KINGSWAY FINANCIAL SERVICES INC
Form 10-Q
August 04, 2016
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 June 30, 2016
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 (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 x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

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 August 4, 2016 was 19,842,806.

KINGSWAY
FINANCIAL
SERVICES
INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
Consolidated Balance Sheets
(in thousands, except per share data)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of $62,397 and $55,606, respectively)	$ 63,003	$ 55,559
Equity investments, at fair value (cost of $21,121 and $26,428, respectively)	21,508	27,559
Limited liability investments	21,768	20,141
Other investments, at cost which approximates fair value	5,435	4,077
Short-term investments, at cost which approximates fair value	670	400
Total investments	112,384	107,736
Cash and cash equivalents	39,887	51,701
Investments in investees	4,018	1,772
Accrued investment income	496	594
Premiums receivable, net of allowance for doubtful accounts of $135 and $165, respectively	31,915	27,090
Service fee receivable, net of allowance for doubtful accounts of $288 and $276, respectively	950	911
Other receivables, net of allowance for doubtful accounts of $806 and $806, respectively	3,107	3,789
Reinsurance recoverable	959	1,422
Prepaid reinsurance premiums	91	7
Deferred acquisition costs, net	13,824	12,143
Income taxes recoverable	66	61
Property and equipment, net of accumulated depreciation of $12,632 and $12,537, respectively	5,373	5,577
Goodwill	10,078	10,078
Intangible assets, net of accumulated amortization of $6,541 and $6,009, respectively	14,865	14,736
Other assets	3,124	3,405
Total Assets	$ 241,137	$ 241,022
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid loss and loss adjustment expenses:		
Property and casualty	$ 52,195	$ 55,471
Vehicle service agreements	2,975	2,975
Total unpaid loss and loss adjustment expenses	55,170	58,446
Unearned premiums	41,122	35,234
Reinsurance payable	284	145
Subordinated debt, at fair value	36,302	39,898
Deferred income tax liability	2,968	2,924

Deferred service fees	35,999	34,319
Accrued expenses and other liabilities	20,456	19,959
Total Liabilities	192,301	190,925
Class A preferred stock, no par value; unlimited number authorized; 262,876 and 262,876 issued and outstanding at June 30, 2016 and December 31, 2015, respectively; redemption amount of $6,572	6,411	6,394
Shareholders' Equity:		
Common stock, no par value; unlimited number authorized; 19,842,806 and 19,709,706 issued and outstanding at June 30, 2016 and December 31, 2015, respectively	—	—
Additional paid-in capital	342,864	341,646
Accumulated deficit	(311,292)	(308,995)
Accumulated other comprehensive income	9,500	9,300
Shareholders' equity attributable to common shareholders	41,072	41,951
Noncontrolling interests in consolidated subsidiaries	1,353	1,752
Total Shareholders' Equity	42,425	43,703
Total Liabilities and Shareholders' Equity	$ 241,137	$ 241,022

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 June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues:				
Net premiums earned	$31,813	$30,200	$61,240	$59,230
Service fee and commission income	5,394	5,848	10,716	11,246
Net investment income	1,072	528	1,000	1,841
Net realized gains (losses)	67	53	(104)	53
Other-than-temporary impairment loss	—	—	—	(10)
Other income	2,791	2,514	5,165	10,871
Total revenues	41,137	39,143	78,017	83,231
Operating expenses:				
Loss and loss adjustment expenses	24,838	24,187	48,335	46,140
Commissions and premium taxes	6,103	5,799	11,701	11,546
Cost of services sold	770	1,058	1,543	1,721
General and administrative expenses	10,826	10,175	20,377	21,751
Amortization of intangible assets	307	313	602	630
Contingent consideration (benefit) expense	(657)	110	(657)	254
Total operating expenses	42,187	41,642	81,901	82,042
Operating (loss) income	(1,050)	(2,499)	(3,884)	1,189
Other expenses (revenues), net:				
Interest expense	1,108	1,414	2,201	2,805
Foreign exchange losses, net	9	760	10	1,152
(Gain) loss on change in fair value of debt	(1,068)	1,228	(3,596)	967
Loss on deconsolidation of subsidiary	—	4,420	—	4,420
Equity in net loss of investee	874	71	943	207
Total other expenses (revenues), net	923	7,893	(442)	9,551
Loss from continuing operations before income tax expense	(1,973)	(10,392)	(3,442)	(8,362)
Income tax expense	26	34	52	56
Loss from continuing operations	(1,999)	(10,426)	(3,494)	(8,418)
Income from discontinued operations, net of taxes	—	—	—	1,426
Gain on disposal of discontinued operations, net of taxes	1,124	11,259	1,124	11,259
Net (loss) income	(875)	833	(2,370)	4,267
Less: net (loss) income attributable to noncontrolling interests in consolidated subsidiaries	(361)	(1,064)	(400)	160
Less: dividends on preferred stock	82	82	164	163
Net (loss) income attributable to common shareholders	$(596)	$1,815	$(2,134)	$3,944
Loss per share - continuing operations:				
Basic:	$(0.09)	$(0.48)	$(0.16)	$(0.44)
Diluted:	$(0.09)	$(0.48)	$(0.16)	$(0.44)
Earnings per share - discontinued operations:				
Basic:	$0.06	$0.57	$0.06	$0.64
Diluted:	$0.06	$0.57	$0.06	$0.64

(Loss) earnings per share – net (loss) income attributable to common shareholders:				
Basic:	$(0.03)	$0.09	$(0.11)	$0.20
Diluted:	$(0.03)	$0.09	$(0.11)	$0.20
Weighted average shares outstanding (in ‘000s):				
Basic:	19,818	19,710	19,764	19,710
Diluted:	19,818	19,710	19,764	19,710

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

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

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net (loss) income	$(875)	$833	$(2,370)	$4,267
Other comprehensive income, net of taxes[1]:				
Unrealized gains (losses) on fixed maturities and equity investments:				
Unrealized gains (losses) arising during the period	430	(1,068)	705	(1,268)
Reclassification adjustment for amounts included in net (loss) income	(73)	1,451	(505)	1,464
Foreign currency translation adjustments	—	719	—	693
Recognition of currency translation loss on deconsolidation of subsidiary	—	1,243	—	1,243
Other comprehensive income	357	2,345	200	2,132
Comprehensive (loss) income	(518)	3,178	(2,170)	6,399
Less: comprehensive loss attributable to noncontrolling interests in consolidated subsidiaries	(360)	(1,237)	(399)	(310)
Comprehensive (loss) income attributable to common shareholders	$(158)	$4,415	$(1,771)	$6,709

(1) Net of income tax expense of $0 and $0 for the three and six months ended June 30, 2016 and June 30, 2015, respectively.

