

FedNat Holding Co  
Form 10-K/A  
April 30, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K/A  
(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED December 31, 2018  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission File number 000-25001

FedNat Holding Company

(Exact name of registrant as specified in its charter)

Florida

65-0248866

(State or Other Jurisdiction of Incorporation or Organization) (IRS Employer Identification Number)

14050 N.W. 14th Street, Suite 180, Sunrise, FL

33323

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

800-293-2532

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, par value

NASDAQ Global Market

\$0.01 per share

Securities registered pursuant to Section 12(g) of the Exchange 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 electronically submitted and posted on its corporate website, 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

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer      Accelerated filer  Non accelerated filer      Smaller reporting company  
Emerging growth company      (Do not check if a smaller reporting company)

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

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

Yes    No

The aggregate market value of the Registrant's common stock held by non-affiliates was \$271,751,346 on June 30, 2018, computed on the basis of the closing sale price of the Registrant's common stock on that date.

As of April 26, 2019, the total number of common shares outstanding of Registrant's common stock was 13,228,114.

Documents Incorporated By Reference:    None

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FEDNAT HOLDING COMPANY  
TABLE OF CONTENTS

EXPLANATORY NOTE	ii
PART III	1
ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	1
ITEM 11 EXECUTIVE COMPENSATION	9
ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	<u>27</u>
ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	<u>29</u>
ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES	<u>30</u>
PART IV	<u>31</u>
ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES	<u>31</u>
SIGNATURES	<u>36</u>

EXPLANATORY NOTE

The purpose of this Amendment No. 1 on Form 10-K/A (“Amendment No. 1”) is to include the information required by Items 10 through 14 of Part III of Form 10-K, which was omitted from FedNat Holding Company’s (the “Company”) Annual Report on Form 10-K for the fiscal year ended December 31, 2018 as filed on March 7, 2019 (the “Original Form 10-K”). Except as expressly set forth in this Amendment No. 1, no portion of the Original Form 10-K is being amended or updated by this Amendment No. 1.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Amendment No. 1 also contains new certifications of the Company’s Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Because no financial statements are included in Amendment No. 1, and Amendment No. 1 does not contain or amend any disclosure with respect to Items 307 or 308 of Regulation S-K promulgated by the U.S. Securities and Exchange Commission under the Exchange Act, paragraphs 3, 4 and 5 of the Section 302 certifications have been omitted. In addition, because no financial statements are included in Amendment No. 1, new certifications of the Company’s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are not required to be included with Amendment No. 1.

## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information with respect to our continuing directors and our executive officers as of April 26, 2019:

Name	Age	Position with Company
Michael H. Braun (1)	51	Chief Executive Officer, President, Class I Director
Jenifer G. Kimbrough (2)(4)(5)	48	Class I Director
Bruce F. Simberg (1)(3)	70	Chairman of the Board, Class II Director
Richard W. Wilcox Jr. (2)(4)(5)	77	Lead Independent Director, Class II Director
William G. Stewart (3)(5)	70	Class II Director
Thomas A. Rogers (1)(4)(5)	67	Class III Director
Roberta N. Young (2)(3)(5)	69	Class III Director
Ronald A. Jordan	51	Chief Financial Officer

(1) Business Strategy Committee Member

(2) Audit Committee Member

(3) Investment Committee Member

(4) Compensation Committee Member

(5) Nominating Committee Member

Below is a brief description of the business experience of each director and executive officer of the company.

Michael H. Braun was appointed Chief Executive Officer of the Company in July 2008, President in June 2009, elected to the Board of Directors in December 2005 and served as Chairman of the Board from March 2015 to January 2016. Previously, Mr. Braun was Chief Operating Officer, where he was responsible for the Company's day-to-day operations and strategic product portfolio. Mr. Braun has also served as President of FedNat Insurance Company ("FNIC"), a subsidiary of the Company, since September 2003, a position that he continues to hold. Previously, he held key management positions within FNIC, responsible for operations, marketing and underwriting. Prior to joining the Company, Mr. Braun was Managing Partner for an independent chain of insurance agencies, which was acquired by the Company in 1998. Mr. Braun received a Bachelor of Science degree in Business Administration from the University of Buffalo. Mr. Braun does not serve on the board of directors of any other SEC reporting company.

Mr. Braun's 20-year tenure with the Company, together with his substantial experience in all aspects of insurance company operations, including product development, strategy, reinsurance and underwriting, have been critical to the Company's growth in the homeowners insurance market.

