumed	\$(41,579)
Net assets acquired	\$ 71,090
Goodwill	40,817
Total purchase price	\$ 111,907

Pro Forma Information

The following table presents selected unaudited pro forma information, assuming the acquisition of ZAC had occurred on January 1, 2015. The unaudited pro forma information is not necessarily indicative of the results that the Company would have achieved had the transaction taken place on January 1, 2015, and the unaudited pro forma information does not purport to be indicative of future financial results.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenue	\$ 115,281	\$ 107,638	\$ 235,668	\$ 220,196
Net income	\$ 18,368	\$ 27,669	\$ 28,743	\$ 59,904
Basic, earnings per share	\$ 0.62	\$ 0.93	\$ 0.96	\$ 2.01
Diluted, earnings per share	\$ 0.62	\$ 0.91	\$ 0.95	\$ 1.98

As a result of acquiring ZAC, our consolidated results of operations include the results of ZAC since the acquisition date. ZAC's revenues and pre-tax net income included in our results of operations since the acquisition for the three months ended June 30, 2016 were \$9,343 and \$5,910, respectively and for the six months ended June 30, 2016, \$10,362 and \$6,507 respectively. For the three and six months ended June 30, 2016, income before taxes included \$2,698 and \$2,764, respectively, of amortization expense related to the identified intangible assets recorded as a result of the acquisition.

NOTE 4. INVESTMENTS

The following table details the difference between cost or adjusted/amortized cost and estimated fair value, by major investment category, at June 30, 2016 and December 31, 2015:

	Cost or Adjusted/Unrealized		Gross Unrealized	Fair Value
	Amortized Costs (In thousands)	Gains	Losses	
June 30, 2016				
U.S. government and agency securities	\$25,168	\$ 441	\$ 3	\$ 25,606
States, municipalities and political subdivisions	266,871	7,236	15	274,092
Special revenue	66,967	424	165	67,226
Industrial and miscellaneous	144,440	3,208	95	147,553
Redeemable preferred stocks	3,645	116	27	3,734
Total fixed maturities	507,091	11,425	305	518,211
Nonredeemable preferred stocks	14,617	681	36	15,262
Equity securities	19,381	982	3,769	16,594
Total equity securities	33,998	1,663	3,805	31,856
Total investments	\$541,089	\$ 13,088	\$ 4,110	\$ 550,067

	Cost or Adjusted/Unrealized		Gross Unrealized	Fair Value
	Amortized Costs (In thousands)	Gains	Losses	
December 31, 2015				
U.S. government and agency securities	\$25,474	\$ 16	\$ 387	\$ 25,103
States, municipalities and political subdivisions	184,145	2,107	137	186,115
Special revenue	42,593	19	204	42,408
Industrial and miscellaneous	115,313	294	932	114,675
Redeemable preferred stocks	3,442	61	21	3,482
Total fixed maturities	370,967	2,497	1,681	371,783
Nonredeemable preferred stocks	12,443	338	43	12,738
Equity securities	19,996	398	4,819	15,575
Total equity securities	32,439	736	4,862	28,313
Total investments	\$403,406	\$ 3,233	\$ 6,543	\$ 400,096

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The Company calculates the gain or loss realized on the sale of investments by comparing the sales price (fair value) to the cost or adjusted/amortized cost of the security sold. The Company determines the cost or adjusted/amortized cost of the security sold using the specific-identification method. The following tables detail the Company's net realized gains (losses) by major investment category for the three and six months ended June 30, 2016 and 2015.

	2016		2015	
	Gains	Fair Value at Sale	Gains	Fair Value at Sale
	(Losses)		(Losses)	
	(In thousands)			
Three Months Ended June 30,				
Fixed maturities	\$338	\$ 8,686	\$(39)	\$ 5,795
Equity securities	20	600	59	2,141
Total realized gains	358	9,286	20	7,936
Fixed maturities	(30)	2,903	(136)	1,216
Equity securities	(65)	2,503	—	—
Total realized losses	(95)	5,406	(136)	1,216
Net realized gain (losses)	\$263	\$ 14,692	\$(116)	\$ 9,152

	2016 Gains (Losses) Fair Value at Sale (In thousands)		2015 Gains (Losses) Fair Value at Sale (In thousands)	
Six Months Ended June 30,				
Fixed maturities	\$1,467	\$ 46,978	\$(2)	\$ 9,321
Equity securities	65	6,084	105	3,794
Total realized gains	1,532	53,062	103	13,115
Fixed maturities	(35)	92,698	(222)	2,706
Equity securities	(853)	2,589	—	—
Total realized losses	(888)	95,287	(222)	2,706
Net realized gain (losses)	\$644	\$ 148,349	\$(119)	\$ 15,821

The table below summarizes the Company's fixed maturities at June 30, 2016 by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of those obligations.

	June 30, 2016 Cost or Amortized Cost (In thousands)		Total	Fair Value (In thousands)	Percent of Total	
Due in one year or less	\$40,925	8	%	\$ 40,975	8	%
Due after one year through five years	186,681	37	%	188,441	36	%
Due after five years through ten years	175,594	35	%	180,860	35	%
Due after ten years	103,891	20	%	107,935	21	%
Total	\$507,091	100	%	\$ 518,211	100	%

The following table summarizes the Company's net investment income by major investment category for the three and six months ended June 30, 2016 and 2015, respectively:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Fixed maturities	\$ 5,609			