See accompanying notes to unaudited consolidated financial statements

KINGSWAY FINANCIAL SERVICES INC.

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

	Six months ended June 30, 2016	2015
Cash provided by (used in):		
Operating activities:		
Net (loss) income	$(2,370)	$4,267
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Gain on disposal of discontinued operations, net of taxes	(1,124)	(11,259)
Equity in net loss of investee	943	207
Equity in net income of limited liability investments	(310)	(995)
Depreciation and amortization expense	697	954
Contingent consideration (benefit) expense	(657)	254
Stock-based compensation expense, net of forfeitures	474	405
Net realized losses (gains)	104	(53)
(Gain) loss on change in fair value of debt	(3,596)	967
Deferred income taxes	44	43
Other-than-temporary impairment loss	—	10
Amortization of fixed maturities premiums and discounts	133	164
Loss on deconsolidation of subsidiary	—	4,420
Changes in operating assets and liabilities:		
Premiums and service fee receivable, net	(4,864)	(1,058)
Other receivables, net	682	(1,707)
Reinsurance recoverable	463	2,147
Prepaid reinsurance premiums	(84)	(83)
Deferred acquisition costs, net	(1,681)	(420)
Income taxes recoverable	(5)	17
Unpaid loss and loss adjustment expenses	(3,276)	(5,676)
Unearned premiums	5,888	1,416
Reinsurance payable	139	32
Deferred service fees	1,680	(400)
Other, net	1,408	(1,235)
Net cash used in operating activities	(5,312)	(7,583)
Investing activities:		
Proceeds from sales and maturities of fixed maturities	13,349	18,861
Proceeds from sales of equity investments	3,721	307
Purchases of fixed maturities	(19,781)	(19,727)
Purchases of equity investments	(1,541)	(4,281)
Net acquisitions of limited liability investments	(1,017)	(4,495)
Net purchases of other investments	(1,357)	—
Net (purchases of) proceeds from short-term investments	(533)	4
Net proceeds from sale of discontinued operations	1,404	44,919
Net purchases of property and equipment and intangible assets	(622)	(144)
Net cash (used in) provided by investing activities	(6,377)	35,444

Financing activities:		
Repurchase of common stock for cancellation	(125)	—
Redemption of LROC preferred units	—	(12,920)
Net cash used in financing activities	(125)	(12,920)
Net (decrease) increase in cash and cash equivalents	(11,814)	14,941
Cash and cash equivalents at beginning of period	51,701	71,234
Cash and cash equivalents at end of period	$39,887	$86,175

See accompanying notes to unaudited consolidated financial statements.

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KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements
(Unaudited)
June 30, 2016

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 ("2015 Annual Report") for the year ended December 31, 2015.

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 and impairment assessment 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, 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 investments in investees 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 2015 Annual Report. The Company has added the following significant account policy, effective beginning with the second quarter of 2016.

Revenue recognition:

Contingent revenue

The terms of the sale of one of the Company's subsidiaries includes potential receipt by the Company of future earnout payments. The gain related to the earnout payments is recorded when the consideration is determined to be realizable and is reported in the statements of operations as gain on disposal of discontinued operations, net of taxes.

NOTE 4 RECENTLY ISSUED ACCOUNTING STANDARDS

(a) Adoption of New Accounting Standards:

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): 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. Effective January 1, 2016, the Company adopted ASU 2015-02. The adoption of the standard did not have an impact on the consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). ASU 2015-16 simplifies the accounting for measurement-period adjustments in a business combination by requiring the acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. The effects, by line item, if any, must be disclosed. Effective January 1, 2016, the Company adopted ASU 2015-16. The adoption of the standard did not have an impact on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"). ASU 2016-07 simplifies the transition to equity method accounting by requiring an equity method investor to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. ASU 2016-07 is effective for annual reporting periods beginning after December 15, 2016 and should be applied prospectively upon the effective date. Early adoption is permitted. Effective January 1, 2016, the Company adopted ASU 2016-07. The adoption of the standard did not have a material 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. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date ("ASU 2015-14"). This amendment defers the effective date of the previously issued ASU 2014-09 until the interim and annual reporting periods beginning after December 15, 2017.

Earlier application is permitted for interim and annual reporting periods beginning after December 15, 2016. 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 May 2015, the FASB issued ASU 2015-09, Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts ("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.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most significantly, ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of an investee) to be measured at fair value with changes in fair value recognized in net income (loss). For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and will be applied using a cumulative-effect adjustment to accumulated deficit as of the beginning of the fiscal year of adoption. The Company currently records its equity investments at fair value with net unrealized gains or losses reported in accumulated other comprehensive income. Adoption of ASU 2016-01 will require the changes in fair value on equity investments with readily determinable fair values to be recorded in net (loss) income. Adoption of ASU 2016-01 is not expected to have a material impact on the Company's financial position, cash flows, or total comprehensive (loss) income, but could have a significant impact on the Company's results of operations and (loss) earnings per share as changes in fair value will be presented in net (loss) income rather than other comprehensive (loss) income.

In February 2016, the FASB issued ASU 2016-02, Leases ("ASU 2016-02"). ASU 2016-02 was issued to improve the financial reporting of leasing transactions. Under current guidance for lessees, leases are only included on the balance sheet if certain criteria, classifying the agreement as a capital lease, are met. This update will require the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value, for all leases that extend beyond 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the statement of comprehensive income and the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the statement of cash flows. ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 was issued to simplify the accounting for share-based payment awards. The guidance requires that, prospectively, all tax effects related to share-based payments be made through the statement of operations at the time of settlement as opposed to excess tax benefits being recognized in additional paid-in-capital under the current guidance. ASU 2016-09 also removes the requirement to delay recognition of a tax benefit until it reduces current taxes payable. This change is required to be applied on a modified retrospective basis, with a cumulative-effect adjustment to opening accumulated deficit. Additionally, all tax related cash flows resulting from share-based payments are to be reported as operating activities on the statement of cash flows, a change from the current requirement to present tax benefits as an inflow from financing activities and an outflow from operating activities. ASU 2016-09 is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is permitted with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company does not believe the adoption of ASU 2016-09 will have a material impact on its consolidated financial statements.