Jenifer G. Kimbrough has served as a director of the Company since April 2009. Ms. Kimbrough serves as Managing Director, Chief Financial Officer at Oakworth Capital Bank since October 2015, prior to which Ms. Kimbrough was the Vice President of Compliance and Audit for Surgical Care Affiliates from March 2010 to October 2015. Prior to 2010, Ms. Kimbrough served as the Vice President of Assurance and Process Improvement. Prior to 2007, Ms. Kimbrough was the Senior Vice President of Investor Relations at Regions Financial Corporation. From 1993 to 2003, Ms. Kimbrough served as an Audit Senior Manager at Ernst & Young LLP. Ms. Kimbrough received her certification as a Certified Public Accountant ("CPA") from the Alabama State Board of Public Accountancy in 1994 and obtained a Bachelor of Science degree in Commerce & Business Administration (Accounting) from The University of Alabama in 1993. Ms. Kimbrough is a member of several professional societies, including: Alabama State Society of Certified Public Accountants and American Institute of Certified Public Accountants ("AICPA"). Additionally, she served on the

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AICPA Women's Initiative Executive Committee and as National President of the AWSCPA and serves in various volunteer leadership capacities. Ms. Kimbrough does not serve on the board of directors of any other SEC reporting company.

Ms. Kimbrough brings her significant knowledge in compliance and audit, from both the issuer's perspective and the auditor's perspective, to the Company and the Board.

Bruce F. Simberg rejoined the Board on January 29, 2016, after serving as a director of the Company from January 1998 to March 2015. Mr. Simberg has been a practicing attorney since October 1975, most recently as managing partner of Conroy Simberg, P.A. (“Conroy Simberg”), a law firm in Hollywood, Florida, since October 1979. Mr. Simberg received his Bachelor of Science degree from Emory University and his Juris Doctor from the University of Miami. Mr. Simberg does not serve on the board of directors of any other SEC reporting company.

Mr. Simberg has significant historical knowledge and understanding of the Company’s development, as well as significant experience in insurance-related and other litigation and risk assessment matters.

Richard W. Wilcox Jr. has served as a director of the Company since January 2003. Mr. Wilcox has been in the insurance industry for more than 50 years. In 1968, Mr. Wilcox purchased an insurance agency that he grew into a business generating \$10 million in annual revenue. In 1991, Mr. Wilcox sold his agency to Hilb, Rogal and Hamilton Company (“HRH”) of Fort Lauderdale, for which he retained the position of President through 1998. In 1998, HRH of Fort Lauderdale merged with Poe and Brown of Fort Lauderdale, and Mr. Wilcox served as the Vice President of Poe and Brown until 1999, when he retired. Mr. Wilcox holds CIC designation as a member of the Society of Certified Insurance Counselors. Mr. Wilcox also holds an Advanced Professional Director Certification from the American College of Corporate Directors, a national public company director education and credentialing organization. Mr. Wilcox does not serve on the board of directors of any other SEC reporting company.

Mr. Wilcox’s substantial experience with insurance agency operations, his overall knowledge of the insurance industry, including in the Company’s primary market of Florida, as well as his experience with executive compensation and his historical knowledge of the Company, are considered to be valuable expertise for the Board.

William G. Stewart has served as a director of the Company since October 1, 2015. Mr. Stewart has significant experience in administration and investment management. He has served as the Deputy Secretary of Administration for the State of Maryland, Department of Public Safety and Correctional Services, since February 2015. From 2003 to 2007, Mr. Stewart was an Assistant Secretary for Administration/Business Services and an Acting Deputy Secretary for the State of Maryland, Department of Juvenile Services. He has more than 35 years’ experience in the securities industry, including as a Senior Consultant at Asset Strategy Consultants, an investment management consulting firm, from 2007 to 2015, and as a senior executive officer and registered representative at Mercantile Capital Advisors, Inc. from 2000 to 2002, and at BT Alex. Brown Incorporated and Alex. Brown & Sons Incorporated from 1973 to 1999. Mr. Stewart received a Bachelor of Arts degree from Princeton University and a Masters of Business Administration from the University of Virginia Graduate School of Business Administration. Mr. Stewart does not serve on the board of directors of any other SEC reporting company.

Mr. Stewart’s significant experience in administration and investment management provides the Board with greater depth of knowledge regarding management of the Company’s investment portfolio.

