KINGSWAY FINANCIAL SERVICES INC
Form 10-Q
November 09, 2015

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

FORM 10-Q
(Mark One)

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

For Quarterly Period Ended September 30, 2015
or

o 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: 001-15204

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

| | |
|---|---|
| Ontario, Canada<br>(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 x No o

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 x No o

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 o | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller Reporting Company x |

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

The number of shares outstanding of the registrant's common stock as of November 9, 2015 was 19,709,706.

KINGSWAY FINANCIAL SERVICES INC.

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KINGSWAY FINANCIAL SERVICES INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

(in thousands, except per share data)

| | September 30, 2015 (unaudited) | December 31, 2014 |
|---|---|---|
| Assets | | |
| Investments: | | |
| Fixed maturities, at fair value (amortized cost of $59,366 and $56,000, respectively) | $59,764 | $56,195 |
| Equity investments, at fair value (cost of $24,666 and $16,579, respectively) | 25,296 | 19,618 |
| Limited liability investments | 15,377 | 7,294 |
| Other investments, at cost which approximates fair value | 4,102 | 3,576 |
| Short-term investments, at cost which approximates fair value | 400 | 400 |
| Total investments | 104,939 | 87,083 |
| Cash and cash equivalents | 75,785 | 71,234 |
| Investment in investee | 1,712 | 2,115 |
| Accrued investment income | 856 | 141 |
| Premiums receivable, net of allowance for doubtful accounts of $258 and $1,889, respectively | 30,052 | 28,885 |
| Service fee receivable, net of allowance for doubtful accounts of $269 and $247, respectively | 1,388 | 964 |
| Other receivables, net of allowance for doubtful accounts of $806 and $806, respectively | 5,815 | 5,145 |
| Reinsurance recoverable | 1,687 | 3,652 |
| Prepaid reinsurance premiums | 49 | 8 |
| Deferred acquisition costs, net | 12,541 | 12,197 |
| Income taxes recoverable | 56 | 74 |
| Property and equipment, net of accumulated depreciation of $12,399 and $15,751, respectively | 5,687 | 5,975 |
| Goodwill | 10,078 | 10,078 |
| Intangible assets, net of accumulated amortization of $5,702 and $4,765, respectively | 15,043 | 15,980 |
| Other assets | 3,180 | 3,638 |
| Assets held for sale | — | 54,553 |
| Total Assets | $268,868 | $301,722 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Unpaid loss and loss adjustment expenses: | | |
| Property and casualty | $55,438 | $63,895 |
| Vehicle service agreements | 2,975 | 2,975 |
| Total unpaid loss and loss adjustment expenses | 58,413 | 66,870 |
| Unearned premiums | 37,752 | 36,432 |
| Reinsurance payable | 452 | 525 |
| LROC preferred units, at fair value | — | 13,618 |

| | | |
|---|---|---|
| Subordinated debt, at fair value | 39,865 | 40,659 |
| Deferred income tax liability | 2,902 | 2,837 |
| Deferred service fees | 34,733 | 35,096 |
| Accrued expenses and other liabilities | 42,823 | 35,836 |
| Liabilities held for sale | — | 21,653 |
| Total Liabilities | 216,940 | 253,526 |
| | | |
| Class A preferred stock, no par value; unlimited number authorized; 262,876 and 262,876 issued and outstanding at September 30, 2015 and December 31, 2014, respectively; redemption amount of $6,572 | 6,386 | 6,330 |
| | | |
| Shareholders' Equity: | | |
| Common stock, no par value; unlimited number authorized; 19,709,706 and 19,709,706 issued and outstanding at September 30, 2015 and December 31, 2014, respectively | — | — |
| Additional paid-in capital | 341,443 | 340,844 |
| Accumulated deficit | (306,655) | (312,050) |
| Accumulated other comprehensive income | 9,090 | 8,670 |
| Shareholders' equity attributable to common shareholders | 43,878 | 37,464 |
| Noncontrolling interests in consolidated subsidiaries | 1,664 | 4,402 |
| Total Shareholders' Equity | 45,542 | 41,866 |
| Total Liabilities and Shareholders' Equity | $268,868 | $301,722 |