NOTE 5 ACQUISITION, DECONSOLIDATION AND DISCONTINUED OPERATIONS

(a) Acquisition

Effective April 21, 2016, the Company issued 160,000 shares of its common stock to acquire Argo Management Group LLC ("Argo"). The Argo purchase price of $0.7 million was determined using the closing price of Kingsway common stock on the date the 160,000 shares were issued. The consolidated statements of operations include the earnings of Argo from the date of acquisition. No supplemental proforma revenue and earnings information related to the acquisition has been presented for the three and six months ended June 30, 2016, as the impact is immaterial.

Argo's primary business is to act as the Managing Member of Argo Holdings Fund I, LLC, an investment fund organized for purposes of making control-oriented equity investments in established lower middle market companies based in North America, with a focus on search fund investments.

This acquisition was accounted for as a business combination using the acquisition method of accounting. The purchase price was allocated to the assets purchased and liabilities assumed based upon their estimated fair values at the date of acquisition. During the second quarter of 2016, the Company completed its fair value analysis on the assets acquired and liabilities assumed. Separately identifiable intangible assets of $0.7 million were recognized resulting from the valuations of contract-based management fee and promote fee revenues. Refer to Note 9, "Intangible Assets," for further disclosure of the intangible assets related to this acquisition.

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements
(Unaudited)
June 30, 2016

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

(in thousands)

	April 21, 2016
Cash and cash equivalents	$ 5
Other receivables	17
Intangible assets - subject to amortization	731
Other assets	5
Total assets	$ 758
Accrued expenses and other liabilities	$ 14
Total liabilities	$ 14
Purchase price	$ 744

(b) Deconsolidation

On July 14, 2005, Kingsway Linked Return of Capital Trust ("KLROC Trust") completed its public offering of C$78.0 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. This reported loss results from removing the net assets and accumulated other comprehensive loss of KLROC Trust from the Company’s consolidated balance sheets.

(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 receipt by the Company of future earnout payments 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. During the second quarter of 2016, the Company received cash consideration of $1.4 million, representing the first annual installment earnout payment. Net of expenses, the Company recorded an additional gain on disposal of ARS of $1.1 million for the three and six months ended June 30, 2016. 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 unaudited consolidated statements of operations for all periods presented. Summary financial information included in income from discontinued operations, net of taxes for the three and six months ended June 30, 2016 and June 30, 2015 is presented below:

KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements
(Unaudited)
June 30, 2016

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues:				
Service fee and commission income	$—	$—	$—	$8,342
Other expense	—	—	—	(20)
Total revenues	—	—	—	8,322
Expenses:				
General and administrative expenses	—	—	—	6,462
Income from discontinued operations before income tax expense	—	—	—	1,860
Income tax expense	—	—	—	434
Income from discontinued operations, net of taxes	—	—	$—	$1,426
Gain on disposal of discontinued operations before income tax benefit	1,124	11,010	1,124	11,010
Income tax benefit	—	(249)	—	(249)
Gain on disposal of discontinued operations, net of taxes	1,124	11,259	1,124	11,259
Total gain from discontinued operations, net of taxes	$1,124	$11,259	$1,124	$12,685

For the six months ended June 30, 2016 and June 30, 2015, ARS' net cash used in operating activities was zero and $0.2 million, respectively. ARS had no cash flows from investing activities for the six months ended June 30, 2016 and June 30, 2015.

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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 June 30, 2016 and December 31, 2015 are summarized in the tables shown below:

(in thousands)	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities:				
U.S. government, government agencies and authorities	$27,501	$ 215	$ —	$ 27,716
States, municipalities and political subdivisions	3,892	23	—	3,915
Mortgage-backed	7,236	118	4	7,350
Asset-backed securities and collateralized mortgage obligations	4,595	23	2	4,616
Corporate	19,173	251	18	19,406
Total fixed maturities	62,397	630	24	63,003
Equity investments:				
Common stock	19,870	2,988	2,045	20,813
Warrants	1,251	18	574	695
Total equity investments	21,121	3,006	2,619	21,508
Total fixed maturities and equity investments	$83,518	$ 3,636	$ 2,643	$ 84,511

(in thousands)	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities:				
U.S. government, government agencies and authorities	$20,443	$ 73	$ 63	$ 20,453
States, municipalities and political subdivisions	2,241	20	5	2,256
Mortgage-backed	7,997	25	59	7,963
Asset-backed securities and collateralized mortgage obligations	6,040	4	21	6,023
Corporate	18,885	60	81	18,864
Total fixed maturities	55,606	182	229	55,559
Equity investments:				
Common stock	25,177	3,464	2,055	26,586
Warrants	1,251	52	330	973
Total equity investments	26,428	3,516	2,385	27,559

Total fixed maturities and equity investments	$82,034	$ 3,698	$ 2,614	$83,118

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

(in thousands)	June 30, 2016	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$8,686	$ 8,702
Due after one year through five years	42,813	43,258
Due after five years through ten years	3,378	3,418
Due after ten years	7,520	7,625
Total	$62,397	$ 63,003

The following tables highlight the aggregate unrealized loss position, by security type, of fixed maturities and equity investments in unrealized loss positions as of June 30, 2016 and December 31, 2015. The tables segregate the holdings based on the period of time the investments have been continuously held in unrealized loss positions.