Roberta N. Young was appointed to serve as a director of the company beginning on September 29, 2017. Mrs. Young joins the Board with more than 40 years’ experience as a CPA and licensed in both Florida and Texas. She has extensive experience in auditing many different types of companies, including SEC companies and insurance companies and in tax preparation and consulting. Most recently, Mrs. Young was a director of tax at BDO USA, LLP (“BDO”) from August 2016 to May 2017. Mrs. Young currently provides tax and consulting services to individuals and companies in South Florida. She was a partner of Goldstein Schechter Koch, CPAs (“GSK”), from 2014 until BDO acquired GSK in August 2016. She started her career in Florida with De Meo, Young McGrath in 1988 becoming partner in 1992 and was managing partner for 4 years. The firm merged with GSK in 2014. Mrs. Young does not serve on the board of directors of any other SEC reporting company.

Mrs. Young’s more than 40 years of experience in accounting and auditing, including in particular for public companies in the insurance industry, provides the Board with another expert in accounting, auditing and financial

reporting.

Thomas A. Rogers has served as a director of the Company since October 1, 2015. Mr. Rogers has more than 40 years' experience in the reinsurance industry, including 22 years serving in senior executive officer positions with Aon Benfield Inc. until his retirement in 2014 as its Vice Chairman. Prior to Aon Benfield, Mr. Rogers spent 18 years with both reinsurance underwriting and intermediary companies and specialized in the development and management of specialized property and casualty lines. Mr. Rogers received his Bachelor of Science degree from Drexel University. Mr. Rogers does not serve on the board of directors of any other SEC reporting company.

2

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Mr. Rogers' significant knowledge of reinsurance underwriting, including day-to-day insurance operations, and in specialized property and casualty lines provides the Board with expertise that is highly relevant to the Company's current operations and beneficial in connection with possible future expansion of the Company's business lines.

Ronald A. Jordan was appointed as Chief Financial Officer of the Company on April 17, 2017. Mr. Jordan brings to the Company more than 25 years' experience in accounting and financial reporting, including most recently as Chief Accounting Officer of Hatteras Financial Corp., a mortgage real estate investment trust based in Winston-Salem, North Carolina, from 2013 to 2016. Prior to that position, Mr. Jordan held various positions at Lincoln Financial Group from 2003 to 2012, including Senior Vice President, Financial Planning and Strategic Initiatives, from 2011 to 2012, Vice President and General Auditor from 2006 to 2011, and Vice President and Controller from 2003 to 2006. From 1996 to 2003, Mr. Jordan held positions in financial reporting and accounting at Jefferson Pilot Corporation, CNA Insurance, and Bankers Life & Casualty. Mr. Jordan began his career at Arthur Andersen, LLP from 1989 to 1996. Mr. Jordan is a CPA and Certified Internal Auditor (inactive), and received his Bachelor of Business Administration degree in accounting, with high distinction, from the University of Michigan.

## CORPORATE GOVERNANCE

### Corporate Governance Update

The Company has experienced significant growth, both in revenues and market capitalization, in recent years. The Board of Directors has received feedback from shareholders and others regarding its corporate governance and executive compensation practices. With that feedback in mind, and being cognizant of the Company's recent growth, the Board of Directors has undertaken a comprehensive review of our Company's corporate governance in order to assure strong Board accountability and effective shareholder rights policies. This review was done in conjunction with a review by our Compensation Committee of our executive compensation practices, which resulted in significant updates to our executive compensation practices as described more fully below under the caption "Compensation Discussion and Analysis." Although the Board believes that the Company's current corporate governance practices and provisions of its articles and bylaws are consistent with those of a public company that is a comparable size to the Company in the Company's industry, and are in the best interests of its shareholders, the Board has embraced the feedback received as part of its outreach to shareholders and investment community, and taken the following actions in the last three years:

The Board added two new independent directors in 2015 and a third new independent director in 2017, continuing the Board's refreshment efforts and maintaining the number of independent directors at six of the seven Board members, or 86%.

The Board has separated the roles of Chairman of the Board and Chief Executive Officer.

The Board amended the Company's bylaws to implement a majority voting standard for uncontested elections of directors.

The Board approved increasing the frequency of the shareholder vote on executive compensation ("say-on-pay") to occur annually.

The Board amended the Company's articles and bylaws to reduce the supermajority requirement (66-2/3% of the shares outstanding) to amend certain provisions to a simple majority of shares outstanding.