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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Net premiums earned | $29,197 | $28,418 | $88,427 | $89,093 |
| Service fee and commission income | 6,184 | 6,949 | 17,430 | 19,040 |
| Net investment income | 791 | 542 | 2,632 | 1,296 |
| Net realized gains | 83 | 329 | 136 | 5,459 |
| Other-than-temporary impairment loss | — | — | (10) | — |
| Other income | 2,303 | 2,369 | 13,174 | 6,929 |
| Total revenues | 38,558 | 38,607 | 121,789 | 121,817 |
| Operating expenses: | | | | |
| Loss and loss adjustment expenses | 22,914 | 22,361 | 69,054 | 65,216 |
| Commissions and premium taxes | 5,653 | 5,738 | 17,199 | 17,823 |
| Cost of services sold | 1,408 | 1,544 | 3,129 | 3,337 |
| General and administrative expenses | 9,997 | 10,206 | 31,748 | 33,196 |
| Amortization of intangible assets | 307 | 397 | 937 | 1,220 |
| Contingent consideration expense | 110 | 267 | 364 | 801 |
| Impairment of asset held for sale | — | — | — | 1,180 |
| Total operating expenses | 40,389 | 40,513 | 122,431 | 122,773 |
| Operating loss | (1,831) | (1,906) | (642) | (956) |
| Other (revenues) expenses, net: | | | | |
| Interest expense | 1,248 | 1,417 | 4,053 | 4,214 |
| Foreign exchange losses, net | 58 | 230 | 1,210 | 271 |
| (Gain) loss on change in fair value of debt | (2,458) | 2,963 | (1,491) | 10,199 |
| Loss on disposal of subsidiary | — | — | — | 1,242 |
| Loss on deconsolidation of subsidiary | — | — | 4,420 | — |
| Equity in net loss of investee | 192 | 83 | 399 | 83 |
| Total other (revenues) expenses, net | (960) | 4,693 | 8,591 | 16,009 |
| Loss from continuing operations before income tax expense (benefit) | (871) | (6,599) | (9,233) | (16,965) |
| Income tax expense (benefit) | 23 | 28 | 79 | (971) |
| Loss from continuing operations | (894) | (6,627) | (9,312) | (15,994) |
| Income from discontinued operations, net of taxes | — | 532 | 1,426 | 3,419 |
| Gain on disposal of discontinued operations, net of taxes | — | — | 11,259 | — |
| Net (loss) income | (894) | (6,095) | 3,373 | (12,575) |
| Less: net (loss) income attributable to noncontrolling interests in consolidated subsidiaries | (86) | 778 | 74 | 873 |
| Less: dividends on preferred stock | 83 | 83 | 246 | 218 |
| Net (loss) income attributable to common shareholders | $(891) | $(6,956) | $3,053 | $(13,666) |
| Loss per share - continuing operations: | | | | |
| Basic: | $(0.05) | $(0.44) | $(0.49) | $(1.03) |

| | | | | |
|---|---|---|---|---|
| Diluted: | $(0.05) | $(0.44) | $(0.49) | $(1.03) |
| Earnings per share - discontinued operations: | | | | |
| Basic: | $— | $0.03 | $0.64 | $0.21 |
| Diluted: | $— | $0.03 | $0.64 | $0.21 |
| (Loss) earnings per share – net (loss) income attributable to common shareholders: | | | | |
| Basic: | $(0.05) | $(0.41) | $0.15 | $(0.82) |
| Diluted: | $(0.05) | $(0.41) | $0.15 | $(0.82) |
| Weighted average shares outstanding (in ‘000s): | | | | |
| Basic: | 19,710 | 16,993 | 19,710 | 16,620 |
| Diluted: | 19,710 | 16,993 | 19,710 | 16,620 |

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Comprehensive (Loss) Income
(in thousands)
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net (loss) income | $(894) | $(6,095) | $3,373 | $(12,575) |
| Other comprehensive loss, net of taxes(1): | | | | |
| Unrealized (losses) gains on fixed maturities and equity investments: | | | | |
| Unrealized losses arising during the period | (2,271) | (2,244) | (3,704) | (2,924) |
| Reclassification adjustment for amounts included in net (loss) income | 90 | 187 | 1,554 | 1,526 |
| Foreign currency translation adjustments | — | (22) | 858 | (37) |
| Recognition of currency translation loss on deconsolidation of subsidiary | — | — | 1,243 | — |
| Other comprehensive loss | (2,181) | (2,079) | (49) | (1,435) |
| Comprehensive (loss) income | (3,075) | (8,174) | $3,324 | $(14,010) |
| Less: comprehensive (loss) income attributable to noncontrolling interests in consolidated subsidiaries | (85) | 795 | (395) | 768 |
| Comprehensive (loss) income attributable to common shareholders | $(2,990) | $(8,969) | $3,719 | $(14,778) |

(1) Net of income tax expense (benefit) of $0 and $0 for the three and nine months ended September 30, 2015 and September 30, 2014, respectively.

See accompanying notes to unaudited consolidated financial statements

Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

| | Nine months ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net income (loss) | $3,373 | $(12,575) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Gain on disposal of discontinued operations | (11,259) | — |
| Equity in net loss of investee | 399 | 83 |
| Equity in net income of limited liability investments | (1,590) | (201) |
| Depreciation and amortization expense | 1,400 | 1,888 |
| Contingent consideration expense | 364 | 801 |
| Stock based compensation expense, net of forfeitures | 598 | 1,033 |
| Net realized gains | (136) | (5,459) |
| (Gain) loss on change in fair value of debt | (1,491) | 10,199 |
| Deferred income taxes | 66 | 241 |
| Other-than-temporary impairment loss | 10 | — |
| Amortization of fixed maturities premiums and discounts | 245 | 515 |

| | | |
|---|---|---|
| Loss on disposal of subsidiary | — | 1,242 |
| Impairment of asset held for sale | — | 1,180 |
| Changes in operating assets and liabilities: | | |
| Premiums and service fee receivable | (1,591) | 590 |
| Other receivables | (670) | (1,186) |
| Reinsurance recoverable | 1,965 | 6,332 |
| Prepaid reinsurance premiums | (41) | 6,761 |
| Deferred acquisition costs, net | (344) | (71) |
| Income taxes recoverable | 18 | — |
| Unpaid loss and loss adjustment expenses | (8,457) | (16,531) |
| Unearned premiums | 1,320 | (10,181) |
| Reinsurance payable | (73) | (984) |
| Deferred service fees | (363) | 1,181 |
| Other, net | 5,719 | 1,428 |
| Net cash used in operating activities | (10,538) | (13,714) |
| Investing activities: | | |
| Proceeds from sales and maturities of fixed maturities | 23,302 | 21,722 |
| Proceeds from sales of equity investments | 617 | 6,761 |
| Purchases of fixed maturities | (25,788) | (21,293) |
| Purchases of equity investments | (7,666) | (10,180) |
| Net acquisition of limited liability investments | (6,604) | (1,159) |
| Net (purchases of) proceeds from other investments | (600) | 1,000 |
| Net proceeds from (purchases of) short-term investments | 4 | (103) |
| Net proceeds from sale of discontinued operations | 44,919 | — |
| Net purchases of property and equipment | (175) | (1,565) |
| Net cash provided by (used in) investing activities | 28,009 | (4,817) |
| Financing activities: | | |
| Proceeds from issuance of preferred stock, net | — | 6,330 |
| Proceeds from issuance of warrants | — | 14,760 |
| Redemption of LROC preferred units | (12,920) | — |
| Redemption of senior unsecured debentures | — | (14,356) |
| Net cash (used in) provided by financing activities | (12,920) | 6,734 |
| Net increase (decrease) in cash and cash equivalents | 4,551 | (11,797) |
| Cash and cash equivalents at beginning of period | 71,234 | 97,505 |
| Cash and cash equivalents at end of period | $75,785 | $85,708 |

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited) September 30, 2015

NOTE 1 BUSINESS

Kingsway Financial Services Inc. (the "Company" or "Kingsway") was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. Kingsway is a Canadian holding company with operating subsidiaries located in the United States. The Company operates as a merchant bank primarily engaged, through its subsidiaries, in the property and casualty insurance business.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements of the Company. In the opinion of management, all adjustments necessary for a fair presentation have been included and are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the year.

The accompanying unaudited consolidated interim financial statements and footnotes should be read in conjunction with the audited consolidated financial statements and footnotes included within our Annual Report on Form 10-K ("2014 Annual Report") for the year ended December 31, 2014.

The unaudited consolidated interim financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect application of policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. Estimates and their underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recorded in the accounting period in which they are determined. The critical accounting estimates and assumptions in the accompanying unaudited consolidated interim financial statements include the provision for unpaid loss and loss adjustment expenses; valuation of fixed maturities and equity investments; valuation of deferred income taxes; valuation of intangible assets; goodwill recoverability; deferred acquisition costs; fair value assumptions for performance shares; fair value assumptions for debt obligations; and contingent consideration.

The fair values of the Company's investments in fixed maturities and equity investments, performance shares, LROC preferred units, subordinated debt and contingent consideration are estimated using a fair value hierarchy to categorize the inputs it uses in valuation techniques. The fair value of the Company's investment in investee is based on quoted market prices. Fair values for other investments approximate their unpaid principal balance. The carrying amounts reported in the consolidated balance sheets approximate fair values for cash, short-term investments and certain other assets and other liabilities because of their short-term nature.

The Company's financial results contained herein are reported in U.S. dollars unless otherwise indicated.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to our significant accounting policies as reported in our 2014 Annual Report, except as disclosed below.

Derivative financial instruments

Derivative financial instruments include investments in warrants and performance shares issued to the Company under various performance share grant agreements. Refer to Note 20, "Related Party Transactions," for further details regarding the performance shares. Warrants are classified as equity investments in the consolidated balance sheets.

The Company measures derivative financial instruments at fair value. The fair value of derivative financial instruments is required to be revalued each reporting period, with corresponding changes in fair value recorded in the consolidated statements of operations, or, in the case of warrants that are actively traded, in other comprehensive loss. Realized gains or losses are recognized upon settlement of the contracts.

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited) September 30, 2015

NOTE 4 RECENTLY ISSUED ACCOUNTING STANDARDS

(a) Adoption of New Accounting Standards:

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 amends Accounting Standards Codification Topic 740, Income Taxes, to provide guidance and reduce diversity in practice on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Effective January 1, 2014, the Company adopted ASU 2013-11. Except for the new disclosure requirements, the adoption of the standard did not have an impact on the consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). ASU 2014-08 amends the requirements for reporting and disclosing discontinued operations. Under ASU 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the entity’s operations and financial results. Effective January 1, 2015, the Company adopted ASU 2014-08. The adoption of the standard did not have an impact on the consolidated financial statements.

(b) Accounting Standards Not Yet Adopted:

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of ASU 2014-09 is that an entity recognizes 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. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017 and early adoption permitted. Insurance contracts are not within the scope of ASU 2014-09, therefore this standard would not apply to the Company's Insurance Underwriting segment. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

In January 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"). The amendments in ASU 2015-02 affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities while also eliminating the presumption that a general partner should consolidate a limited partnership. ASU 2015-02 is effective for fiscal years beginning after December 15, 2015 and interim periods within those years with early adoption being permissible. The Company is currently evaluating the impact of the adoption of ASU 2015-02 on its consolidated financial statements.

In May 2015, the FASB issued ASU 2015-09, Financial Services - Insurance ("ASU 2015-09"). ASU 2015-09 was issued to enhance disclosures about an entity’s insurance liabilities, including the nature, amount, timing and uncertainty of cash flows related to those liabilities. ASU 2015-09 is effective for annual reporting periods beginning after December 15, 2015 and for interim periods beginning after December 15, 2016. Early adoption is permitted. Except for the increased disclosure requirements, the Company does not believe the adoption will have a material effect on its consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited) September 30, 2015

NOTE 5 DISPOSITION, DECONSOLIDATION AND DISCONTINUED OPERATIONS

(a) Disposition

Effective March 31, 2014, the Company's wholly owned subsidiary, 1347 Property Insurance Holdings, Inc. ("PIH"), formerly known as Maison Insurance Holdings, Inc., completed an initial public offering of its common stock. Total consideration to the Company as a result of this transaction was $7.7 million, consisting of a 28.7% interest in the common shares of PIH. As a result of the disposal, the Company recognized a loss of $1.2 million during the first quarter of 2014. The earnings of PIH are included in the unaudited consolidated statements of operations through the March 31, 2014 transaction date. At March 31, 2014, the Company's investment in the common stock of PIH was reported as investment in investee in the consolidated balance sheets.

During the second quarter of 2014, PIH announced the closing and settlement of an underwritten public offering of 2,875,000 shares of its common stock at a price to the public of $8.00 per share. As a result of the issuance of additional shares of common stock, the Company's approximate voting percentage in PIH was reduced to 15.7% at June 30, 2014. As a result of this change in ownership and other qualitative factors, the Company determined that its investment in the common stock of PIH no longer qualified for the equity method of accounting. During the fourth quarter of 2014, the Company purchased additional shares of PIH which increased the Company's approximate voting percentage in PIH to 16.9% at December 31, 2014. The Company's investment in PIH common stock is included in equity investments and reported at its estimated fair value of $7.8 million in the consolidated balance sheet at September 30, 2015.

(b) Deconsolidation

On July 14, 2005, Kingsway Linked Return of Capital Trust ("KLROC Trust") completed its public offering of C$78.0 million million through the issuance of 3,120,000 LROC 5% preferred units due June 30, 2015 (“LROC preferred units”), of which the Company was a promoter. KLROC Trust’s net proceeds of the public offering was C$74.1 million.

Beginning in 2009, the Company began purchasing LROC preferred units. During 2009, the Company acquired 833,715 LROC preferred units. During the second quarter of 2010, the Company commenced the take-over bid (the “KLROC Offer”) to acquire up to 1,500,000 units at a price per unit of C$20.00 in cash. The KLROC Offer expired on July 23, 2010, and 1,525,150 units were tendered, of which 1,500,000 were purchased on a pro-rata basis. The tender was paid for using available cash.

As a result of these acquisitions, the Company beneficially owned and controlled 2,333,715 units, representing 74.8% of the issued and outstanding LROC preferred units and began consolidating the financial statements of KLROC Trust effective July 23, 2010. In the consolidated financial statements, the par value of the units owned was netted against the liability related to the LROC preferred units due June 30, 2015. At December 31, 2014, the Company's outstanding net obligation was C$15.8 million.

During the second quarter of 2015, the Company's controlling interest in KLROC Trust was reduced to zero upon the Company's repayment of its C$15.8 million outstanding on its LROC preferred units due June 30, 2015. As a result, the Company recorded a non-cash loss on deconsolidation of KLROC Trust of $4.4 million for the nine months ended September 30, 2015. This reported loss results from removing the net assets and accumulated other comprehensive loss of KLROC Trust from the Company’s consolidated balance sheets. The deconsolidation reduced consolidated shareholders’ equity by $2.8 million at June 30, 2015.

(c) Discontinued Operations

On April 1, 2015, the Company closed on the sale of its subsidiary, Assigned Risk Solutions Ltd. ("ARS") for $47.0 million in cash. During the second quarter of 2015, the Company received additional post-closing cash consideration of $2.0 million. The terms of the sale also provide for potential future earnout payments to the Company equal to 1.25% of ARS' written premium and fee income during the earnout periods. The earnout payments are payable in three annual installments beginning in April 2016 through April 2018. As a result of the sale, ARS, previously disclosed as part of the Insurance Services segment, has been classified as a discontinued operation. The earnings of ARS are disclosed as discontinued operations in the consolidated statements of operations for all periods presented. Summary financial information included in income from discontinued operations, net of taxes for the three and nine months ended September 30, 2015 and 2014 is presented below:

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited) September 30, 2015

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Service fee and commission income | $— | $7,153 | $8,342 | $23,712 |
| Other income (expense) | — | 3 | (20) | 24 |
| Total revenues | — | 7,156 | 8,322 | 23,736 |
| Expenses: | | | | |
| General and administrative expenses | — | 6,309 | 6,462 | 19,435 |
| Income from discontinued operations before income tax expense | — | 847 | 1,860 | 4,301 |
| Income tax expense | — | 315 | 434 | 882 |
| Income from discontinued operations, net of taxes | — | 532 | 1,426 | 3,419 |
| Gain on disposal of discontinued operations before income tax benefit | — | — | 11,010 | — |
| Income tax benefit | — | — | (249) | — |
| Gain on disposal of discontinued operations, net of taxes | — | — | 11,259 | — |
| Total gain from discontinued operations, net of taxes | $— | $532 | $12,685 | $3,419 |

At December 31, 2014, the assets and liabilities of ARS are presented as held for sale in the consolidated balance sheets. The carrying amounts of the major classes of assets and liabilities of ARS at December 31, 2014 were as follows:

| (in thousands) | December 31, 2014 |
|---|---|
| Assets | |
| Cash and cash equivalents | $2,792 |
| Service fee receivable | 19,006 |
| Other receivables | 257 |
| Income taxes recoverable | 150 |
| Property and equipment, net of accumulated depreciation | 193 |
| Goodwill | 510 |
| Intangible assets, net of accumulated amortization | 31,318 |
| Other assets | 327 |
| Assets held for sale | $54,553 |
| Liabilities | |
| Deferred income tax liability | $2,550 |
| Deferred service fees | 14,358 |
| Accrued expenses and other liabilities | 4,745 |
| Liabilities held for sale | $21,653 |

For the nine months ended September 30, 2015 and September 30, 2014, ARS' net cash provided by operating activities was $0.0 million and $0.5 million, respectively. ARS had no cash flows from investing activities for the nine months ended September 30, 2015 and September 30, 2014.

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited) September 30, 2015

NOTE 6 INVESTMENTS

The amortized cost, gross unrealized gains and losses, and estimated fair value of the Company's investments in fixed maturities and equity investments at September 30, 2015 and December 31, 2014 are summarized in the tables shown below:

| (in thousands) | September 30, 2015 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Fixed maturities: | | | | |
| U.S. government, government agencies and authorities | $20,490 | $203 | $— | $20,693 |
| States, municipalities and political subdivisions | 2,917 | 37 | — | 2,954 |
| Mortgage-backed | 8,583 | 85 | 11 | 8,657 |
| Asset-backed securities and collateralized mortgage obligations | 7,599 | 20 | 2 | 7,617 |
| Corporate | 19,777 | 78 | 12 | 19,843 |
| Total fixed maturities | 59,366 | 423 | 25 | 59,764 |
| Equity investments: | | | | |
| Common stock | 23,460 | 3,042 | 2,330 | 24,172 |
| Warrants | 1,206 | 99 | 181 | 1,124 |
| Total equity investments | 24,666 | 3,141 | 2,511 | 25,296 |
| Total fixed maturities and equity investments | $84,032 | $3,564 | $2,536 | $85,060 |

| (in thousands) | December 31, 2014 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Fixed maturities: | | | | |
| U.S. government, government agencies and authorities | $20,436 | $333 | $10 | $20,759 |
| Canadian government | 4,519 | — | 277 | 4,242 |
| States, municipalities and political subdivisions | 3,358 | 61 | — | 3,419 |
| Mortgage-backed | 5,330 | 37 | 15 | 5,352 |
| Asset-backed securities and collateralized mortgage obligations | 7,221 | 3 | 10 | 7,214 |
| Corporate | 15,136 | 103 | 30 | 15,209 |
| Total fixed maturities | 56,000 | 537 | 342 | 56,195 |
| Equity investments: | | | | |
| Common stock | 16,450 | 3,360 | 284 | 19,526 |
| Warrants | 129 | — | 37 | 92 |
| Total equity investments | 16,579 | 3,360 | 321 | 19,618 |
| Total fixed maturities and equity investments | $72,579 | $3,897 | $663 | $75,813 |

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The table below summarizes the Company's fixed maturities at September 30, 2015 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 these obligations.

| (in thousands) | September 30, 2015 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| Due in one year or less | $10,642 | $10,803 |
| Due after one year through five years | 37,897 | 38,047 |
| Due after five years through ten years | 2,151 | 2,165 |
| Due after ten years | 8,676 | 8,749 |
| Total | $59,366 | $59,764 |

The following tables highlight the aggregate unrealized loss position, by security type, of fixed maturities and equity investments in unrealized loss positions as of September 30, 2015 and December 31, 2014. The tables segregate the holdings based on the period of time the investments have been continuously held in unrealized loss positions.

| (in thousands) | | | | | September 30, 2015 | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | Greater than 12 Months | | Total | |
| | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss |
| Fixed maturities: | | | | | | |
| U.S. government, government agencies and authorities | $500 | $— | $— | $— | $500 | $— |
| Mortgage-backed | 2,597 | 11 | — | — | 2,597 | 11 |
| Asset-backed securities and collateralized mortgage obligations | 2,571 | 2 | — | — | 2,571 | 2 |
| Corporate | 4,512 | 12 | — | — | 4,512 | 12 |
| Total fixed maturities | 10,180 | 25 | — | — | 10,180 | 25 |
| Equity investments: | | | | | | |
| Common stock | 15,898 | 2,330 | — | — | 15,898 | 2,330 |
| Warrants | 904 | 181 | — | — | 904 | 181 |
| Total equity investments | 16,802 | 2,511 | — | — | 16,802 | 2,511 |
| Total | $26,982 | $2,536 | $— | $— | $26,982 | $2,536 |

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| (in thousands) | | | | | December 31, 2014 | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | Greater than 12 Months | | Total | |
| | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss |
| Fixed maturities: | | | | | | |
| U.S. government, government agencies and authorities | $12,784 | $10 | $473 | $— | $13,257 | $10 |
| Canadian government | — | — | 4,242 | 277 | 4,242 | 277 |
| States, municipalities and political subdivisions | 250 | — | — | — | 250 | — |
| Mortgage-backed | 2,816 | 15 | — | — | 2,816 | 15 |
| Asset-backed securities and collateralized mortgage obligations | 5,097 | 10 | — | — | 5,097 | 10 |
| Corporate | 6,226 | 20 | — | 10 | 6,226 | 30 |
| Total fixed maturities | 27,173 | 55 | 4,715 | 287 | 31,888 | 342 |
| Equity investments: | | | | | | |
| Common stock | 4,164 | 284 | — | — | 4,164 | 284 |
| Warrants | 92 | 37 | — | — | 92 | 37 |
| Total equity investments | 4,256 | 321 | — | — | 4,256 | 321 |
| Total | $31,429 | $376 | $4,715 | $287 | $36,144 | $663 |

Fixed maturities and equity investments contain approximately 58 and 71 individual investments that were in unrealized loss positions as of September 30, 2015 and December 31, 2014, respectively.

The establishment of an other-than-temporary impairment on an investment requires a number of judgments and estimates. The Company performs a quarterly analysis of the individual investments to determine if declines in market value are other-than-temporary. The analysis includes some or all of the following procedures as deemed appropriate by the Company:

- identifying all unrealized loss positions that have existed for at least six months;
- identifying other circumstances which management believes may impact the recoverability of the unrealized loss positions;
- obtaining a valuation analysis from third-party investment managers regarding the intrinsic value of these investments based on their knowledge and experience together with market-based valuation techniques;
- reviewing the trading range of certain investments over the preceding calendar period;
- assessing if declines in market value are other-than-temporary for debt instruments based on the investment grade credit ratings from third-party rating agencies;
- assessing if declines in market value are other-than-temporary for any debt instrument with a non-investment grade credit rating based on the continuity of its debt service record;
- determining the necessary provision for declines in market value that are considered other-than-temporary based on the analyses performed; and
- assessing the Company's ability and intent to hold these investments at least until the investment impairment is recovered.

The risks and uncertainties inherent in the assessment methodology used to determine declines in market value that are other-than-temporary include, but may not be limited to, the following:

- the opinions of professional investment managers could be incorrect;
- the past trading patterns of individual investments may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- 

the debt service pattern of non-investment grade instruments may not reflect future debt service capabilities and may not reflect a company's unknown underlying financial problems.

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As a result of the analysis performed by the Company to determine declines in market value that are other-than-temporary, there were no write-downs for other-than-temporary impairments recorded for the three months ended September 30, 2015 and September 30, 2014, respectively, and for the nine months ended September 30, 2014. For the nine months ended September 30, 2015, the Company recorded a write-down of $0.0 million for other-than-temporary impairment related to fixed maturities.

There were $0.0 million of other-than-temporary losses recognized in other comprehensive loss for the nine months ended September 30, 2015. There were no other-than-temporary losses recognized in other comprehensive loss for the three months ended September 30, 2015 and September 30, 2014, respectively, or for the nine months ended September 30, 2014.

The Company has reviewed currently available information regarding investments with estimated fair values that are less than their carrying amounts and believes that these unrealized losses are not other-than-temporary and are primarily due to temporary market and sector-related factors rather than to issuer-specific factors. The Company does not intend to sell those investments, and it is not likely that it will be required to sell those investments before recovery of its amortized cost.

The Company does not have any exposure to subprime mortgage-backed investments.

Limited liability investments include investments in limited liability companies and limited partnerships that primarily invest in income-producing real estate or real estate related investments. The Company's interests in these investments are not deemed minor and, therefore, are accounted for under the equity method of accounting. As of September 30, 2015 and December 31, 2014, the carrying value of limited liability investments totaled $15.4 million and $7.3 million, respectively. At September 30, 2015, the Company has unfunded commitments totaling $2.4 million to fund limited liability investments. Income from limited liability investments is recognized based on the Company's share of the earnings of the limited liability entities and is included in net investment income.

Other investments include mortgage and collateral loans and are reported at their unpaid principal balance. As of September 30, 2015 and December 31, 2014, the carrying value of other investments totaled $4.1 million and $3.6 million, respectively.

Gross realized gains and losses on fixed maturities, equity investments and limited liability investments for the three and nine months ended September 30, 2015 and September 30, 2014 were as follows:

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Gross realized gains | $84 | $330 | $137 | $5,469 |
| Gross realized losses | (1) | (1) | (1) | (10) |
| Net realized gains | $83 | $329 | $136 | $5,459 |

Net investment income for the three and nine months ended September 30, 2015 and September 30, 2014, respectively, is comprised as follows:

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Investment income | | | | |
| Interest from fixed maturities | $255 | $284 | $648 | $827 |
| Dividends | 169 | 67 | 517 | 153 |
| Income from limited liability investments | 595 | 176 | 1,590 | 201 |
| Loss on change in fair value of warrants | (222) | — | (57) | — |
| Other | 40 | 29 | 106 | 257 |
| Gross investment income | 837 | 556 | 2,804 | 1,438 |
| Investment expenses | (46) | (14) | (172) | (142) |
| Net investment income | $791 | $542 | $2,632 | $1,296 |

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At September 30, 2015, fixed maturities and short-term investments with an estimated fair value of $13.0 million were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges investments to third-parties to collateralize liabilities incurred under its policies of insurance. At September 30, 2015, the amount of such pledged securities was $17.0 million.

NOTE 7 INVESTMENT IN INVESTEE

Investment in investee includes the Company's investment in the common stock and private units of 1347 Capital Corp. and is accounted for under the equity method. 1347 Capital Corp. was formed for the purpose of entering into a merger, share exchange, asset acquisition or other similar business combination with one or more businesses or entities. The carrying value, estimated fair value and approximate equity percentage for the Company's investment in 1347 Capital Corp. at September 30, 2015 and December 31, 2014 were as follows:

(in thousands, except for percentages)

| | September 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Equity Percentage | Estimated Fair Value | Carrying Value | Equity Percentage | Estimated Fair Value | Carrying value |
| 1347 Capital Corp. | 21.0 % | $12,353 | $1,712 | 22.7 % | $13,038 | $2,115 |

Equity in net loss of investee was $0.2 million and $0.1 million for the three months ended September 30, 2015 and September 30, 2014, respectively ($0.4 million and $0.1 million for the nine months ended September 30, 2015 and September 30, 2014, respectively).

NOTE 8 DEFERRED ACQUISITION COSTS

Policy acquisition costs consist primarily of commissions, premium taxes, and underwriting and agency expenses, net of ceding commission income, incurred related to successful efforts to acquire new or renewal insurance contracts and vehicle service agreements. Acquisition costs deferred on both property and casualty insurance products and vehicle service agreements are amortized over the period in which the related revenues are earned.

The components of deferred acquisition costs and the related amortization expense for the three and nine months ended September 30, 2015 and 2014, respectively, are comprised as follows:

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Beginning balance, net | $12,617 | $12,625 | $12,197 | $12,392 |
| Additions | 5,843 | 6,632 | 19,561 | 20,733 |
| Amortization | (5,919) | (6,794) | (19,217) | (19,619) |
| Acquisition costs disposed of during the year related to PIH | — | — | — | (1,043) |
| Balance at September 30, net | $12,541 | $12,463 | $12,541 | $12,463 |

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KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited) September 30, 2015

NOTE 9 INTANGIBLE ASSETS
Intangible assets are comprised as follows:

| (in thousands) | September 30, 2015 | | |
|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Intangible assets subject to amortization | | | |
| Database | $4,918 | $1,414 | $3,504 |
| Vehicle service agreements in-force | 3,680 | 3,265 | 415 |
| Customer-related relationships | 3,611 | 958 | 2,653 |
| Non-compete agreement | 70 | 65 | 5 |
| Intangible assets not subject to amortization | | | |
| Insurance licenses | 7,803 | — | 7,803 |
| Trade name | 663 | — | 663 |
| Total | $20,745 | $5,702 | $15,043 |

| (in thousands) | December 31, 2014 | | |
|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Intangible assets subject to amortization | | | |
| Database | $4,918 | $1,045 | $3,873 |
| Vehicle service agreements in-force | 3,680 | 2,975 | 705 |
| Customer-related relationships | 3,611 | 695 | 2,916 |
| Non-compete agreement | 70 | 50 | 20 |
| Intangible assets not subject to amortization | | | |
| Insurance licenses | 7,803 | — | 7,803 |
| Trade name | 663 | — | 663 |
| Total | $20,745 | $4,765 | $15,980 |

The Company's intangible assets with definite useful lives are amortized either based on the pattern in which the economic benefits of the intangible asset are expected to be consumed or using the straight-line method over their estimated useful lives, which range from three to fifteen years. Amortization of intangible assets was $0.3 million and $0.4 million for the three months ended September 30, 2015 and September 30, 2014, respectively ($0.9 million and $1.2 million for the nine months ended September 30, 2015 and September 30, 2014, respectively). The insurance licenses and trade name intangible assets have indefinite useful lives and are not amortized.

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NOTE 10 UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES

The establishment of the provision for unpaid loss and loss adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving loss payment patterns, pending levels of unpaid loss and loss adjustment expenses, product mix or concentration, loss severity and loss frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment; actuarial studies; professional experience and expertise of the Company's claims departments' personnel and independent adjusters retained to handle individual claims; the quality of the data used for projection purposes; existing claims management practices including claims-handling and settlement practices; the effect of inflationary trends on future loss settlement costs; court decisions; economic conditions; and public attitudes.

Consequently, the process of determining the provision necessarily involves risks that the actual results will deviate, perhaps materially, from the best estimates made.

The Company's evaluation of the adequacy of unpaid loss and loss adjustment expenses includes a re-estimation of the liability for unpaid loss and loss adjustment expenses relating to each preceding financial year compared to the liability that was previously established.

(a) Property and Casualty

The results of this comparison and the changes in the provision for property and casualty unpaid loss and loss adjustment expenses, net of amounts recoverable from reinsurers, as of September 30, 2015 and September 30, 2014 were as follows:

| (in thousands) | September 30, 2015 | September 30, 2014 |
|---|---|---|
| Balance at beginning of period, gross | $63,895 | $84,534 |
| Less reinsurance recoverable related to property and casualty unpaid loss and loss adjustment expenses | 3,203 | 7,942 |
| Balance at beginning of period, net | 60,692 | 76,592 |
| Incurred related to: | | |
| Current year | 64,893 | 61,177 |
| Prior years | (299) | (1,151) |
| Paid related to: | | |
| Current year | (37,378) | (35,172) |
| Prior years | (33,993) | (36,219) |
| Disposal of unpaid loss and loss adjustment expenses related to PIH | — | (405) |
| Balance at end of period, net | 53,915 | 64,822 |
| Plus reinsurance recoverable related to property and casualty unpaid loss and loss adjustment expenses | 1,523 | 3,334 |
| Balance at end of period, gross | $55,438 | $68,156 |

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(b) Vehicle Service Agreements
The results of the comparison and the changes in the provision for vehicle service agreement unpaid loss and loss adjustment expenses as of September 30, 2015 and September 30, 2014 were as follows:

| (in thousands) | September 30, 2015 | September 30, 2014 |
|---|---|---|
| Balance at beginning of period | $2,975 | $3,128 |
| Incurred related to: | | |
| Current year | 4,460 | 5,190 |
| Prior years | — | — |
| Paid related to: | | |
| Current year | (4,350) | (5,282) |
| Prior years | (110) | (61) |
| Balance at end of period | $2,975 | $2,975 |

NOTE 11 DEBT
Debt consists of the following instruments:

| (in thousands) | September 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| | Principal | Fair Value | Principal | Fair Value |
| LROC preferred units due 2015 | $— | $— | $13,618 | $13,618 |
| Subordinated debt | 90,500 | 39,865 | 90,500 | 40,659 |
| Total | $90,500 | $39,865 | $104,118 | $54,277 |

Subordinated debt mentioned above consists of the following trust preferred debt instruments:

| Issuer | Principal | Issue date | Interest | Redemption date |
|---|---|---|---|---|
| Kingsway CT Statutory Trust I | $15,000 | 12/4/2002 | annual interest rate equal to LIBOR, plus 4.00% payable quarterly | 12/4/2032 |
| Kingsway CT Statutory Trust II | $17,500 | 5/15/2003 | annual interest rate equal to LIBOR, plus 4.10% payable quarterly | 5/15/2033 |
| Kingsway CT Statutory Trust III | $20,000 | 10/29/2003 | annual interest rate equal to LIBOR, plus 3.95% payable quarterly | 10/29/2033 |
| Kingsway DE Statutory Trust III | $15,000 | 5/22/2003 | annual interest rate equal to LIBOR, plus 4.20% payable quarterly | 5/22/2033 |
| Kingsway DE Statutory Trust IV | $10,000 | 9/30/2003 | annual interest rate equal to LIBOR, plus 3.85% payable quarterly | 9/30/2033 |
| Kingsway DE Statutory Trust VI | $13,000 | 1/8/2004 | annual interest rate equal to LIBOR, plus 4.00% payable quarterly | 1/8/2034 |

During the first quarter of 2011, the Company gave notice to its Trust Preferred trustees of its intention to exercise its voluntary right to defer interest payments for up to 20 quarters, pursuant to the contractual terms of its outstanding Trust Preferred indentures, which permit interest deferral. This action does not constitute a default under the Company's Trust Preferred indentures or any of its other debt indentures. At September 30, 2015 and December 31, 2014, deferred interest payable of $21.1 million and $17.4 million, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheets. On November 6, 2015, the Company paid $22.1 million to its Trust Preferred trustees to be used by the trustees to pay the interest which the Company has been deferring since the first quarter of 2011.
During the second quarter of 2015, the Company repaid its C$15.8 million outstanding on its LROC preferred units due June 30, 2015.

During the first quarter of 2014, the Company repaid the $14.4 million remaining amount outstanding on its senior unsecured debentures due February 1, 2014. No debt repurchases were made during the three and nine months ended September 30, 2015 and September 30, 2014.

NOTE 12 FINANCE LEASE OBLIGATION LIABILITY
On October 2, 2014, the Company completed a sale and leaseback transaction involving building and land located in Miami, Florida, which was previously recorded as asset held for sale. The transaction did not qualify for sales recognition and was accounted for as a financing due to the Company's continuing involvement with the property as a result of nonrecourse financing provided to the buyer in the form of prepaid rent. A finance lease obligation liability equal to the selling price of the property was established at the date of the transaction. During the five-year lease term, the Company will record interest expense on the finance lease obligation at its incremental borrowing rate and will increase the finance lease obligation liability by the same amount. At the end of the lease term, the Company will no longer have continuing involvement with the property and will then recognize the sale of the property as well as the gain that will result from removing the net book value of the land and building and finance lease obligation liability from the consolidated balance sheets. At September 30, 2015 and December 31, 2014, finance lease obligation liability of $4.9 million and $4.7 million, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheets.

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NOTE 13 INCOME TAXES

Income tax expense (benefit) for the three and nine months ended September 30, 2015 and September 30, 2014, respectively, varies from the amount that would result by applying the applicable United States corporate income tax rate of 34% to loss from continuing operations before income tax expense (benefit). The following table summarizes the differences:

| (in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Income tax benefit at United States statutory income tax rate | $(296) | $(2,244) | $(3,139) | $(5,768) |
| Valuation allowance | 128 | 2,387 | 661 | 6,005 |
| Deconsolidation of subsidiary | (7) | — | 2,384 | — |
| Change in unrecognized tax benefits | — | — | — | (1,024) |
| Non-taxable dividend income | — | (414) | (415) | (1,244) |
| Foreign operations subject to different tax rates | 31 | 127 | 186 | 399 |
| State income tax (net of federal tax benefit) | — | 4 | 8 | 215 |
| Disposition of subsidiary | — | — | — | 422 |
| Prior year tax | — | — | — | (341) |
| Other | 167 | 168 | 394 | 365 |
| Income tax expense (benefit) | $23 | $28 | $79 | $(971) |

The Company maintains a valuation allowance for its gross deferred tax assets at September 30, 2015 and December 31, 2014. The Company's operations have generated substantial operating losses during the last several years. These losses can be available to reduce income taxes that might otherwise be incurred on future taxable income. The Company's operations, however, remain challenged and, as a result, it is uncertain whether the Company will generate the taxable income necessary to utilize these losses or other reversing temporary differences. This uncertainty has caused management to place a full valuation allowance on its September 30, 2015 and December 31, 2014 net deferred tax asset. The Company carries a deferred income tax liability of $2.9 million and $2.8 million at September 30, 2015 and December 31, 2014, respectively, all of which relates to indefinite life intangible assets.

As of September 30, 2015, the Company had no unrecognized tax benefits. The Company analyzed its tax positions in accordance with the provisions of ASC Topic 740, Income Taxes, and has determined that there are currently no uncertain tax positions. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

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NOTE 14 LOSS FROM CONTINUING OPERATIONS PER SHARE

The following table sets forth the reconciliation of numerators and denominators for the basic and diluted loss from continuing operations per share computation for the three and nine months ended September 30, 2015 and September 30, 2014:

| (in thousands, except per share data) | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Numerator: | | | | |
| Loss from continuing operations | $(894) | $(6,627) | $(9,312) | $(15,994) |
| Plus (less): net loss (income) attributable to noncontrolling interests | 86 | (778) | | |