(in thousands)					June 30, 2016	
	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	$701	$ —	$—	$ —	$701	$ —
States, municipalities and political subdivisions	160	—	—	—	160	—
Mortgage-backed	981	3	146	1	1,127	4
Asset-backed securities and collateralized mortgage obligations	1,587	1	252	1	1,839	2
Corporate	2,623	13	745	5	3,368	18
Total fixed maturities	6,052	17	1,143	7	7,195	24
Equity investments:						
Common stock	8,461	1,657	982	388	9,443	2,045
Warrants	651	542	1	32	652	574
Total equity investments	9,112	2,199	983	420	10,095	2,619
Total	$15,164	$ 2,216	$2,126	$ 427	$17,290	$ 2,643

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(in thousands)	December 31, 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	$ 12,635	$ 63	$ —	$ —	$ 12,635	$ 63
States, municipalities and political subdivisions	745	5	—	—	745	5
Mortgage-backed	5,685	59	—	—	5,685	59
Asset-backed securities and collateralized mortgage obligations	5,035	21	—	—	5,035	21
Corporate	9,171	81	—	—	9,171	81
Total fixed maturities	33,271	229	—	—	33,271	229
Equity investments:						
Common stock	15,711	2,055	—	—	15,711	2,055
Warrants	897	330	—	—	897	330
Total equity investments	16,608	2,385	—	—	16,608	2,385
Total	$ 49,879	$ 2,614	$ —	$ —	$ 49,879	$ 2,614

Fixed maturities and equity investments contain approximately 61 and 127 individual investments that were in unrealized loss positions as of June 30, 2016 and December 31, 2015, 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.

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 related to investments recorded for the three and six months ended

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June 30, 2016. For the three months ended June 30, 2015, there were no write-downs for other-than-temporary impairments related to investments. For the six months ended June 30, 2015, the Company recorded a write-down of $0.0 million for other-than-temporary impairment related to fixed maturities.

There were no other-than-temporary losses recognized in other comprehensive loss for the three and six months ended June 30, 2016, or for the three months ended June 30, 2015. There were $0.0 million of other-than-temporary losses recognized in other comprehensive income for the six months ended June 30, 2015.

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, limited partnerships and a general partnership 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. The most recently available financial statements are used in applying the equity method. The difference between the end of the reporting period of the limited liability entities and that of the Company is no more than three months. As of June 30, 2016 and December 31, 2015, the carrying value of limited liability investments totaled $21.8 million and $20.1 million, respectively. At June 30, 2016, the Company has unfunded commitments totaling $1.8 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 June 30, 2016 and December 31, 2015, the carrying value of other investments totaled $5.4 million and $4.1 million, respectively.

Gross realized gains and losses on fixed maturities, equity investments and limited liability investments for the three and six months ended June 30, 2016 and June 30, 2015 were as follows:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Gross realized gains	$214	$ 53	$248	$ 53
Gross realized losses	(147)	—	(352)	—
Net realized gains (losses)	$67	$ 53	$(104)	$ 53

Net investment income for the three and six months ended June 30, 2016 and June 30, 2015, respectively, is comprised as follows:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Investment income				
Interest from fixed maturities	$242	$124	$460	$393
Dividends	126	201	392	348
Income from limited liability investments	511	66	310	995
Gain (loss) on change in fair value of warrants	141	165	(246)	165
Other	100	32	139	66
Gross investment income	1,120	588	1,055	1,967
Investment expenses	(48)	(60)	(55)	(126)
Net investment income	$1,072	$528	$1,000	$1,841

At June 30, 2016, fixed maturities and short-term investments with an estimated fair value of $13.4 million were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges investments to third-parties as a deposit or to collateralize liabilities incurred under its policies of insurance. At June 30, 2016, the amount of such pledged securities was $17.3 million.

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NOTE 7 INVESTMENTS IN INVESTEES

Investments in investees includes the Company's investments in the common stock and private units of 1347 Capital Corp. and the common stock of Itasca Capital Ltd. ("ICL"). Investments in investees are accounted for under the equity method. Prior to the second quarter of 2016, the Company's investment in ICL was included in equity investments in the consolidated balance sheets. During the second quarter of 2016, the Company's ownership percentage in ICL was increased to 31.2%. As a result of this change in ownership, the Company has determined that its investment in the common stock of ICL qualifies for the equity method of accounting and, thus, is included in investments in investees in the consolidated balance sheet at June 30, 2016. The Company's investment in ICL will be recorded on a three-month lag basis. The carrying value, estimated fair value and approximate equity percentage for the Company's investments in investees at June 30, 2016 and December 31, 2015 were as follows:

(in thousands, except for percentages)

	June 30, 2016			December 31, 2015		
	Equity Percentage	Estimated Fair Value	Carrying Value	Equity Percentage	Estimated Fair Value	Carrying value
1347 Capital Corp.	21.0%	$ 11,654	$ 828	21.0%	$ 12,369	$ 1,772
ICL	31.2%	$ 3,190	$ 3,190	— %	$ —	$ —
Total		$ 14,844	$ 4,018		$ 12,369	$ 1,772

For the three months ended June 30, 2016 and June 30, 2015, equity in net loss of investee represents the Company's investment in 1347 Capital Corp. and was $0.9 million and $0.1 million, respectively ($0.9 million and $0.2 million for the six months ended June 30, 2016 and June 30, 2015, 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 six months ended June 30, 2016 and 2015, respectively, are comprised as follows:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Beginning balance, net	$13,440	$13,203	$12,143	$12,197
Additions	7,180	6,164	14,769	13,718
Amortization	(6,796)	(6,750)	(13,088)	(13,298)
Balance at June 30, net	$13,824	$12,617	$13,824	$12,617

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NOTE 9 INTANGIBLE ASSETS

Intangible assets are comprised as follows:

(in thousands)	June 30, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization			
Database	$ 4,918	$ 1,783	$ 3,135
Vehicle service agreements in-force	3,680	3,458	222
Customer-related relationships	3,611	1,287	2,324
Contract-based revenues	731	13	718
Intangible assets not subject to amortization			
Insurance licenses	7,803	—	7,803
Trade name	663	—	663
Total	$ 21,406	$ 6,541	$ 14,865

(in thousands)	December 31, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization			
Database	$ 4,918	$ 1,537	$ 3,381
Vehicle service agreements in-force	3,680	3,362	318
Customer-related relationships	3,611	1,040	2,571
Non-compete agreement	70	70	—
Intangible assets not subject to amortization			
Insurance licenses	7,803	—	7,803
Trade name	663	—	663
Total	$ 20,745	$ 6,009	$ 14,736

As further discussed in Note 5, "Acquisition, Deconsolidation and Discontinued Operations," during the second quarter of 2016, the Company recorded $0.7 million of separately identifiable intangible assets for contract-based management fee and promote fee revenues as part of the acquisition of Argo. The contract-based management fee revenue intangible asset is being amortized over nine years. The contract-based promote fee revenue intangible asset is being amortized over a three-year period beginning in 2022. The amortization periods for the contract-based revenues intangible assets are based on the patterns in which the economic benefits of the intangible assets are expected to be consumed.

The Company's other intangible assets with definite useful lives are amortized either based on the patterns in which the economic benefits of the intangible assets 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 $0.3 million for the three months ended June 30, 2016 and June 30, 2015, respectively ($0.6 million and $0.6 million for the six months ended June 30, 2016 and June 30, 2015, 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 for unpaid loss and loss adjustment expenses necessarily involves risks that the actual loss and loss adjustment expenses incurred by the Company will deviate, perhaps materially, from the estimates recorded.

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 June 30, 2016 and June 30, 2015 were as follows:

(in thousands)	June 30, 2016	June 30, 2015
Balance at beginning of period, gross	$55,471	$63,895
Less reinsurance recoverable related to property and casualty unpaid loss and loss adjustment expenses	1,207	3,203
Balance at beginning of period, net	54,264	60,692
Incurred related to:		
Current year	45,614	43,610
Prior years	67	(484)
Paid related to:		
Current year	(22,060)	(21,418)
Prior years	(26,535)	(26,009)
Balance at end of period, net	51,350	56,391
Plus reinsurance recoverable related to property and casualty unpaid loss and loss adjustment expenses	845	1,828
Balance at end of period, gross	$52,195	$58,219

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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 June 30, 2016 and June 30, 2015 were as follows:

(in thousands)	June 30, 2016	June 30, 2015
Balance at beginning of period	$2,975	$2,975
Incurred related to:		
Current year	2,654	3,014
Prior years	—	—
Paid related to:		
Current year	(2,502)	(2,904)
Prior years	(152)	(110)
Balance at end of period	$2,975	$2,975

NOTE 11 DEBT
Debt consists of the following:

(in thousands)	June 30, 2016		December 31, 2015	
	Principal	Fair Value	Principal	Fair Value
Subordinated debt	$90,500	$36,302	$90,500	$39,898

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

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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 June 30, 2016 and December 31, 2015, finance lease obligation liability of $5.0 million and $4.9 million, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheets. At June 30, 2016 and December 31, 2015, the carrying value of the land and building of $4.8 million and $4.9 million, respectively, is included in property and equipment in the consolidated balance sheets.

NOTE 13 INCOME TAXES

Income tax expense for the three and six months ended June 30, 2016 and June 30, 2015, 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. The following table summarizes the differences:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Income tax benefit at United States statutory income tax rate	$(671)	$(3,533)	$(1,170)	$(2,843)
Non-deductible compensation	381	70	449	138
Valuation allowance	251	1,172	640	533
Foreign operations subject to different tax rates	38	33	74	155
Deconsolidation of subsidiary	—	2,391	—	2,391
Non-taxable dividend income	—	9	—	(415)
Other	27	(108)	59	97
Income tax expense	$26	$34	$52	$56

The Company maintains a valuation allowance for its gross deferred tax assets at June 30, 2016 and December 31, 2015. The Company's operations have generated substantial operating losses in prior years. These losses can be available to reduce income taxes that might otherwise be incurred on future taxable income; however, 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 June 30, 2016 and December 31, 2015 net deferred tax asset. The Company carries a deferred income tax liability of $3.0 million and

$2.9 million at June 30, 2016 and December 31, 2015, respectively, all of which relates to indefinite life intangible assets.

As of June 30, 2016, 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.

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NOTE 14 LOSS PER SHARE FROM CONTINUING OPERATIONS

The following table sets forth the reconciliation of numerators and denominators for the basic and diluted loss per share from continuing operations computation for the three and six months ended June 30, 2016 and June 30, 2015:

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Numerator:				
Loss from continuing operations	$(1,999)	$(10,426)	$(3,494)	$(8,418)
Plus (less): net loss (income) attributable to noncontrolling interests	361	1,064	400	(160)
Less: dividends on preferred stock	(82)	(82)	(164)	(163)
Loss from continuing operations attributable to common shareholders	$(1,720)	$(9,444)	$(3,258)	$(8,741)
Denominator:				
Weighted average basic shares				
Weighted average common shares outstanding	19,818	19,710	19,764	19,710
Weighted average diluted shares				
Weighted average common shares outstanding	19,818	19,710	19,764	19,710
Effect of potentially dilutive securities	—	—	—	—
Total weighted average diluted shares	19,818	19,710	19,764	19,710
Basic loss per common share from continuing operations	$(0.09)	$(0.48)	$(0.16)	$(0.44)
Diluted loss per common share from continuing operations	$(0.09)	$(0.48)	$(0.16)	$(0.44)

Loss per share from continuing operations is based on the weighted-average number of shares outstanding. Diluted weighted-average shares is calculated by adjusting basic weighted-average shares outstanding by all potentially dilutive securities. Potentially dilutive securities consist of stock options, unvested restricted stock awards, warrants and convertible preferred stock. Since the Company is reporting a loss from continuing operations for the three and six months ended June 30, 2016 and June 30, 2015, all potentially dilutive securities outstanding were excluded from the calculation of diluted loss per share from continuing operations since their inclusion would have been anti-dilutive.