The Board amended the Company's articles and bylaws to reduce the percentage of shares required to call a special meeting from 33% to 25%.

The Board approved stock ownership and retention guidelines applicable to our directors, in addition to our Chief Executive Officer and Chief Financial Officer. Under these guidelines, our outside, non-employee directors are each required to hold shares of the Company's common stock with a value of at least four times their annual retainer. The guidelines further provide that the outside directors should achieve the guideline amounts within five years of the policy's adoption and, until the guideline amounts are achieved, our directors must retain 66-2/3% of any shares received as equity grants from the Company, net of shares withheld or sold to pay taxes.

The Board prohibited directors and executive officers from hedging or pledging the Company's common stock, without exception.

The Board adopted corporate governance guidelines, which update, consolidate and memorialize the corporate governance practices followed by the Board and the Company.

The Company's Amended and Restated 2012 Stock Incentive Plan was amended to prohibit option repricing and implement a one-year minimum vesting requirement, and similar provisions were included in the 2018 Omnibus Incentive Compensation Plan approved by the shareholders at the 2018 Annual Meeting of Shareholders.

The Board adopted the most restrictive definition of "independence" when appointing the current members of its Compensation and Nominating committees.

The Board believes that these steps represent a good faith effort to respond to the feedback received as a result of its shareholder outreach and represent meaningful steps to align its corporate governance practices with the interests of its shareholders and current best practices. As is our standard practice, we will continue to engage with our shareholders and will take feedback we receive from them into account as we evolve our corporate governance practices according to the needs of our business.

#### Leadership Structure

The Chairman of the Board is elected by the members of the Board and typically presides at all meetings of the Board. Bruce F. Simberg currently serves as our Chairman, a position he has held since 1998 other than the period from March 2015 to January 2016. Richard W. Wilcox Jr., an independent member of the Board since 2003, was named the Board's Lead Independent Director during Mr. Simberg's absence from the Chairman position, and continues to hold that position in recognition of his significant knowledge of the Company's history, growth and operations and his contributions, along with those of Mr. Simberg, to the oversight of the Company. The responsibilities of the Company's Chairman of the Board are: (i) presiding at all meetings of the Board (with the Lead Independent Director presiding at meetings where the Chairman is not present), including presiding at executive sessions of the Board (without management present) at every regularly scheduled Board meeting, (ii) serving as a liaison between management and the independent directors, (iii) providing input regarding meeting agendas, time schedules and other information provided to the Board, and (iv) being available for direct communication and consultation with major shareholders. Our Chairman also has the authority to call meetings of the independent directors. The Chief Executive Officer is the only member of management on the Board.

The Company believes that its Board as a whole should encompass a diverse range of talents, skills, perspectives, experiences, and tenure on the Board, enabling the Board to provide sound guidance with respect to the Company's operations and interests. The Company's policy is to have at least a majority of directors qualify as independent as defined by the listing and maintenance rules of The Nasdaq Stock Market (the "Nasdaq Rules"). The Nominating Committee identifies candidates for election to the Board of Directors; reviews their skills, characteristics and experience; and recommends nominees for director to the Board for approval. The Nominating Committee's Charter provides that the Board of Directors as a whole should be balanced and diverse, and consist of individuals with various and relevant career experience, relevant technical skills, industry knowledge and experience, financial expertise and local or community ties. Minimum individual requirements include strength of character, mature judgment, familiarity with the Company's business and industry, independence of thought and an ability to work collegially. The Board believes that the qualifications of the directors, as set forth in their biographies above provide them with the qualifications and skills to serve as a director of our Company.

#### Board Self-Assessment Process

The Board believes that ongoing self-assessment is important to strengthening its performance and fulfilling its role on behalf of the Company's shareholders. To that end, the Board conducts an annual evaluation process that begins by

asking each Board member to complete a comprehensive evaluation form that addresses the Board's overall performance and a self-evaluation of the individual director's performance. Overall Board performance is evaluated based on, among other things, the conduct of Board meetings, the composition of the Board, the quality of information provided to the Board, Board effectiveness, and access to management. Individual performance is evaluated to determine, among other things, whether the director continues to be able to devote the necessary time to Board and committee matters, whether the director's skills are best utilized, and whether the director contributes to Board decision making. In addition, the Audit Committee conducts an annual evaluation of its performance, including a review of the effectiveness of its processes, the composition of the Committee, the Committee's interactions with management and the Company's auditors, and the Committee members' understanding of the Company's risks, controls and compliance. These evaluation forms are reviewed by the Chairman of the Board or the Audit Committee, and by the entire Board or Audit Committee, and are discussed in detail at a Board or Audit Committee meeting, as applicable.

## Board Continuing Education

The Company encourages its directors to remain current in corporate governance, compliance and industry topics facing publicly traded insurance companies such as the Company. In that regard, the Company provides directors with the opportunity to attend seminars and conferences on director education, board leadership, current issues facing the insurance industry generally and the Florida and coastal insurance markets in particular, governance, risk management and other subjects of interest to Board members and relevant to the Company. Certain of our directors also obtain significant continuing education relevant to the Company in connection with their professional licenses and certifications in accounting, finance and law.

## Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines, which have updated, consolidated and memorialized the corporate governance practices followed by the Board and the Company. Among other things, the guidelines address the following matters relating to the Board and its committees:

- Director qualifications generally and guidelines on the composition of the Board and its committees;
- Director responsibilities and the standards for carrying out such responsibilities;
- Board membership criteria;
- Board committee requirements;
- Director compensation;
- Director access to management and independent advisors;
- Director orientation and continuing education requirements; and
- Chief Executive Officer evaluation, management succession and Chief Executive Officer compensation.

The Corporate Governance Guidelines are reviewed at least annually by the Board.

## Risk Oversight

The Board's role in connection with risk oversight is to oversee and monitor the management of risk practiced by the Company's management in the performance of their duties. The Board does this in a number of ways, principally through the oversight responsibility of committees of the Board, but also as part of the strategic planning process. For example, our Audit Committee oversees management of risks related to accounting, auditing and financial reporting, maintaining effective internal controls over financial reporting, and information security and technology risks. Our Nominating Committee oversees risk associated with corporate governance and the Company's code of conduct, including compliance with listing standards for independent directors and conflicts of interest. Our Compensation Committee oversees the risk related to our executive compensation plans and arrangements and is responsible for reviewing and recommending our non-employee director compensation plans and arrangements. Our Investment Committee oversees the risks related to managing our investment portfolio. The full Board receives reports on a regular basis regarding each committee's oversight from the chairperson of each committee when reporting on their committee's actions at regular Board meetings, as well as overseeing the development and implementation of strategic initiatives.

Meetings and Committees of the Board of Directors

During 2018, the Board of Directors held ten regular meetings, five special meetings and took actions by written consent on six occasions. During 2018, no director attended fewer than 75% of the Board and committee meetings held during this period. The Board of Directors encourages, but does not require, its directors to attend the Company's annual meeting. All of our directors attended our 2018 annual meeting.

## Board Independence

The Board has determined that the following continuing directors are independent pursuant to the Nasdaq Rules applicable to the Company: Bruce F. Simberg, Richard W. Wilcox Jr., Jenifer G. Kimbrough, William G. Stewart, Thomas A. Rogers and Roberta N. Young. The Board has also used the stricter definition of “independence” utilized by shareholder advisory services in determining the members of the Compensation and Nominating committees from 2017 forward.

The independent directors of the Board meet in executive sessions without management present. These sessions, which generally occur at every regularly scheduled Board meeting, are led by the Chairman. Executive sessions allow the independent directors to discuss, among other issues, management performance and compensation.

To facilitate the Board’s oversight functions and to take advantage of the knowledge and experience of its members, the Board has created several standing committees. These committees, the Audit, Investment, Nominating, Compensation and Business Strategy committees, allow regular risk oversight and monitoring, and deeper analysis of issues before the Board. The Audit, Compensation, Investment and Nominating committees are composed exclusively of independent directors. The membership of the standing committees is reviewed from time to time, and specific committee assignments are proposed and appointed by the Board. Each committee holds regularly scheduled meetings and confers between regularly scheduled meetings as needed.

Charters for the Audit, Compensation and Nominating committees, and the Corporate Governance Guidelines, are available upon the Company’s website at [www.FedNat.com](http://www.FedNat.com) and are also available in print to any shareholder upon request from our Corporate Secretary.

Audit Committee. As of December 31, 2018, the Audit Committee was composed of Jenifer G. Kimbrough, who served as the Chair, Richard W. Wilcox Jr. and Roberta N. Young. Each member was determined to be “independent” as defined under the Nasdaq Rules applicable to the Company and SEC rules for Audit Committee membership. Ms. Kimbrough and Mrs. Young, who are Certified Public Accountants, were designated as “financial experts” as that term is defined in the applicable rules and regulations of the Exchange Act based on their understanding of U.S. generally accepted accounting principles (“GAAP”) and financial statements; their ability to assess the general application of GAAP in connection with the accounting for estimates, accruals and reserves; their experience preparing, auditing, analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company’s financial statements, or experience actively supervising one or more persons engaged in such activities; their understanding of internal controls and procedures for financial reporting; and their understanding of audit committee functions. The Audit Committee held four regular meetings in fiscal 2018 and no special meetings. It is currently expected that the same Board members will constitute the Audit Committee for 2019.

Pursuant to its written charter, the duties and responsibilities of the Audit Committee include, but are not limited to, (a) the appointment of the independent certified public accountants and any termination of such engagement, (b) reviewing the plan and scope of independent audits, (c) reviewing significant accounting and reporting policies and operating controls, (d) having general responsibility for all related auditing and financial statement matters, and (e) reporting its recommendations and findings to the full Board of Directors. The Audit Committee pre-approves all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed by the independent accountants, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act that are approved by the Audit Committee prior to the completion of the audit.

To ensure prompt handling of unexpected matters, the Audit Committee delegates to the Chair the authority to amend or modify the list of approved permissible non-audit services and fees. The Chair will report action taken to the Audit Committee at the next committee meeting. The Chief Financial Officer is responsible for tracking all independent

auditor fees against the budget for such services and reports at least annually to the Audit Committee.

Compensation Committee. As of December 31, 2018, the Company's Compensation Committee was composed of Jenifer G. Kimbrough, Thomas A. Rogers and Richard W. Wilcox Jr. Each member is independent as defined by the Nasdaq Rules. The Compensation Committee performs the duties and responsibilities pursuant to its charter, which includes reviewing and approving the compensation of the Company's executive officers. Mr. Wilcox serves as the Chairman. During fiscal 2018, the Compensation Committee held three regular meetings and one special meeting and took action by written consent on one occasion. For 2019, the members of the Compensation Committee are Jenifer G. Kimbrough, Thomas A. Rogers and Richard W. Wilcox Jr.



The Compensation Committee has worked with compensation and governance consultants in prior years to assist the Board in updating the Company's corporate governance practices generally, assist with a review and update of the Company's executive compensation practices, and assist with the Company's shareholder engagement program. The Compensation Committee also regularly reviews internally compiled data about the compensation practices of our competitors. For the 2018 fiscal year, the Company engaged the firm of MacKenzie Partners to assist the Board with research related to executive compensation practices and our peers, and assist with the Company's shareholder engagement program. MacKenzie Partners also provided proxy solicitation services to the Company.

Nominating Committee. As of December 31, 2018, the Company's Nominating Committee was composed of Jenifer G. Kimbrough, Richard W. Wilcox Jr., Thomas A. Rogers, William G. Stewart and Roberta N. Young. Richard Wilcox serves as the committee chairperson. Each member is independent as defined by the Nasdaq Rules. During fiscal 2018, the Nominating Committee took actions by written consent on one occasion. The same Board members will constitute the Nominating Committee for 2019.

The Nominating Committee continues to identify qualified candidates for director positions. In recommending proposed nominees to the full Board, the Nominating Committee is charged with building and maintaining a Board that has an ideal mix of talent and experience to achieve the Company's business objectives. In particular, the Nominating Committee considers all aspects of a candidate's qualifications in the context of the needs of the Company at that point in time with a view to creating a Board with a diversity of experience and perspectives. Among the qualifications, qualities and skills of a candidate considered important by the Nominating Committee is a person with strength of character, mature judgment, familiarity with the Company's business and industry, independence of thought and an ability to work collegially. The Nominating Committee considers diversity, together with these other factors, when evaluating candidates, but does not have a specific policy in place with respect to diversity.

The Nominating Committee will consider candidates for director who are recommended by its members, by other Board members and by management of the Company and who have the experience and skill set best suited to benefit the Company and its shareholders. The Nominating Committee will consider nominees recommended by our shareholders if the shareholder submits the nomination in compliance with the advance notice, information and other requirements described in our bylaws and applicable securities laws. The Nominating Committee evaluates director candidates recommended by shareholders in the same way that it evaluates candidates recommended by its members, other members of the Board, or other persons.

Shareholders who wish to recommend nominees to the Nominating Committee should submit their recommendation in writing to the Secretary of the Company at its executive offices pursuant to the requirements contained in Article III, Section 13 of the Company's Bylaws. This section provides that the notice shall include: (a) as to each person who the shareholder proposed to nominate for election, (i) name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Company which are beneficially owned by the person, (iv) the consent of each nominee to serve as a director of the Company if so elected and (v) any other information relating to the person that is required to be disclosed in solicitation for proxies for the election of directors pursuant to Rule 14A under the Exchange Act; and (b) as to the shareholder giving the notice, (i) the name and record address of the shareholder, and (ii) the class and number of shares of capital stock of the Company which are beneficially owned by the shareholder. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as a director of the Company. To be timely, a shareholder's notice shall be delivered to or mailed and received at the Company's principal executive offices not less than 60 days nor more than 90 days prior to the meeting. If we give less than 70 days' notice or prior public disclosure of the date of the meeting date, however, notice by the shareholder to be timely must be so received not later than the close of business on the tenth day following either the date we publicly announce the date of our annual meeting or the date of mailing of the notice of the meeting, whichever first occurs.

Investment Committee. As of December 31, 2018, the Company's Investment Committee was composed of William G. Stewart, Bruce F. Simberg and Roberta N. Young. The Investment Committee manages our investment portfolio pursuant to its adopted Investment Policy Statement. Mr. Stewart serves as the Chairman. During fiscal 2018, the Investment Committee held four regular and three special meetings. The same Board members will constitute the Investment Committee for 2019.

Business Strategy Committee. As of December 31, 2018, the Company's Business Strategy Committee (previously called the Business Development Committee) was composed of Thomas A. Rogers, Michael H. Braun and Bruce F. Simberg. The Business Strategy Committee provides advice, oversight and guidance both to management of the Company and to the Board on matters involving the Company's development of programs and projects, and acquisitions of new technologies or products and other business opportunities of strategic importance to the Company. Mr. Rogers serves as the Chairman. During fiscal 2018, the Business Strategy Committee held four regular meetings. The same Board members will constitute the Business Strategy Committee for 2019.

## Code of Conduct

We have adopted a Code of Conduct for all employees, officers and directors of the Company. A copy of our Code of Conduct is available on our web site at [www.FedNat.com](http://www.FedNat.com).

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that our executive officers, directors, and persons who own more than 10% of a registered class of our equity securities to file reports of beneficial ownership and certain changes in beneficial ownership with the SEC and to furnish us with copies of those reports. To our knowledge, based solely on a review of the copies of such reports furnished to us or written representations that no other reports were required, we believe that during the year ended December 31, 2018, all reports required by Section 16(a) were timely filed except for one report that was filed late due to an administrative error.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The following Compensation Discussion and Analysis describes the components and objectives of the Company's executive compensation program for fiscal 2018 for our "Named Executive Officers," describes the process through which the decisions regarding executive compensation have been made, and describes the results of this decision-making process. Our Named Executive Officers for fiscal 2018 were our Chief Executive Officer and President and our Chief Financial Officer. The following Compensation Discussion and Analysis reflects the compensation paid to our Named Executive Officers for fiscal 2018 and the Compensation Committee's decisions with respect to the compensation for fiscal 2019 for the Named Executive Officers.

### Philosophy of the Company's Executive Compensation Programs

The Compensation Committee of the Board is responsible for establishing, implementing and monitoring adherence to the Company's compensation philosophy and oversees our compensation programs for our Named Executive Officers. With respect to executive compensation, the Compensation Committee's primary goals are to attract and retain the most qualified, knowledgeable, dedicated and seasoned executives possible; provide challenging but attainable goals by which to measure performance; reward them for their contributions to the development of the Company's business; and align the executives' compensation and incentives with the Company's performance and the interests of our shareholders. The Compensation Committee also endeavors, while compensating our Named Executive Officers for their performance, to structure the Company's compensation programs so as to not encourage unnecessary or excessive risk-taking. The Compensation Committee believes that crafting incentives so as to not encourage unnecessary or excessive risk taking is especially important in the homeowners' insurance industry in the Company's home state of Florida.

The Compensation Committee is committed to ensuring our compensation programs are strongly aligned with the Company's long-term business strategy. The Committee seeks to continuously and rigorously evaluate its compensation plans to reflect strong governance practices and shareholder feedback, as reflected in the table below: