

KINGSWAY FINANCIAL SERVICES INC  
Form 10-Q  
May 08, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

FORM 10-Q  
(Mark One)

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

March 31, 2014

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

For the quarterly period ended March 31, 2014

Commission File Number: 001-15204

Kingsway Financial Services Inc.  
(Exact name of registrant as specified in its charter)

---

Ontario, Canada

(State or other jurisdiction of  
incorporation or organization)

Not Applicable (I.R.S. Employer  
Identification No.)

45 St. Clair Avenue West, Suite 400 Toronto, Ontario M4V 1K9

(Address of principal executive offices and zip code)

1-416-848-1171

(Registrant's telephone number, including area code)

---

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T ( 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
(Do not check if a smaller reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The number of shares outstanding of the registrant's common stock as of May 8, 2014 was 16,429,761.

---

KINGSWAY FINANCIAL SERVICES INC.

Table Of Contents	
PART I - FINANCIAL INFORMATION	<u>3</u>
ITEM 1. FINANCIAL STATEMENTS	<u>3</u>
Consolidated Balance Sheets as of March 31, 2014 (unaudited) and December 31, 2013	<u>3</u>
Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013 (unaudited)	<u>4</u>
Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended March 31, 2014 and 2013 (unaudited)	<u>5</u>
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013 (unaudited)	<u>6</u>
Notes to Consolidated Financial Statements (unaudited)	<u>7</u>
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	<u>27</u>
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	<u>38</u>
ITEM 4. CONTROLS AND PROCEDURES	<u>38</u>
PART II - OTHER INFORMATION	<u>39</u>
ITEM 1. LEGAL PROCEEDINGS	<u>39</u>
ITEM 1A. RISK FACTORS	<u>39</u>
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	<u>39</u>
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	<u>39</u>
ITEM 4. MINE SAFETY DISCLOSURES	<u>39</u>
ITEM 5. OTHER INFORMATION	<u>39</u>
ITEM 6. EXHIBITS	<u>40</u>
SIGNATURES	<u>41</u>

## KINGSWAY FINANCIAL SERVICES INC.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## Consolidated Balance Sheets

(in thousands, except per share data)

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$50,778 and \$53,455, respectively)	\$51,456	\$54,151
Equity investments, at fair value (cost of \$5,103 and \$3,554, respectively)	9,982	7,137
Limited liability investments	4,701	4,406
Other investments, at cost which approximates fair value	2,000	3,000
Short-term investments, at cost which approximates fair value	401	501
Total investments	68,540	-69,195
Cash and cash equivalents	72,080	98,589
Investment in investee	7,661	—
Accrued investment income	1,096	614
Premiums receivable, net of allowance for doubtful accounts of \$1,839 and \$2,123, respectively	32,609	32,035
Service fee receivable, net of allowance for doubtful accounts of \$245 and \$0, respectively	22,622	19,012
Other receivables, net of allowance for doubtful accounts of \$1,061 and \$1,062, respectively	5,106	4,097
Reinsurance recoverable	7,569	10,335
Prepaid reinsurance premiums	148	6,816
Deferred acquisition costs, net	12,559	12,392
Property and equipment, net of accumulated depreciation of \$15,894 and \$15,848, respectively	1,671	1,662
Goodwill	10,588	10,588
Intangible assets, net of accumulated amortization of \$18,997 and \$18,583, respectively	48,504	48,918
Other assets	3,525	4,039
Asset held for sale	6,347	6,347
Total Assets	\$300,625	\$324,639
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid loss and loss adjustment expenses:		
Property and casualty	\$77,285	\$84,534
Vehicle service agreements	3,128	3,128
Total unpaid loss and loss adjustment expenses	80,413	87,662
Unearned premiums	40,979	48,577
Reinsurance payable	145	1,033
LROC preferred units, at fair value	14,291	14,854
Senior unsecured debentures, at fair value	—	14,356

Edgar Filing: KINGSWAY FINANCIAL SERVICES INC - Form 10-Q

Subordinated debt, at fair value	28,471	28,471
Deferred income tax liability	4,456	4,173
Deferred service fees	49,262	48,788
Income taxes payable	921	2,984
Accrued expenses and other liabilities	37,538	36,821
Total Liabilities	\$256,476	\$287,719
Shareholders' Equity:		
Class A preferred stock, no par value; unlimited number authorized; 262,876 and zero issued and outstanding at March 31, 2014 and December 31, 2013, respectively	\$6,402	\$—
Common stock, no par value; unlimited number authorized; 16,429,761 and 16,429,761 issued and outstanding at March 31, 2014 and December 31, 2013, respectively	—	—
Additional paid-in capital	325,427	324,803
Accumulated deficit	(300,640	) (298,930
Accumulated other comprehensive income	10,973	9,601
Shareholders' equity attributable to common shareholders	42,162	35,474
Noncontrolling interests in consolidated subsidiaries	1,987	1,446
Total Shareholders' Equity	44,149	36,920
Total Liabilities and Shareholders' Equity	\$300,625	\$324,639
See accompanying notes to unaudited consolidated financial statements.		

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Operations  
(in thousands, except per share data)  
(Unaudited)

	Three months ended March 31,	
	2014	2013
Revenues:		
Net premiums earned	\$31,920	