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NOTE 15 STOCK-BASED COMPENSATION

(a) Stock Options

The following table summarizes the stock option activity during the six months ended June 30, 2016:

(in thousands, except for share data)

	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	611,875	$ 4.50	2.2	$ 43
Granted	40,000	4.67		
Expired	—	—		
Outstanding at June 30, 2016	651,875	$ 4.51	1.9	$ 560
Exercisable at June 30, 2016	611,875	$ 4.51	1.9	$ 560

The aggregate intrinsic value of stock options outstanding and exercisable is the difference between the June 30, 2016 market price for the Company's common shares and the exercise price of the options, multiplied by the number of options where the fair value exceeds the exercise price.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The assumptions used in the Black-Scholes pricing model for options granted or exchanged during the six months ended June 30, 2016 were as follows:

	Six months ended June 30, 2016	
Risk-free interest rate	1.1	%
Dividend yield	—	
Expected volatility	0.5	%
Expected term (in years)	4.0	

(b) Restricted Stock Awards

Under the 2013 Equity Incentive Plan, the Company made grants of restricted common stock ("Restricted Stock") to certain officers of the Company. The Restricted Stock vests after a ten-year period and is subject to the officer's continued employment through the vesting date. The Restricted Stock is amortized on a straight-line basis over the ten-year requisite service period. Total unamortized compensation expense related to unvested awards at June 30, 2016 was $6.3 million. The grant-date fair value of the Restricted Stock was determined using the closing price of Kingsway common stock on the date of grant. The following table summarizes the activity related to unvested Restricted Stock for the six months ended June 30, 2016:

(in thousands, except for share data)

	Restricted Stock Awards	Weighted-Average Grant Date Fair Value (per Share)
Unvested at December 31, 2015	1,952,665	$ 4.14

Granted	—	—
Forfeited	—	—
Unvested at June 30, 2016	1,952,665	$ 4.14

Total stock-based compensation expense, net of forfeitures, was $0.3 million and $0.2 million for the three months ended June 30, 2016 and June 30, 2015, respectively ($0.5 million and $0.4 million for the six months ended June 30, 2016 and June 30, 2015, respectively).

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NOTE 16 STOCKHOLDER'S EQUITY

In November 2015, the Company's Board of Directors approved a share repurchase program under which the Company is authorized to repurchase up to 5% of its currently issued and outstanding common stock through November 2016. During the three and six months ended June 30, 2016, the Company repurchased 26,900 shares for an aggregate purchase price of $0.1 million, including fees and commissions, under its share repurchase program. All repurchased common stock was cancelled. The timing and amount of any share repurchases are determined based on market conditions, share price and other factors, and the program may be discontinued or suspended at any time.

On April 21, 2016, the Company issued 160,000 shares of common stock as consideration for the acquisition of Argo. Refer to Note 5, "Acquisition, Deconsolidation and Discontinued Operations," for further details regarding the Argo acquisition.

NOTE 17 ACCUMULATED OTHER COMPREHENSIVE INCOME

The table below details the change in the balance of each component of accumulated other comprehensive income, net of tax, for the three and six months ended June 30, 2016 and June 30, 2015 as relates to shareholders' equity attributable to common shareholders on the consolidated balance sheets. On the other hand, the unaudited consolidated statements of comprehensive (loss) income present the components of other comprehensive income, net of tax, only for the three and six months ended June 30, 2016 and June 30, 2015 and inclusive of the components attributable to noncontrolling interests in consolidated subsidiaries.

(in thousands)	Three months ended June 30, 2016		
	Unrealized Gains (Losses) on Fixed Maturities and Equity Investments	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income
Balance at April 1, 2016	$ 12,923	$ (3,780)	$ 9,143
Other comprehensive income before reclassifications	430	—	430
Amounts reclassified from accumulated other comprehensive income	(73)	—	(73)
Net current-period other comprehensive income	357	—	357
Balance at June 30, 2016	$ 13,280	$ (3,780)	$ 9,500

(in thousands)	Three months ended June 30, 2015		

	Unrealized Gains (Losses) on Fixed Maturities and Equity Investments	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income
Balance at April 1, 2015	$ 14,527	$(5,772)	$ 8,755
Other comprehensive (loss) income before reclassifications	(1,068)	1,114	46
Amounts reclassified from accumulated other comprehensive income	1,227	1,243	2,470
Net current-period other comprehensive income	159	2,357	2,516
Balance at June 30, 2015	$ 14,686	$(3,415)	$ 11,271

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(in thousands)	Six months ended June 30, 2016		
	Unrealized Gains (Losses) on Fixed Maturities and Equity Investments	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income
Balance at January 1, 2016	$ 13,080	$ (3,780)	$ 9,300
Other comprehensive income before reclassifications	705	—	705
Amounts reclassified from accumulated other comprehensive income	(505)	—	(505)
Net current-period other comprehensive income	200	—	200
Balance at June 30, 2016	$ 13,280	$ (3,780)	$ 9,500

(in thousands)	Six months ended June 30, 2015		
	Unrealized Gains (Losses) on Fixed Maturities and Equity Investments	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Income
Balance at January 1, 2015	$ 14,622	$ (5,952)	$ 8,670
Other comprehensive (loss) income before reclassifications	(1,176)	1,294	118
Amounts reclassified from accumulated other comprehensive income	1,240	1,243	2,483
Net current-period other comprehensive income	64	2,537	2,601
Balance at June 30, 2015	$ 14,686	$ (3,415)	$ 11,271

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Components of accumulated other comprehensive income were reclassified to the following lines of the unaudited consolidated statements of operations for the three and six months ended June 30, 2016 and June 30, 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Reclassification of accumulated other comprehensive income from unrealized gains (losses) on fixed maturities and equity investments to:				
Net realized gains (losses)	$73	$(1,227)	$505	$(1,230)
Other-than-temporary impairment loss	—	—	—	(10)
Loss from continuing operations before income tax expense	73	(1,227)	505	(1,240)
Income tax expense	—	—	—	—
Net (loss) income	73	(1,227)	505	(1,240)
Reclassification of accumulated other comprehensive income from foreign currency translation adjustments to:				
Loss on deconsolidation of subsidiary	—	(1,243)	—	(1,243)
Loss from continuing operations before income tax expense	—	(1,243)	—	(1,243)
Income tax expense	—	—	—	—
Net (loss) income	—	(1,243)	—	(1,243)
Total reclassification from accumulated other comprehensive income to net (loss) income	$73	$(2,470)	$505	$(2,483)

NOTE 18 SEGMENTED INFORMATION

The Company operates as a merchant bank primarily engaged, through its subsidiaries, in the property and casualty insurance business. The Company conducts its business through the following two reportable segments: Insurance Underwriting and Insurance Services.

Insurance Underwriting Segment

Insurance Underwriting includes the following subsidiaries of the Company: Mendota Insurance Company, Mendakota Insurance Company, Mendakota Casualty Company ("MCC"), Kingsway Amigo Insurance Company ("Amigo") and Kingsway Reinsurance Corporation (collectively, "Insurance Underwriting"). Insurance Underwriting principally offers personal automobile insurance to drivers who do not meet the criteria for coverage by standard automobile insurers. Insurance Underwriting has policyholders in 12 states; however, new business is accepted in only eight states.

The Company previously placed Amigo and MCC into voluntary run-off in 2012 and 2011, respectively. Each of Amigo and MCC entered into a comprehensive run-off plan which was approved by its respective state of domicile. Kingsway continues to manage Amigo in a manner consistent with its run-off plan. During the first quarter of 2015, MCC sent a letter of intent to the Illinois Department of Insurance to resume writing private passenger automobile policies in the state of Illinois. MCC began writing these policies on April 1, 2015.

Insurance Services Segment

Insurance Services includes the following subsidiaries of the Company: IWS Acquisition Corporation ("IWS") and Trinity Warranty Solutions LLC ("Trinity") (collectively, "Insurance Services").

IWS is a licensed motor vehicle service agreement company and is a provider of after-market vehicle protection services distributed by credit unions in 26 states to their members.

Trinity is a provider of warranty products and maintenance support to consumers and businesses in the heating, ventilation, air conditioning ("HVAC"), standby generator, commercial LED lighting and refrigeration industries. Trinity distributes its warranty

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products through original equipment manufacturers, HVAC distributors and commercial and residential contractors. Trinity distributes its maintenance support directly through corporate owners of retail spaces throughout the United States.

Effective April 1, 2015, the Company closed on the sale of its wholly owned subsidiary, ARS. As a result, ARS has been classified as discontinued operations and the results of their operations are reported separately for all periods presented. Prior to the transaction, ARS was included in the Insurance Services segment. As a result of classifying ARS as a discontinued operation, all segmented information has been restated to exclude ARS from the Insurance Services segment.

Results for the Company's reportable segments are based on the Company's internal financial reporting systems and are consistent with those followed in the preparation of the unaudited consolidated interim financial statements. The following tables provide financial data used by management. Segment assets are not allocated for management use and, therefore, are not included in the segment disclosures below.

Revenues by reportable segment reconciled to consolidated revenues for the three and six months ended June 30, 2016 and 2015 were:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues:				
Insurance Underwriting:				
Net premiums earned	$31,813	$30,200	$61,240	$59,230
Other income	2,665	2,364	4,938	4,601
Total Insurance Underwriting	34,478	32,564	66,178	63,831
Insurance Services:				
Service fee and commission income	5,394	5,848	10,716	11,246
Other income	62	107	116	204
Total Insurance Services	5,456	5,955	10,832	11,450
Total segment revenues	39,934	38,519	77,010	75,281
Net investment income	1,072	528	1,000	1,841
Net realized gains (losses)	67	53	(104)	53
Other-than-temporary impairment loss	—	—	—	(10)
Other income not allocated to segments	64	43	111	6,066
Total revenues	$41,137	$39,143	$78,017	$83,231

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The operating (loss) income of each segment in the following table is before income taxes and includes revenues and direct segment costs.

Segment operating (loss) income reconciled to the consolidated loss from continuing operations for the three and six months ended June 30, 2016 and 2015 were:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Segment operating (loss) income				
Insurance Underwriting	$181	$(480)	$(58)	$(158)
Insurance Services	(780)	(102)	(936)	(288)
Total segment operating loss	(599)	(582)	(994)	(446)
Net investment income	1,072	528	1,000	1,841
Net realized gains (losses)	67	53	(104)	53
Other-than-temporary impairment loss	—	—	—	(10)
Other income and expenses not allocated to segments, net	(1,940)	(2,075)	(3,841)	635
Amortization of intangible assets	(307)	(313)	(602)	(630)
Contingent consideration benefit (expense)	657	(110)	657	(254)
Interest expense	(1,108)	(1,414)	(2,201)	(2,805)
Foreign exchange losses, net	(9)	(760)	(10)	(1,152)
Gain (loss) on change in fair value of debt	1,068	(1,228)	3,596	(967)
Loss on deconsolidation of subsidiary	—	(4,420)	—	(4,420)
Equity in net loss of investee	(874)	(71)	(943)	(207)
Loss from continuing operations before income tax expense	(1,973)	(10,392)	(3,442)	(8,362)
Income tax expense	26	34	52	56
Loss from continuing operations	$(1,999)	$(10,426)	$(3,494)	$(8,418)

Insurance Underwriting net premiums earned by line of business for the three and six months ended June 30, 2016 and 2015 were:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Insurance Underwriting:				
Private passenger auto liability	$21,656	$20,292	$41,731	$39,631
Auto physical damage	10,157	9,908	19,509	19,599
Total net premiums earned	$31,813	$30,200	$61,240	$59,230

NOTE 19 RELATED PARTY TRANSACTIONS

Related party transactions, including services provided to or received by the Company's subsidiaries, are carried out in the normal course of operations and are measured in part by the amount of consideration paid or received as established and agreed by the parties. Management believes that consideration paid for such services in each case approximates fair value. Except where disclosed elsewhere in these unaudited consolidated interim financial statements, the following is a summary of related party transactions.

On February 11, 2014, the Company's subsidiary, 1347 Advisors LLC ("1347 Advisors") entered into a Management Services Agreement ("MSA") with 1347 Property Insurance Holdings, Inc. ("PIH") which provides for certain services, including forecasting, analysis of capital structure and reinsurance programs, consultation in future restructuring or capital raising transactions, and consultation in corporate development initiatives, that 1347 Advisors will provide to PIH unless and until 1347 Advisors and PIH agree to terminate the services. On February 24, 2015, the Company announced that it had entered into a definitive agreement with PIH to terminate the MSA. Pursuant to the transaction, 1347 Advisors received the following consideration: $2.0 million in cash; $3.0 million of 8% preferred stock of PIH, redeemable on February 24, 2020; a Performance Shares Grant Agreement with PIH, whereby 1347 Advisors will be entitled to receive 100,000 shares of PIH common stock if at any time the last sales price of

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PIH's common stock equals or exceeds $10.00 per share for any 20 trading days within any 30-trading day period; and warrants to purchase 1,500,000 shares of common stock of PIH with a strike price of $15.00, expiring on February 24, 2022. The Company recorded a gain of $6.0 million during the first quarter of 2015 related to the termination of the MSA, which is included in other income in the unaudited consolidated statements of operations. To the extent shares of PIH common stock are granted to the Company under the Performance Shares Grant Agreement, they will be recorded at the time the shares are granted and will have a valuation equal to the last sales price of PIH common stock on the day prior to such grant. No shares were received by the Company under the Performance Shares Grant Agreement as of June 30, 2016. Refer to Note 20, "Fair Value of Financial Instruments," for further details regarding the performance shares.

On March 26, 2014, the Company entered into a Performance Share Grant Agreement with PIH, whereby the Company will be entitled to receive up to an aggregate of 375,000 shares of PIH common stock upon achievement of certain milestones for PIH’s stock price. Pursuant to the terms of the Performance Share Grant Agreement, if at any time the last sales price of PIH’s common stock equals or exceeds: (i) $12.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, the Company will receive 125,000 shares of PIH common stock; (ii) $15.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, the Company will receive 125,000 shares of PIH common stock (in addition to the 125,000 shares of common stock earned pursuant to clause (i) herein); and (iii) $18.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, the Company will receive 125,000 shares of PIH common stock (in addition to the 250,000 shares of common stock earned pursuant to clauses (i) and (ii) herein). To the extent shares of PIH common stock are granted to the Company under the Performance Share Grant Agreement, they will be recorded at the time the shares are granted and will have a valuation equal to the last sales price of PIH common stock on the day prior to such grant. No shares were received by the Company under the Performance Share Grant Agreement as of June 30, 2016. Refer to Note 20, "Fair Value of Financial Instruments," for further details regarding the performance shares.

During the second quarter of 2014, the Company made an investment in Itasca Golf Investors, LLC ("Itasca Golf") which is included in limited liability investments on the consolidated balance sheets. On August 28, 2014, the Company entered into a $0.5 million line of credit with Itasca Golf. On August 29, 2014, the Company advanced $0.5 million to Itasca Golf under the line of credit which is included in other receivables on the consolidated balance sheets. On June 11, 2015, the line of credit was increased by $0.2 million. On June 11, 2015, the Company advanced $0.2 million to Itasca Golf under the line of credit which is included in other receivables on the consolidated balance sheets. The line of credit bears interest at 3% and matures on August 28, 2016.

On April 20, 2016, John T. Fitzgerald, the Managing Member of Argo, joined the Company as an Executive Vice President. As part of the agreement to purchase Argo, Mr. Fitzgerald received 160,000 common shares of the Company. On April 21, 2016, the Board of Directors appointed Mr. Fitzgerald as a new director. Mr. Fitzgerald is an investor in 1347 Investors LLC ("1347 Investors"), a 61.0% majority-owned subsidiary of the Company.

Effective June 10, 2016, the Company entered into a management services agreement with ICL, formerly Kobex Capital Corp. At June 30, 2016, the Company owns 31.2% of ICL, as further discussed in Note 7, "Investments in Investees." The management services agreement provides that the Company shall provide management and administrative services to ICL, as well as the non-exclusive use and services of appropriately qualified individuals to serve as the Chief Executive Officer, Chief Financial Officer and Corporate Secretary of ICL. Pursuant to the management services agreement, Larry G. Swets, Jr. was appointed Chief Executive Officer of ICL and Hassan Baqar was appointed Chief Financial Officer and Corporate Secretary of ICL. Mr. Swets is the Chief Executive Officer and a director of the Company. Mr. Baqar is a Vice President of the Company.

NOTE 20 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act. Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market-based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, corresponding market volatility levels and option volatilities. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. Greater subjectivity is required when making valuation adjustments for financial instruments in inactive markets or when using models where observable parameters do not exist. Also, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. For the Company's financial instruments carried at cost or amortized cost, the book value is not adjusted to reflect increases or decreases in fair value due to

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market fluctuations, including those due to interest rate changes, as it is the Company's intention to hold them until there is a recovery of fair value, which may be to maturity.

The Company classifies its investments in fixed maturities and equity investments as available-for-sale and reports these investments at fair value. The Company's performance shares, subordinated debt and contingent consideration liabilities are measured and reported at fair value.

Fixed maturities and equity investments - Fair values of fixed maturities for which no active market exists are derived from quoted market prices of similar instruments or other third-party evidence. Fair values of equity investments, including warrants, reflect quoted market values based on latest bid prices, where active markets exist, or models based on significant market observable inputs, where no active markets exist.

Performance shares - The performance shares, for which no active market exists, are required to be valued at fair value as determined in good faith by the Company. Such determination of fair value would require the Company to develop a model based upon relevant observable market inputs as well as significant unobservable inputs, including developing a sufficiently reliable estimate for an appropriate discount to reflect the illiquidity and unique structure of the security. The Company determined that its model for the performance shares was not sufficiently reliable. As a result, the Company has assigned a fair value of zero to the performance shares. Refer to Note 19, "Related Party Transactions," for further details regarding the performance shares.

Debt - The fair value of the subordinated debt is calculated using a model based on significant market observable inputs and inputs developed by a third-party. These inputs include credit spread assumptions developed by a third-party and market observable swap rates.

Contingent consideration - The consideration for certain of the Company's acquisitions includes future payments to the former owners that are contingent upon the achievement of certain targets over future reporting periods. Liabilities for contingent consideration are measured and reported at fair value and are included in accrued expenses and other liabilities in the consolidated balance sheets. The fair value of contingent consideration liabilities is estimated using internal models without relevant observable market inputs. Estimated payments are discounted using present value techniques to arrive at estimated fair value. Contingent consideration liabilities are revalued each reporting period. Changes in the fair value of contingent consideration liabilities can result from changes to one or multiple inputs, including adjustments to the discount rates or changes in the assumed achievement or timing of any targets. Changes in fair value are reported in the unaudited consolidated statements of operations as contingent consideration (benefit) expense. The maximum the Company can pay in future contingent payments is $2.4 million, on an undiscounted basis.

The Company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of quoted market prices (Level 1), valuation models using observable market information (Level 2) and internal models without observable market information (Level 3) in the valuation of the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015 was as follows: